

# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this prospectus or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kanhan Technologies Group Limited ("the Company"), you should at once hand this prospectus and the accompanying Provisional Allotment Letter (as defined herein) and Excess Application Form (as defined herein) to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

A copy of this prospectus, together with copy of each of the Provisional Allotment Letter, the Excess Application Form and the documents mentioned in the paragraph headed "Documents delivered to The Registrar of Companies" in Appendix III to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong takes no responsibility for the contents of any of those documents.

Dealings in the Shares (as defined herein) and, the Rights Shares (as defined herein) in their nil-paid form and fully-paid form, may be settled through CCASS (as defined herein) and you should consult your stockbroker or other registered 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.

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited 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.

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## KANHAN TECHNOLOGIES GROUP LIMITED 看漢科技集團有限公司\*

(Incorporated in the Cayman Islands with limited liability)  
(Stock Code: 8175)

### RIGHTS ISSUE OF 442,475,040 RIGHTS SHARES OF HK\$0.05 EACH AT HK\$0.057 PER RIGHTS SHARE PAYABLE IN FULL ON ACCEPTANCE (IN THE PROPORTION OF THREE RIGHTS SHARES FOR EVERY ONE CONSOLIDATED SHARE HELD ON THE RECORD DATE)

Financial adviser to KanHan Technologies Group Limited



KINGSTON CORPORATE FINANCE LIMITED

Co-financial advisers to KanHan Technologies Group Limited



INCUBUS CORPORATE FINANCE LIMITED

And

VEDA | CAPITAL  
智略資本

Underwriters



KINGSTON SECURITIES LIMITED

And



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

And



HANTEC CAPITAL LIMITED

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting Kingston Securities (as defined herein) (on behalf of all the Underwriters) (as defined herein), by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed "Termination of the Underwriting Agreement" on page 14 of this prospectus. If the Underwriting Agreement is terminated by Kingston Securities (on behalf of all the Underwriters) or does not become unconditional, the Rights Issue (as defined herein) will not proceed.

The Shares have been dealt in on an ex-rights basis from Friday, 3 March 2006. Dealings in the Rights Shares in nil-paid form will take place from Tuesday, 14 March 2006 to Wednesday, 22 March 2006 (both dates inclusive). If any of the conditions of the Rights Issue is not fulfilled and/or, in respect of the conditions that are waivable, waived (as the case may be) on or before Wednesday, 31 May 2006 (or such later time and/or date as the Company and Kingston Securities (on behalf of all the Underwriters) may agree in writing), or the Underwriting Agreement is terminated, the Rights Issue will not proceed and the Rights Issue will lapse.

Any person contemplating buying or selling the Shares from the date of the Announcement (as defined herein) up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 14 March 2006 and Wednesday, 22 March 2006 (both dates inclusive), bears the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder (as defined herein) or other persons contemplating to deal in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

The latest time for acceptance and payment for the Rights Shares is 4:00 p.m. on Monday, 27 March 2006 (or such later date as described in this prospectus). The procedures for acceptance is set out on page 23 of this prospectus.

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

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## CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid 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.

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## EXPECTED TIMETABLE

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2006

Record Date .....	Friday, 10 March
Register of members of the Company re-opens .....	Monday, 13 March
First day of dealings in nil-paid Rights Shares .....	Tuesday, 14 March
Latest time for splitting of nil-paid Rights Shares .....	4:00 p.m. on Friday, 17 March
Last day of dealings in nil-paid Rights Shares .....	Wednesday, 22 March
Latest time for acceptance of, and payment for Rights Shares and application for excess Rights Shares .....	4:00 p.m. on Monday, 27 March
Latest time for the Rights Issue to become unconditional (being the third Business Day following the Latest Acceptance Date) .....	4:00 p.m. on Thursday, 30 March
Announcement of results of acceptance of and excess application for the Rights Shares to be published on the GEM website .....	Monday, 3 April or before
Despatch of refund cheques in respect of wholly or partially unsuccessful excess applications for excess Rights Shares .....	Monday, 3 April or before
Despatch of share certificates for fully-paid Rights Shares .....	Monday, 3 April or before
Dealings in fully-paid Rights Shares commence .....	Thursday, 6 April

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## EXPECTED TIMETABLE

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*Notes:*

1. All times and dates refer to Hong Kong local times and dates.
2. The latest time for acceptance of and payment for Rights 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 the Latest Acceptance Date. Instead the latest time for acceptance of and payment for the Rights 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 the Latest Acceptance Date. Instead the latest time for acceptance of and payment for the Rights 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 Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this prospectus may be affected. Further announcement(s) will be made by the Company in such event.

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## TERMINATION OF THE UNDERWRITING AGREEMENT

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It should be noted that the Underwriting Agreement contains provisions granting Kingston Securities (on behalf of all the Underwriters), by notice in writing, the right to terminate its obligations thereunder on the occurrence of certain events. These events are set out in the paragraph headed “Termination of the Underwriting Agreement” on page 14 of this prospectus. If the Underwriting Agreement is terminated by Kingston Securities (on behalf of all the Underwriters) or does not become unconditional, the Rights Issue will not proceed.

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## DEFINITIONS

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

“Announcement”	the announcement of the Company dated 24 January 2006 relating to, among other things, the Share Consolidation, the increase in authorised share capital of the Company and the Rights Issue
“associate(s)”	has the meaning ascribed to it under Chapter 1 of the GEM Listing Rules
“Board”	the board of Directors
“Business Day”	any day on which the Stock Exchange is open for business in dealing securities
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	KanHan Technologies Group Limited, a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on GEM
“Consolidated Share(s)”	consolidated ordinary share(s) of HK\$0.05 each in the issued and unissued share capital of the Company upon completion of the Share Consolidation which became effective from Wednesday, 1 March 2006
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company convened and held on Tuesday, 28 February 2006 to consider and, if thought fit, approve the Share Consolidation, the increase in authorised share capital of the Company and the Rights Issue
“Excluded Shareholder(s)”	Overseas Shareholders(s), to whom the Directors, based on legal opinions provided by legal advisers and on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, consider it necessary or expedient not to offer the Rights Shares
“Excess Application Form(s)”	form(s) of application for excess Rights Shares

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## DEFINITIONS

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“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM
“GEM website”	the internet website operated by the Stock Exchange for the purposes of GEM, the current domain name of which is www.hkgem.com
“Group”	the Company and its subsidiaries
“Hantec Capital”	Hantec Capital Limited, a licensed corporation to carry on business in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Shareholders”	Shareholders other than Mr. Mo and Mr. Ma She Shing, Albert and their respective associates who are required by the GEM Listing Rules to abstain from voting in favour of the resolution to approve the Rights Issue
“Kingston Securities”	Kingston Securities Limited, a licensed corporation to carry on business in type 1 (dealing in securities) regulated activity under the SFO
“Latest Acceptance Date”	being 4:00 p.m. on Monday, 27 March 2006 as the latest date for acceptance and payment in respect of provisional allotments and applications for excess Rights Shares under the Rights Issue
“Latest Lodging Date”	being 4:00 p.m. on Monday, 6 March 2006 as the latest time for lodging transfer of Shares in order to be qualified for the Rights Issue
“Latest Practicable Date”	7 March 2006, being the latest practicable date prior to the printing of this prospectus for inclusion of certain information in this prospectus
“Last Trading Date”	Wednesday, 4 January 2006, being the last trading day of the Pre-consolidation Shares prior to the release of the Announcement



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## DEFINITIONS

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“Mr. Mo”	Mr. Mo Wai Ming, Lawrence, an executive Director and a substantial Shareholder
“Overseas Shareholder(s)”	the Shareholder(s) whose name(s) appear(s) on the register of members of the Company on the Record Date and whose registered address(es) as shown on such register is(are) outside Hong Kong
“Places”	the term shall have the same meanings as defined in the announcement of the Company dated 16 June 2005
“Pre-consolidation Share(s)”	ordinary share(s) of HK\$0.01 each in the issued and unissued share capital of the Company before the implementation of the Share Consolidation and every five of which were consolidated into one Consolidated Share of HK\$0.05 with effect from 1 March 2006
“Prospectus Documents”	this prospectus, the Provisional Allotment Letter and the Excess Application Form
“Prospectus Posting Date”	Friday, 10 March 2006, being the date of despatch of the Prospectus Documents (in case of the Excluded Shareholders, the Prospectus only)
“Provisional Allotment Letter(s)”	provisional allotment letter(s) for the Rights Shares
“Qualifying Shareholder(s)”	the Shareholder(s), other than the Excluded Shareholder(s), whose name(s) appear(s) on the register of members of the Company on the Record Date
“Quam Securities”	Quam Securities Company Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 2 (dealing in futures contracts) and type 4 (advising on securities) regulated activities under the SFO
“Record Date”	Friday, 10 March 2006, being the date by reference to which entitlements to the Rights Issue will be determined
“Registrar”	Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, being the Company’s Hong Kong branch share registrar
“Rights Issue”	the issue of Rights Shares on the basis of three Rights Shares for every one Consolidated Share to the Qualifying Shareholders by way of rights or to holders of nil-paid Rights Shares at the Subscription Price, pursuant to the terms and conditions of the rights issue

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## DEFINITIONS

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“Rights Share(s)”	442,475,040 Consolidated Shares to be issued pursuant to the Rights Issue
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Pre-consolidation Share(s) and/or Consolidated Share(s), as the case may be
“Share Consolidation”	the consolidation of every five Pre-consolidation Shares of HK\$0.01 each in the issued and unissued share capital of the Company into one Consolidated Share of HK\$0.05 each in the issued and unissued share capital of the Company
“Shareholder(s)”	holder(s) of Pre-consolidation Shares or Consolidated Shares, as the case may be
“Share Option(s)”	the share option(s) granted under the share option scheme adopted by the Company pursuant to a written resolution passed on 24 January 2003
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	subscription price of HK\$0.057 per Rights Share
“Underwriters”	Kingston Securities, Quam Securities and Hantec Capital
“Underwriting Agreement”	the underwriting agreement dated 20 January 2006 entered into between the Company, Mr. Mo, Kingston Securities, Quam Securities and Hantec Capital in relation to the Rights Issue
“US”	the United States of America
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent

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LETTER FROM THE BOARD

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**KANHAN TECHNOLOGIES GROUP LIMITED**  
**看漢科技集團有限公司\***

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

(Stock Code: 8175)

*Executive Directors:*

Mr. Mo Wai Ming, Lawrence  
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

*Principal place of business in*

*Hong Kong:*  
15/F., Sun House  
181 Des Voeux Road Central  
Hong Kong

10 March 2006

**RIGHTS ISSUE OF 442,475,040 RIGHTS SHARES  
OF HK\$0.05 EACH AT HK\$0.057 PER RIGHTS SHARE  
PAYABLE IN FULL ON ACCEPTANCE  
(IN THE PROPORTION OF THREE RIGHTS SHARES  
FOR EVERY ONE CONSOLIDATED SHARE HELD ON THE RECORD DATE)**

*To the Qualifying Shareholders*

Dear Sir or Madam,

**INTRODUCTION**

On 24 January 2006, the Company announced that the Board proposed to implement (i) the Share Consolidation, (ii) assuming the Share Consolidation becoming effective, to increase the authorised share capital of the Company from HK\$20,000,000 divided into 400,000,000 Consolidated Shares of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 Consolidated Shares of HK\$0.05 each by the creation of an additional 1,600,000,000 unissued Consolidated Shares of HK\$0.05 each and, (iii) subject to the Share Consolidation and the increase in the authorised share capital of the Company becoming effective and taking into account the undertaking of Mr. Mo to exercise all his 7,000,000 Share Options on or before the Latest Lodging Date, the Board also proposed to raise not less than approximately HK\$24.2 million before expenses by issuing not less than 424,475,040 Rights Shares (assuming no Share Options

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## LETTER FROM THE BOARD

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would have been exercised, except that Mr. Mo would exercise all his 7,000,000 Share Options on or before the Latest Lodging Date) and not more than 442,475,040 Rights Shares (assuming full exercise of the 37,000,000 Share Options on or before the Latest Lodging Date) at the Subscription Price of HK\$0.057 per Rights Share on the basis of three Rights Shares for every one Consolidated Share held on the Record Date.

On 2 February 2006, all the outstanding 37,000,000 Share Options were exercised by the holders thereof creating additionally 37,000,000 Pre-consolidation Shares in issue as at that date. The total issued Pre-consolidation Shares therefore increased from 700,458,400 to 737,458,400. Upon the Share Consolidation becoming effective, 147,491,680 Consolidated Shares were then and will be in issue as at the Record Date. The Board therefore proposes to raise approximately HK\$25.2 million before expenses by issuing the maximum of 442,475,040 Rights Shares at the Subscription Price of HK\$0.057 per Rights Share under the Rights Issue.

The circular, which contained details regarding, among other things, the Share Consolidation, the increase in authorised share capital of the Company, the Rights Issue, the recommendation of the independent board committee of the Company and the advice of the independent financial adviser in relation to the Rights Issue, was despatched to the Shareholders on 13 February 2006. A copy of the circular is available for inspection at such place and time as set out in the section headed “Documents available for inspection” in Appendix III to this prospectus. At the EGM convened and held on 28 February 2006, ordinary resolutions were duly passed by the Shareholders to approve, among other matters, the Share Consolidation and the increase in authorised share capital of the Company, and by the Independent Shareholders to approve, among other things, the Rights Issue.

The purpose of this prospectus is to give further information regarding, among other things, the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and other information in respect of the Group.

### TERMS OF THE RIGHTS ISSUE

#### Issue statistics

Basis of the Rights Issue	:	Three Rights Shares for every one Consolidated Share held on the Record Date
Number of Consolidated Shares in issue as at the Latest Practicable Date	:	147,491,680 Consolidated Shares
Number of Rights Shares	:	442,475,040 Rights Shares
Number of Rights Shares undertaken to be taken up by Mr. Mo	:	Pursuant to the Underwriting Agreement, Mr. Mo has irrevocably undertaken to accept or procure acceptance of his entitlements under the Rights Issue for 105,904,800 Rights Shares and, in addition, to make application for an aggregate of 22,527,772 excess Rights Shares under the Rights Issue.

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## LETTER FROM THE BOARD

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Number of Rights Shares underwritten by the Underwriters : Pursuant to the Underwriting Agreement, the Underwriters have conditionally agreed to underwrite not more than 314,042,468 Rights Shares (of which Kingston Securities has agreed to underwrite not more than 164,143,268 Rights Shares in the first place, Quam Securities has agreed to underwrite not more than 114,811,481 Rights Shares in the second place and Hantec Capital has agreed to underwrite the remaining of not more than 35,087,719 Rights Shares) collectively representing approximately 53.23% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares, on the terms and subject to the conditions set out in the Underwriting Agreement. The Rights Issue (other than the Rights Shares undertaken to be taken up by Mr. Mo) will be fully underwritten by the Underwriters on the terms and subject to the conditions set out in the Underwriting Agreement.

The nil-paid Rights Shares proposed to be provisionally allotted pursuant to the terms of the Rights Issue represents 300% of the total issued share capital of the Company upon the Share Consolidation becoming effective and 75% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares.

There are no outstanding warrants or share options or securities that are convertible or exchangeable into Shares or confer any right to subscribe for Shares as at the Latest Practicable Date.

### **Subscription Price**

The Subscription Price for the Rights Shares is HK\$0.057 per Rights Share, payable in full when a Qualifying Shareholder accepts his/her/its provisional allotment under the Rights Issue or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares subscribes for the Rights Shares.

The Subscription Price represents:

- (i) a discount of approximately 89.44% to the closing price of HK\$0.54 per Consolidated Share on the Last Trading Date (based on the closing price of HK\$0.108 per Pre-consolidation Share as quoted on GEM on the Last Trading Date adjusted for the effect of Share Consolidation);
- (ii) a discount of approximately 85.62% to the average closing price of HK\$0.3965 per Consolidated Share for the 10 consecutive trading days up to and including the Last Trading Date (based on the average closing price per Pre-consolidation Share as quoted on GEM for the 10 consecutive trading days up to and including the Last Trading Date adjusted for the effect of Share Consolidation);

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## LETTER FROM THE BOARD

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- (iii) a discount of approximately 83.50% to the average closing price of HK\$0.3455 per Consolidated Share for the 20 consecutive trading days up to and including the Last Trading Date (based on the average closing price per Pre-consolidation Share as quoted on GEM for the 20 consecutive trading days up to and including the Last Trading Date adjusted for the effect of Share Consolidation);
- (iv) a discount of approximately 82.67% to the average closing price of HK\$0.329 per Consolidated Share for the 30 consecutive trading days up to and including the Last Trading Date (based on the average closing price per Pre-consolidation Share as quoted on GEM for the 30 consecutive trading days up to and including the Last Trading Date adjusted for the effect of Share Consolidation);
- (v) a discount of approximately 67.94% to the theoretical ex-rights price of HK\$0.1778 per Consolidated Share based on the closing price of HK\$0.108 per Pre-consolidation Share as quoted on GEM on the Last Trading Date adjusted for the effect of Share Consolidation;
- (vi) a discount of approximately 88.6% to the closing price of HK\$0.50 per Consolidated Share as quoted on GEM on the Latest Practicable Date; and
- (vii) a premium of approximately 156.76% over the net asset value per Consolidated Share of approximately HK\$0.0222 based on the unaudited consolidated net asset value of the Group as at 30 June 2005 as shown in the 2005 interim report dated 9 August 2005 of the Company for the six months ended 30 June 2005 and the number of Consolidated Shares in issue immediately after the Share Consolidation becoming effective but before completion of the Rights Issue.

The Subscription Price was arrived at after arm's length negotiation between the Company and the Underwriters with reference to, among other things, the low net asset value per Share of the Group as at 30 June 2005 as shown in the 2005 interim report of the Company for the six months ended 30 June 2005 and the recent financial conditions of the Company. As disclosed in the Company's interim report for the nine months ended 30 September 2005, the net loss of the Group attributable to Shareholders for the nine months ended 30 September 2005 amounted to approximately HK\$2.81 million. The Group needs additional funds to finance its day-to-day operations and business activities. In view of the recent financial conditions of the Group as mentioned above and taking into consideration of the theoretical ex-rights price per Consolidated Share, in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders, the Directors consider that the proposed discount of the Subscription Price is appropriate. Each Qualifying Shareholder is entitled to subscribe for the Rights Shares at the same price in proportion to his/her/its existing shareholding in the Company. The Directors consider the Subscription Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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### Conditions of the Rights Issue

The Rights Issue is conditional upon the following conditions being fulfilled:

- (a) the passing by the Shareholders at the EGM of an ordinary resolution to approve
  - (i) the Share Consolidation; and
  - (ii) the proposed increase in the authorised share capital of the Company;
- (b) the passing by the Independent Shareholders at the EGM of an ordinary resolution to approve the Rights Issue (such vote shall be taken by way of poll);
- (c) the delivery to the Stock Exchange and 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) not later than the Prospectus Posting Date and otherwise in compliance with the GEM Listing Rules and the Companies Ordinance;
- (d) the posting of the Prospectus Documents to Qualifying Shareholders on the Prospectus Posting Date;
- (e) the GEM 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 all the Rights Shares:
  - (i) in their nil-paid form by no later than the first day of their dealings; and
  - (ii) in their fully-paid form by no later than the first day of their dealings;
- (f) the obligations of the Underwriters becoming unconditional and that the Underwriting Agreement is not terminated in accordance with its terms; and
- (g) compliance with and performance of all the undertakings and obligations of the Company under the Underwriting Agreement.

As at the date of this prospectus, conditions (a), (b), (c) and (d) have been fulfilled.

**If any of the conditions of the Rights Issue is not fulfilled or (in respect of conditions (f) and/or (g) only) waived on or before Wednesday, 31 May 2006 (or such later time and/or date as the Company and Kingston Securities (on behalf all the Underwriters) may determine), neither the Company nor the Underwriters shall have any rights or be subject to any obligations arising from the Underwriting Agreement and the Rights Issue will not proceed.** As at the Latest Practicable Date, each of the Underwriters had no present intention to waive conditions (f) and/or (g) of the Rights Issue.

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## LETTER FROM THE BOARD

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### **Status of the Rights Issue**

The Rights Shares, when allotted, issued and fully-paid, will rank pari passu with the Consolidated Shares in issue in all respects. Holders of such Rights Shares will be entitled to receive full future dividends and distributions which are declared, made or paid on or after the date of allotment and issue of the Rights Shares in their fully-paid form. The Rights Shares in both their nil-paid and fully-paid forms will be traded in board lot of 10,000 Shares which is the same as that of the board lot size for trading in Consolidated Shares on GEM. Any Shareholder or other persons dealing in nil-paid and fully-paid Rights Shares will be subject to payment of stamp duty in Hong Kong.

### **Qualifying Shareholders**

The Rights Issue is only available to the Qualifying Shareholders. The Company will despatch the Prospectus Documents to the Qualifying Shareholders.

To qualify for the Rights Issue, Shareholder must be registered as members of the Company on the Record Date and must not be Excluded Shareholders. In order to be registered as a member of the Company on the Record Date, Shareholders must lodge any transfers of the Shares (with the relevant share certificate(s)) with the Registrar, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than the Latest Lodging Date. The Shares have been dealt with on an ex-rights basis from Friday, 3 March 2006.

### **Closure of register of members**

The Company's register of members has been closed from Tuesday, 7 March 2006 to Friday, 10 March 2006, both dates inclusive, for the purpose of, among other things, establishing entitlements to the Rights Issue. No transfer of Shares were registered during this period.

### **Rights of Excluded Shareholders**

The Prospectus Documents are not intended to be registered under the applicable securities legislation of any jurisdiction other than Hong Kong.

Based on the register of members of the Company as at the Latest Practicable Date (which represents the record of the register of members of the Company as at the Record Date provided that the register of members of the Company has been closed from Tuesday, 7 March 2006 to Friday, 10 March 2006, both dates inclusive), there were four Shareholders who had a registered address in the British Virgin Islands and one Shareholder with registered address in Taiwan. The Directors have, in compliance with Rule 17.41 of the GEM Listing Rules, sought legal advice regarding the legal restrictions under the laws of the relevant place and the requirements of the relevant regulatory body or stock exchange. The Directors have been advised by its legal advisers that it would be lawful for the Company to offer the Rights Shares to the Shareholders with registered address in the British Virgin Islands and Taiwan even though the Prospectus Documents are not registered in those relevant jurisdictions. Therefore, those Overseas Shareholders are entitled to participate in the Rights Issue and the Prospectus Documents will be sent to them accordingly. There are no Excluded Shareholders for the purpose of the Rights Issue.



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## LETTER FROM THE BOARD

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### **Fractional entitlement to the Rights Shares**

No fractional entitlements or allotments are expected to arise as a result of the Rights Issue.

### **Application for excess Rights Shares**

Qualifying Shareholders are entitled to apply for any unsold entitlements of the Excluded Shareholders and any nil-paid Rights Shares provisionally allotted but not accepted by completing the form of application for excess Rights Shares and lodging the same with a separate remittance for the excess Rights Shares being applied for.

The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis based on the suggestions given by the Registrar, but will give preference to topping-up odd lots to whole board lots of Consolidated Shares. The same basis of allocation of the excess Rights Shares will be applied to all Qualifying Shareholders including Mr. Mo. Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, Shareholders should note that the aforesaid arrangement in relation to the topping-up of odd lots for allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) to increase their chances of allotment of the excess Rights Shares prior to the Record Date.

### **Share certificates for the fully-paid Rights Shares and refund cheques**

Subject to the fulfillment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to the Qualifying Shareholders who have accepted and applied for (where appropriate), and paid for the Rights Shares on or before Monday, 3 April 2006 by ordinary post at their own risk. Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares are also expected to be posted on or before Monday, 3 April 2006 by ordinary post at their own risk.

### **Application for listing**

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms.

None of the securities of the Company is listed or dealt in on any other stock exchange other than GEM and no such listing or permission to deal is being or is proposed to be sought.

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## LETTER FROM THE BOARD

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Subject to the granting of the listing of, and permission to deal in, the Rights Shares in both their nil-paid and fully-paid forms on GEM as well as compliance with the stock admission requirements of HKSCC, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates 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 Rule of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements will be made to enable the Rights Shares in both their nil-paid and fully-paid forms to be admitted into CCASS.

The first day of dealings in the Rights Shares in their fully-paid form is expected to commence on Thursday, 6 April 2006.

### **UNDERWRITING ARRANGEMENT**

#### **Undertakings from Mr. Mo**

Pursuant to the Underwriting Agreement, Mr. Mo, who was directly or indirectly interested in 35,301,600 Consolidated Shares, representing approximately 23.93% of the total issued share capital of the Company as at the Latest Practicable Date, and previously held 7,000,000 Share Options as at the date of the Announcement which were fully exercised on 2 February 2006, has given an irrevocable undertaking i) to exercise all the 7,000,000 Share Options held by him on or before the Latest Lodging Date, ii) to accept or procure acceptance of all the Rights Shares to be provisionally allotted to him, or his nominee(s) as the holder of such Rights Shares pursuant to the Rights Issue and iii) to make application for an aggregate of 22,527,772 excess Rights Shares under the Rights Issue. Assuming all the Rights Shares subject to the above undertakings have been fully allotted and issued to Mr. Mo, Mr. Mo's total shareholdings after the Rights Issue would amount to 163,734,172 Consolidated Shares, representing approximately 27.75% of the total issued share capital of the Company as enlarged by the Rights Issue.

In addition to the above undertakings, pursuant to the Underwriting Agreement, Mr. Mo has further undertaken to the Underwriters not to (without prior written consent of the Underwriters) transfer or otherwise dispose or acquire any Shares between the date of the Underwriting Agreement and the Latest Acceptance Date save for i) the subscription of Shares by exercising the outstanding Share Options granted to him, ii) the charge created in favour of Manciple Enterprises Limited as described in Note 1 under the heading "CHANGES IN SHAREHOLDING STRUCTURE" in this prospectus, iii) the taking up of the Rights Shares provisionally allotted to him pursuant to the Rights Issue or acquiring nil-paid rights or submitting excess application for excess Rights Shares or iv) the acquisition of Shares in circumstances which do not contravene the GEM Listing Rules.

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## LETTER FROM THE BOARD

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### Underwriting Agreement

Date:	20 January 2006
Underwriters: (Note 1)	Kingston Securities, Quam Securities and Hantec Capital
Number of Rights Shares underwritten: (Note 2)	Not less than 296,042,468 Rights Shares and not more than 314,042,468 Rights Shares. Up to 164,143,268 Rights Shares by Kingston Securities in the first place, 114,811,481 Rights Shares by Quam Securities in the second place and the remaining 35,087,719 Rights Shares by Hantec Capital upon full exercise of the Share Options.
Commission:	2.5% of the total Subscription Price of the maximum number of Rights Shares, being 314,042,468 Rights Shares, for which each of the Underwriters has agreed to underwrite. The total underwriting commission of approximately HK\$447,511 to be received by the Underwriters will be paid by the Company. The Directors considered that underwriting commission of 2.5% is comparable with market rate and reasonable.

#### Notes:

1. All the Underwriters and their ultimate beneficial owners do not have any shareholding in the Company as at the Latest Practicable Date and are third parties independent of, and not connected with each other and the Company and its connected person (as defined in the GEM Listing Rules).
2. This figure excludes up to 128,432,572 Rights Shares comprising 105,904,800 provisionally allotted Rights Shares and 22,527,772 excess Rights Shares which Mr. Mo has undertaken to accept and apply for under the Rights Issue. Since all the 37,000,000 Share Options were exercised on 2 February 2006, the number of Rights Shares to be underwritten by the Underwriters will be 314,042,468 Rights Shares.

In the event no Qualifying Shareholder takes up any Rights Shares, except that Mr. Mo takes up all his entitlements (being 105,904,800 Rights Shares in aggregate) and his excess applications (being 22,527,772 Rights Shares in aggregate) under the Rights Issue, the Underwriters, as the underwriters of the Rights Issue, will be required to subscribe for and take up all the Rights Shares (other than the Rights Shares undertaken to be taken up by Mr. Mo) that have not been subscribed for under the Rights Issue pursuant to their respective obligations under the Underwriting Agreement, which will result in Kingston Securities holding 164,143,268 Rights Shares, representing approximately 27.82% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares and Quam Securities holding 114,811,481 Rights Shares, representing approximately 19.46% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares and Hantec Capital holding 35,087,719 Rights Shares, representing approximately 5.95% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares. Pursuant to the Underwriting Agreement, the Underwriters have conditionally

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## LETTER FROM THE BOARD

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agreed to underwrite not more than 314,042,468 Rights Shares (of which Kingston Securities has agreed to underwrite not more than 164,143,268 Rights Shares in the first place, Quam Securities has agreed to underwrite not more than 114,811,481 Rights Shares in the second place and Hantec Capital has agreed to underwrite the remaining of not more than 35,087,719 Rights Shares) collectively representing approximately 53.23% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares, on the terms and subject to the conditions set out in the Underwriting Agreement. The Rights Issue (other than the Rights Shares undertaken to be taken up by Mr. Mo) will be fully underwritten by the Underwriters on the terms and subject to the conditions set out in the Underwriting Agreement.

### **Termination of the Underwriting Agreement**

**If at any time, prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date, which is expected to be on Thursday, 30 March 2006, or such other date and/or time as the Company and Kingston Securities (on behalf of all the Underwriters) may agree:**

- (1) in the sole and absolute discretion of Kingston Securities (on behalf of all the Underwriters), the success of the Rights Issue 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 sole and absolute discretion of Kingston Securities (on behalf of all 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 Rights Issue; 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 sole and absolute discretion of Kingston Securities (on behalf of all 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 Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or**
  - (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or**

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## LETTER FROM THE BOARD

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- (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 sole and absolute discretion of Kingston Securities (on behalf of all the Underwriters) is likely to materially or adversely affect the success of the Rights Issue or otherwise makes it inexpedient or inadvisable to proceed with the Rights Issue; or
- (3) there is any change in the circumstances of the Company or any member of the Group which in the sole and absolute discretion of Kingston Securities (on behalf of all 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 or the Prospectus Documents or other announcements or circulars in connection with the Rights Issue, or
- (5) the circular, prospectus or announcements of the Company published since the date of the Underwriting Agreement when published contain information (either as to business prospects or the condition of the Group or as to its compliance with any laws or the GEM Listing Rules or any applicable regulations) which has not prior to the date hereof been publicly announced or published by the Company and which may in the sole and absolute discretion of Kingston Securities (on behalf of all the Underwriters) is material to the Group as a whole and is likely to affect materially and adversely the success of the Rights Issue or might cause a prudent investor not to accept the Rights Shares provisionally allotted to it,

Kingston Securities (on behalf of all the Underwriters) shall be entitled by notice in writing to the Company, served prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date, which is expected to be on Thursday, 30 March 2006, or such other date and/or time as the Company and Kingston Securities (on behalf of all the Underwriters) may agree, to terminate the Underwriting Agreement.

The Underwriting Agreement further contains provisions that Kingston Securities (on behalf of all the Underwriters) may terminate their respective commitment under the Underwriting Agreement if prior to 4:00 p.m. on the third Business Day following the Latest Acceptance Date, which is expected to be on Thursday, 30 March 2006, or such other date and/or time as the Company and Kingston Securities (on behalf of all the Underwriters) may agree there is:

- (a) any material breach of any of the warranties or undertakings under the Underwriting Agreement; or
- (b) any specified event described in the Underwriting Agreement comes to the knowledge of any of the Underwriters.

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## LETTER FROM THE BOARD

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If the Underwriting Agreement is terminated by Kingston Securities (on behalf of all the Underwriters) on or before the aforesaid deadline or does not become unconditional, the Rights Issue will not proceed.

### WARNING OF THE RISK OF DEALINGS IN THE SHARES AND NIL-PAID RIGHTS SHARES

The Shares have been dealt in on an ex-rights basis from Friday, 3 March 2006. Dealings in the Rights Shares in nil-paid form will take place from Tuesday, 14 March 2006 to Wednesday, 22 March 2006 (both dates inclusive). If any of the conditions of the Rights Issue is not fulfilled and/or, in respect of the conditions that are waivable, waived (as the case may be) on or before Wednesday, 31 May 2006 (or such later time and/or date as the Company and Kingston Securities (on behalf of all the Underwriters) may agree in writing), or the Underwriting Agreement is terminated, the Rights Issue will not proceed and the Rights Issue will lapse.

Any person contemplating buying or selling the Shares from the date of the Announcement up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between Tuesday, 14 March 2006 and Wednesday, 22 March 2006 (both dates inclusive), bears the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating to deal in the Shares or nil-paid Rights Shares, who is in any doubt about his/her/its position, is recommended to consult his/her/its own professional advisers.

Shareholders and potential investors are advised to exercise caution when dealings in the Shares and the nil-paid Rights Shares up to the date when the conditions of the Rights Issue are fulfilled.

### REASONS FOR THE RIGHTS ISSUE AND THE USE OF PROCEEDS

The Group is principally engaged in developing and marketing 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.

Upon the full subscription of the Rights Shares, the Company will receive net proceeds of approximately HK\$23.2 million. As mentioned above, the net loss of the Group attributable to Shareholders for the nine months ended 30 September 2005 amounted to approximately HK\$2.81 million. The Group needs additional funds to finance its operations and activities. While the Group intends to continue to pursue its principal business, the Directors intend to apply the net proceeds of the Rights Issue, as to approximately HK\$20 million towards future investment(s) which may or may not be in the principal line of business of the Group. Potential future investments which are currently expected to be in line with the principal line of business of the Group include but not limited to modifying its current technology and/or its related software to cater for different types of customers in various sectors. The balance of approximately HK\$3.2 million is intended to be used as general working capital.

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## LETTER FROM THE BOARD

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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 Latest Practicable Date, no suitable investment has been identified nor had there been any concrete plan or arrangement made.

The Directors have considered other alternative fund raising methods such as issue of new shares and bank borrowings and consider that Rights Issue has the benefit of allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings if they take up their entitled Rights Shares and participate in the future growth of the Group. Moreover, should Shareholders decide not to take up their entitlements under the Rights Issue, they can sell the nil-paid Right Shares in the market for economic benefit, if any. In addition, given that the Rights Issue will enlarge the capital base of the Company, the Directors believe that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

## LETTER FROM THE BOARD

### CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company as at the Latest Practicable Date and immediately after completion of the Rights Issue:

Shareholders	As at the Latest Practicable Date		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders takes up his/her/its entitlements under the Rights Issue, except that Mr. Mo takes up all his entitlements (being 105,904,800 Rights Shares in aggregate) and his excess applications (being 22,527,772 Rights Shares in aggregate) under the Rights Issue)		Immediately after completion of the Rights Issue (assuming all Qualifying Shareholders take up his/her/its entitlements under the Rights Issue)	
	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %	No. of Consolidated Shares	Approximate %
Mr. Mo (Note 1)	35,301,600	23.93	163,734,172	27.75	141,206,400	23.93
Ma She Shing, Albert (Note 2)	1,400,000	0.95	1,400,000	0.24	5,600,000	0.95
YesMobile Holdings Company Ltd. (Note 3)	20,757,280	14.07	20,757,280	3.52	83,029,120	14.07
Alexandra Investment Manager, LLC (Note 4)	15,002,000	10.17	15,002,000	2.54	60,008,000	10.17
Underwriters (Note 5):						
– Kingston Securities	–	–	164,143,268	27.82	–	–
– Quam Securities	–	–	114,811,481	19.46	–	–
– Hantec Capital	–	–	35,087,719	5.95	–	–
Other Shareholders	75,030,800	50.88	75,030,800	12.72	300,123,200	50.88
<b>Total</b>	<b>147,491,680</b>	<b>100.00</b>	<b>589,966,720</b>	<b>100.00</b>	<b>589,966,720</b>	<b>100.00</b>



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## LETTER FROM THE BOARD

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*Notes:*

1. Mr. Mo is an executive Director and a substantial Shareholder. Pursuant to a share charge agreement (the "Share Charge Agreement") dated 13 April 2005, as at the Latest Practicable Date, of the 35,301,600 Consolidated Shares held by Mr. Mo, 31,737,280 Consolidated Shares have been charged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"), who is a third party independent of, and not connected with the Company and its connected person(s) (as defined under the GEM Listing Rules). Assuming no Qualifying Shareholder other than Mr. Mo takes up any of their respective entitlement under the Rights Issue, upon completion of the Rights Issue, 149,476,892 Consolidated Shares out of the maximum of 163,734,172 Consolidated Shares which may be held by Mr. Mo will also be charged in favour of Manciple upon their allotment and issue. The 149,476,892 Consolidated Shares to be charged in favour of Manciple represent the aggregate of 31,737,280 Consolidated Shares held by Mr. Mo which have been charged in favour of Manciple under the Share Charge Agreement as at the Latest Practicable Date, 95,211,840 Rights Shares to be provisionally allotted and issued to Mr. Mo under the Rights Issue and 22,527,772 excess Rights Shares to be applied by Mr. Mo under the Rights Issue.

As at the Latest Practicable Date, under the SFO, each of Manciple and Mr. Lau was deemed to be interested in 126,949,120 Consolidated Shares, representing approximately 21.52% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares. The 126,949,120 Consolidated Shares represent the aggregate of 31,737,280 Consolidated Shares held by Mr. Mo which have been charged under the Share Charge Agreement in favour of Manciple and 95,211,840 Rights Shares to be provisionally allotted and issued to Mr. Mo under the Rights Issue.

2. Mr. Ma She Shing, Albert is an executive Director. As at the date of the Announcement, Mr. Ma She Shing, Albert held no Shares but 7,000,000 Share Options. On 2 February 2006, Mr. Ma She Shing, Albert exercised all his 7,000,000 Share Options and his shareholding in the Company has increased to 7,000,000 Pre-Consolidation Shares (equivalent to 1,400,000 Consolidated Shares). As at the Latest Practicable Date, Mr. Ma She Shing, Albert held 1,400,000 Consolidated Shares. Mr. Ma She Shing, Albert has not indicated whether he will take up his entitlements under the Rights Issue.
3. To the best knowledge of the Directors, except for being a substantial Shareholder, YesMobile Holdings Company Limited and its ultimate beneficial owner(s) are third parties independent of, and not connected with the Company and its connected person(s) (as defined under the GEM Listing Rules). Up to the Latest Practicable Date, the Company has not received any information of the intention of YesMobile Holdings Company Limited as to whether it will take up its provisional entitlements under the Rights Issue.
4. To the best knowledge of the Directors, except for being a substantial Shareholder, Alexandra Investment Manager, LLC and its ultimate beneficial owner(s) are third parties independent of, and not connected with the Company and its connected person(s) (as defined under the GEM Listing Rules). Up to the Latest Practicable Date, the Company has not received any information of the intention of Alexandra Investment Manager, LLC as to whether it will take up its provisional entitlements under the Rights Issue.
5. All the Underwriters and their ultimate beneficial owners are third parties independent of, and not connected with each other and the Company and its connected person(s) (as defined under the GEM Listing Rules).

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## LETTER FROM THE BOARD

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### RESTORATION OF PUBLIC FLOAT

The Stock Exchange has stated that if, upon completion of the Rights Issue, less than 25% of the Shares are held by the public or if the Stock Exchange believes that:

- (i) a false market exists or may exist in the trading in the Shares; or
- (ii) there are too few Shares in public hands to maintain an orderly market;

then it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

As shown in the section headed “CHANGES IN SHAREHOLDING STRUCTURE”, assuming none of the Qualifying Shareholders takes up any provisional allotments of the Rights Shares except that Mr. Mo would take up all his entitlements under the Rights Issue (being 105,904,800 Rights Shares) and his excess applications (being 22,527,772 Rights Shares) under the Rights Issue, the public float of the Shares will drop to approximately 18.67% (in aggregate of approximately 5.95% of Hantec Capital and approximately 12.72% of other Shareholders) upon completion of the Rights Issue. The Company and each of the Directors undertake to the Stock Exchange that they will use their best endeavours to make prior arrangements in sufficient good time before completion of the Rights Issue to ensure minimum public float is maintained upon completion of the Rights Issue. The Underwriters will also use their best endeavours to take steps to procure subscribers, who are third parties independent of, and not connected with the Company and its connected person(s) (as defined under the GEM Listing Rules), to subscribe for the underwritten Rights Shares not taken up by the Qualifying Shareholders in sufficient good time before completion of the Rights Issue.

According to Kingston Securities, Kingston Securities has entered into two sub-underwriting agreements with its sub-underwriters to sub-underwrite approximately 56 million Rights Shares in aggregate, representing about 9.5% of the total issued share capital of the Company as enlarged by the issue of the Rights Shares. Kingston Securities' sub-underwriters and whose ultimate beneficial owners are third parties independent of, and not connected with the Company and its connected person(s) (as defined in the GEM Listing Rules).

Therefore, in the event that none of the Qualifying Shareholders takes up any provisional allotments of the Rights Shares except that Mr. Mo would take up all his entitlements under the Rights Issue (being 105,904,800 Rights Shares) and his excess applications (being 22,527,772 Rights Shares) under the Rights Issue, the public float of the Shares will not be less than 25% of the issued share capital of the Company as enlarged by the issue of the Rights Shares upon completion of the Rights Issue.

### TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the tax implications of the acquisition, holding or disposal of, or dealing in the Rights Shares and, as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasized that none of the Company, the Directors or any other parties involved in the Rights Issue accepts responsibility for any tax effects or liabilities of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

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## LETTER FROM THE BOARD

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

The latest time for acceptance of and payment for Rights 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 the Latest Acceptance Date. Instead the latest time for acceptance of and payment for the Rights 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 the Latest Acceptance Date. Instead the latest time for acceptance of and payment for the Rights 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 Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this prospectus may be affected. Further announcement(s) will be made by the Company in such event.

### ADJUSTMENTS IN RELATION TO THE SHARE OPTIONS

As at the date of the Announcement, the Company had 37,000,000 outstanding Shares Options. It was stated in the Announcement that adjustments in relation to the Share Options would be made due to the Share Consolidation or the issue of Right Shares. As all the 37,000,000 Share Options then outstanding were exercised on 2 February 2006, no adjustments in relation to the Share Options were required to be made as at the Latest Practicable Date.

### FUND RAISING ACTIVITIES OF THE COMPANY IN THE PAST TWELVE MONTHS FROM THE DATE OF THE ANNOUNCEMENT

The Company has completed a placement of 116,740,000 Pre-consolidation Shares to 8 Places who are independent third parties not connected with the Company and its connected persons in accordance with the GEM Listing Rules and raised net proceeds of approximately HK\$2.55 million on 27 June 2005. The Group intended that approximately HK\$1.275 million would be used for further development of the Group’s existing business including but not limited to modifying and upgrading the Company’s patented server-based language technology and its related softwares to cater for different types of customers in various sectors and the balance of the net proceeds of approximately HK\$1.275 million would be used as general working capital. As at the date of the Announcement, approximately HK\$700,000 has been used as general working capital in accordance with the usage as disclosed in the announcement dated 16 June 2005. The balance of approximately HK\$1.275 million is intended to be used for further development of the Group’s existing business as aforesaid and the remaining HK\$575,000 is intended to be used as general working capital. Save as disclosed, there is no further fund raising exercise by the Company in the past twelve months from the date of the Announcement.

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## LETTER FROM THE BOARD

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### FINANCIAL AND TRADING PROSPECTS

The Group has been providing two primary product lines as a technology supplier to the Greater China market.

The patented HanWEB has established itself as the market leader in helping organisations to translate their websites into simplified and traditional Chinese. While HanWEB has been predominantly adopted by government agencies in Hong Kong, more commercial organisations are now considering to adopt HanWEB to cater for their mainland prospective customers. Driven by economic and political reasons, there is a surge of China government agencies in demanding for a cost-effective way to providing a traditional Chinese interface to their website. KanHan continues to be positive about the business prospect of selling HanWEB in addition to its growing contribution in maintaining revenue from the expanding install base of customers.

HanPhone/HanVoice provides a technology platform to facilitate a new generation of Interactive Voice Responses (“IVR”) applications using telephone and web browser to listen to contents originated from the Internet using the latest text-to-speech and voice recognition technologies. The Company has succeeded in winning a number of high profile, large scale telephone based information retrieval and appointment booking projects in 2006. The prominent success is a strong impetus for growing the IVR project business in Hong Kong. At the same time, HanPhone is taking shape of becoming a turn-key development tool that the Company targets to sell to the IVR system integrators in China. We are optimistic that the award winning proven technology coupled with the box-software approach will gradually open up the China market and provide yet another steady stream of product license revenue.

Besides the two flagship products as aforesaid, the Group began diversification into service business in 2004. The Putonghua e-learning platform (“ePTH”) saw its popularity jumped up in 2005 when Yahoo Hong Kong Dictionary adopting its Putonghua and English speech function. ePTH has established a strong foothold in the enterprise market with a number of large companies incorporating it into their in-house training program. The Company is particularly excited about the launch of Hong Kong’s only Putonghua e-learning platform (“KidPTH”) targeting over 600 primary schools in Hong Kong last December. KidPTH is spearheading KanHan’s sales plan into the primary and secondary school market which will provide the Company steady annual subscription income. With KidPTH’s unique contents, technology and presentation, there is no doubt KanHan will benefit from the growing funding support from the government of Hong Kong in nourishing the Putonghua and English language education in this sector. Selling as a package program with KidPTH, KanHan will also make available to schools an IVR information enquiry and voice mail system on a rental basis.

The web based fax service platform (“efaxonline”) has won its reputation in its superior technology and interface in the Hong Kong market since its launching in mid 2005. Subscribers from China are seeing the savings and convenience in sending and receiving fax over Internet using Hong Kong as a gateway. We are optimistic on a major surge in the number of China subscribers in the coming year when more promotions are to be conducted. Moreover, a SMS function will be incorporated into the service platform in first quarter of 2006 and that subscriber can broadcast SMS message to Hong Kong and China mobile phone users. The SMS channel will aid Hong Kong companies to effectively communicate with their China employees who are on the road or on factory floor.

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## LETTER FROM THE BOARD

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The Directors confirmed that the financial and trading prospects mentioned above refer to the trend of the business of the Group since the date of the latest audited accounts of the Company were made up.

### PROCEDURES FOR ACCEPTANCE AND TRANSFER

A Provisional Allotment Letter is enclosed with this prospectus which entitles Qualifying Shareholders to subscribe for the number of Rights Shares shown thereon. If Qualifying Shareholders wish to accept all the Rights Shares provisionally allotted to them as specified in the enclosed Provisional Allotment Letter, they must lodge the Provisional Allotment Letter in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar by no later than 4:00 p.m. on Monday, 27 March 2006. All remittances must be made in Hong Kong dollars and cheques or cashier's orders must be drawn on a bank account in Hong Kong dollars and made payable to **"Kanhan Technologies Group Limited – PAA"** and crossed **"Account Payee Only"**.

It should be noted that unless the Provisional Allotment Letter, together with the appropriate remittance, has been lodged with the Company's branch share registrar in Hong Kong by 4:00 p.m. on Monday, 27 March 2006, whether by the original allotted or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted to them under the Provisional Allotment Letter or to transfer their rights to more than one person, the entire Provisional Allotment Letter must be surrendered and lodged for cancellation by not later than 4:00 p.m. on Friday, 17 March 2006 to the Registrar, who will cancel the original Provisional Allotment Letter and issue new Provisional Allotment Letters in the denominations required. It should be noted that Hong Kong stamp duty is payable in connection with the transfer of the rights to subscribe for the Rights Shares.

All cheques or cashier's orders will be presented for payment following receipt and all interest earned on such moneys will be retained for the benefit of the Company. Any Provisional Allotment Letter in respect of which the cheque or cashier's order is dishonored on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be canceled.

If Kingston Securities (on behalf of all the Underwriters) exercises the right to terminate the Underwriting Agreement in accordance with the terms thereof or if the conditions of the Rights Issue are not fulfilled and/or waived as mentioned in the paragraph headed "Conditions of the Rights Issue", as the case may be, the moneys received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques crossed "Account Payee Only" despatched by ordinary post at the risk of such Qualifying Shareholders or such other persons to their registered addresses on or before Monday, 3 April 2006.

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## LETTER FROM THE BOARD

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### APPLICATION FOR EXCESS RIGHTS SHARES

If Qualifying Shareholders wish to apply for any Rights Shares in addition to their provisional allotment, they must complete and sign the enclosed Excess Application Form in accordance with the instructions printed thereon and lodge it, together with a separate remittance for the amount payable on application in respect of the excess Rights Shares applied for, with the Registrar by no later than 4:00 p.m. on Monday, 27 March 2006. All remittances 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 – EAA**" and crossed "**Account Payee Only**".

The Registrar will notify you of any allotment of excess Rights Shares made to you, which will be at the discretion of the Directors on a fair and equitable basis, but will give preference to topping-up odd lots to whole board lots of Consolidated Shares. You should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, you should note that the aforesaid arrangement in relation to the allocation of excess Rights Shares will not be extended to the ultimate beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange for the registration of the relevant Shares in the name of the beneficial owner(s) to increase their chances of allotment of the excess Rights Shares prior to the Record Date.

If no excess Rights Shares are allotted to you, the amount tendered on application is expected to be returned to you in full on or before Monday, 3 April 2006. If the number of excess Rights Shares allotted to you is less than that applied for, the surplus application moneys are also expected to be returned to you on or before Monday, 3 April 2006.

All cheques or cashier's orders will be presented for payment following receipt and all interest earned on such moneys will be retained for the benefit of the Company. Any Excess Application Form in respect of which a cheque or cashier's order is dishonored on first presentation is liable to be rejected.

The Excess Application Form is for use only by the person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier's orders for amounts due, will be sent at the risk of the persons entitled to their registered addresses by the Company's branch share registrar in Hong Kong.

If Kingston Securities (on behalf of all the Underwriters) exercises the right to terminate the Underwriting Agreement in accordance with the terms thereof or if the conditions of the Rights Issue are not fulfilled and/or waived as mentioned in the paragraph headed "Conditions of the Rights Issue", as the case may be, the moneys received in respect of acceptances of the Rights Shares will be returned to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person without interest, by means of cheques crossed "Account Payee Only" despatched by ordinary post at the risk of such Qualifying Shareholders or such other persons to their registered addresses on or before Monday, 3 April 2006.

### GENERAL

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

Yours faithfully,  
By order of the Board  
**KanHan Technologies Group Limited**  
**Mo Wai Ming, Lawrence**  
*Director*

## 1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last three financial years ended 31 December 2004, as extracted from the audited financial statements, is set out below. The Company's auditors have not issued any qualified opinion on the Group's financial statements for the three preceding financial years.

**Consolidated Income Statement**

*For the year ended 31 December 2004*

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,320	2,984	8,801
Direct costs	<u>(1,645)</u>	<u>(1,758)</u>	<u>(791)</u>
Gross profit	2,675	1,226	8,010
Other operating income		47	45
Research and development expenses	(2,460)	(4,485)	(100)
Selling and distribution expenses	(2,348)	(3,525)	(78)
Administrative expenses	<u>(6,817)</u>	<u>(9,960)</u>	<u>(3,975)</u>
(Loss) profit from operations	(8,950)	(16,697)	3,902
Finance costs	<u>–</u>	<u>(11)</u>	<u>(181)</u>
(Loss) profit for the year	<u><u>(8,950)</u></u>	<u><u>(16,708)</u></u>	<u><u>3,721</u></u>
(Loss) earnings per share – Basic	<u><u>(1.71 cents)</u></u>	<u><u>(3.49 cents)</u></u>	<u><u>0.89 cents</u></u>

**Consolidated Balance Sheet***At 31 December 2004*

	<b>2004</b>	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	467	681	228
Development expenditure	–	339	2,866
	<u>467</u>	<u>1,020</u>	<u>3,094</u>
<b>CURRENT ASSETS</b>			
Inventories	200	–	–
Trade and other receivables	1,296	1,867	8,467
Amounts due from shareholders	–	3,971	–
Amount due from a related company	–	–	44
Bank balances and cash	4,216	1,000	108
	<u>5,712</u>	<u>6,838</u>	<u>8,619</u>
<b>CURRENT LIABILITIES</b>			
Financial assistance from government	223	158	–
Other payables	2,211	3,360	1,459
Amounts due to related companies	–	–	300
Short-term loans	–	–	150
Loans from a shareholder	–	–	681
8% convertible note	–	–	764
Bank overdrafts	–	–	1,890
	<u>2,434</u>	<u>3,518</u>	<u>5,244</u>
<b>NET CURRENT ASSETS</b>	<u>3,278</u>	<u>3,320</u>	<u>3,375</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>3,745</u>	<u>4,340</u>	<u>6,469</u>
<b>NON-CURRENT LIABILITIES</b>			
3% convertible note	–	–	1,800
Financial assistance from government	1,196	1,301	1,507
	<u>1,196</u>	<u>1,301</u>	<u>3,307</u>
	<u>2,549</u>	<u>3,039</u>	<u>3,162</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	5,837	4,864	901
Reserves	(3,288)	(1,825)	2,261
	<u>2,549</u>	<u>3,039</u>	<u>3,162</u>



## 2. AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes to the financial statements of the Group as extracted from pages 28 to 56 of the 2004 annual report of the Company for the year ended 31 December 2004. References to page numbers in this appendix are to the page numbers of such annual report of the Company.

**Consolidated Income Statement***For the year ended 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Turnover	4	4,320	2,984
Direct costs		(1,645)	(1,758)
Gross profit		2,675	1,226
Other operating income		–	47
Research and development expenses		(2,460)	(4,485)
Selling and distribution expenses		(2,348)	(3,525)
Administrative expenses		(6,817)	(9,960)
Loss from operations	6	(8,950)	(16,697)
Finance costs	7	–	(11)
Loss for the year		<u>(8,950)</u>	<u>(16,708)</u>
Loss per share – Basic	11	<u>(1.71 cents)</u>	<u>(3.49 cents)</u>

**Consolidated Balance Sheet***At 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>12</i>	467	681
Development expenditure	<i>14</i>	–	339
		<u>467</u>	<u>1,020</u>
<b>CURRENT ASSETS</b>			
Inventories	<i>15</i>	200	–
Trade and other receivables	<i>16</i>	1,296	1,867
Amounts due from shareholders	<i>17</i>	–	3,971
Bank balances and cash		<u>4,216</u>	<u>1,000</u>
		<u>5,712</u>	<u>6,838</u>
<b>CURRENT LIABILITIES</b>			
Financial assistance from government	<i>18</i>	223	158
Other payables		<u>2,211</u>	<u>3,360</u>
		<u>2,434</u>	<u>3,518</u>
<b>NET CURRENT ASSETS</b>		<u>3,278</u>	<u>3,320</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,745</u>	<u>4,340</u>
<b>NON-CURRENT LIABILITIES</b>			
Financial assistance from government	<i>18</i>	<u>1,196</u>	<u>1,301</u>
		<u>1,196</u>	<u>1,301</u>
		<u>2,549</u>	<u>3,039</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>19</i>	5,837	4,864
Reserves		<u>(3,288)</u>	<u>(1,825)</u>
		<u>2,549</u>	<u>3,039</u>

**Balance Sheet***At 31 December 2004*

	<i>Notes</i>	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Investments in subsidiaries	<i>13</i>	5,132	8,150
<b>CURRENT ASSETS</b>			
Other receivables		181	9
Amounts due from shareholders	<i>17</i>	–	3,971
Bank balances		3,269	269
		3,450	4,249
<b>CURRENT LIABILITIES</b>			
Other payables		751	1,507
<b>NET CURRENT ASSETS</b>			
		2,699	2,742
		<u>7,831</u>	<u>10,892</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>19</i>	5,837	4,864
Reserves	<i>21</i>	1,994	6,028
		<u>7,831</u>	<u>10,892</u>

**Consolidated Statement of Changes in Equity***For the year ended 31 December 2004*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i> <i>(note a)</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2003	901	9,298	–	(7,037)	3,162
Arising from Group Reorganisation	(786)	(9,298)	10,084	–	–
Issue of shares by way of capitalisation	4,085	(4,085)	–	–	–
Issue of shares upon conversion of convertible notes	64	1,740	–	–	1,804
Issue of shares under the placing	600	19,200	–	–	19,800
Share issue expenses	–	(5,019)	–	–	(5,019)
Loss for the year	–	–	–	(16,708)	(16,708)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	4,864	11,836	10,084	(23,745)	3,039
Issue of shares under the placing	973	8,027	–	–	9,000
Share issue expenses	–	(540)	–	–	(540)
Loss for the year	–	–	–	(8,950)	(8,950)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	<u>5,837</u>	<u>19,323</u>	<u>10,084</u>	<u>(32,695)</u>	<u>2,549</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 as disclosed in note 1 to the Annual Report 2003.

**Consolidated Cash Flow Statement***For the year ended 31 December 2004*

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Loss for the year	(8,950)	(16,708)
Adjustments for:		
Allowance for bad and doubtful debts	–	1,625
Amortisation of development expenditure	258	357
Depreciation	296	224
Impairment loss on development expenditure	81	2,170
Interest expense	–	11
Interest income	–	(7)
Loss on disposal of property, plant and equipment	289	229
	<hr/>	<hr/>
Operating cash flows before movements in working capital changes	(8,026)	(12,099)
Decrease in trade and other receivables	571	4,975
Increase in stocks	(200)	–
Decrease in amount due from a related company	–	44
(Decrease) Increase in other payables	(1,149)	1,905
Decrease in amounts due to related companies	–	(300)
	<hr/>	<hr/>
Cash used in operation	(8,804)	(5,475)
Interest received	–	7
	<hr/>	<hr/>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(8,804)</b>	<b>(5,468)</b>
	<hr/>	<hr/>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(375)	(906)
Proceeds for sale of property, plant and equipment	4	–
	<hr/>	<hr/>
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(371)</b>	<b>(906)</b>
	<hr/>	<hr/>

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
<b>FINANCING ACTIVITIES</b>		
Proceeds from issue of shares	9,000	19,800
Share issue expenses	(540)	(5,019)
Decrease (Increase) in amounts due from shareholders	3,971	(3,971)
Repayment of 8% convertible note	–	(764)
Repayment of loans from a shareholder	–	(681)
Repayment of short-term loans	–	(150)
Repayment of financial assistance from government	(40)	(48)
Interest paid	–	(11)
	<u>12,391</u>	<u>9,156</u>
<b>NET CASH FROM FINANCING ACTIVITIES</b>		
	3,216	2,782
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>1,000</u>	<u>(1,782)</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u><u>4,216</u></u>	<u><u>1,000</u></u>
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Bank balances and cash	<u>4,216</u>	<u>1,000</u>
	<u><u>4,216</u></u>	<u><u>1,000</u></u>

**Notes to the Financial Statements**

*For the year ended 31 December 2004*

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

**2. RECENTLY ISSUED ACCOUNTING STANDARDS**

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these HKFRSs in the financial statements for the year ended 31 December 2004. However, the Group is in the process of making an assessment of the impact of these new HKFRSs and so far concluded that the adoption of these HKFRSs would not have a significant impact on its results of operations and financial position.

The Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

**3. PRINCIPAL ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention and in accordance with Statements of Standard Accounting Practice (“SSAPs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules. The principal accounting policies adopted are as follows:

**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.

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

**Revenue recognition**

Sales of licensed software are recognised when goods are delivered and the right to use the licence is established.

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

Software rental income and subscription income from software application are derived from providing software application to customers. The income is recognised when services are provided.

Interest income is accrued on a time apportionment basis by reference to the principal outstanding and at the interest rate applicable.

### **Property, plant and equipment**

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

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives, 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 $\frac{1}{3}$ %

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

### **Development expenditure**

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life when the project is completed and put into commercial use.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year in which it is incurred.

### **Impairment**

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.



**Inventories**

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

**Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

**Operating leases**

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

**Retirement benefits scheme**

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

**Related party**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**4. TURNOVER**

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

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of licensed software	2,956	2,761
Software maintenance	681	200
Software rental and subscription income	507	23
Putonghua learning platform	176	–
	<u>4,320</u>	<u>2,984</u>

**5. SEGMENT INFORMATION****Business segments**

As the Group is solely engaged in the development of server-based language technologies during the year, the assets and revenue of the Group as at the balance sheet date and during the year were solely deployed in and derived from this business segment. Accordingly, segmental analysis of information by business segment is not meaningful.

**Geographical segments**

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

	<b>2004</b>			
	<b>Hong Kong</b>	<b>PRC</b>	<b>Others</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING RESULTS</b>				
Turnover	4,186	92	42	4,320
Segment results	1,237	(672)	26	591
Unallocated corporate expenses				(9,541)
Loss from operations				(8,950)
Finance costs				–
Loss for the year				<u>(8,950)</u>
	<b>2004</b>			
	<b>Hong Kong</b>	<b>PRC</b>		<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>		<i>HK\$'000</i>
<b>ASSETS &amp; LIABILITIES</b>				
Assets	6,061	118		6,179
Liabilities	3,598	32		3,630
<b>OTHER INFORMATION</b>				
Depreciation	296	–		296
Amortisation	258	–		258
Capital expenditure	319	56		375

	2003			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
<b>OPERATING RESULTS</b>				
Turnover	2,874	69	41	2,984
Segment results	1,181	28	17	1,226
Other operating income				47
Unallocated corporate expenses				(17,970)
Loss from operations				(16,697)
Finance costs				(11)
Loss for the year				<u>(16,708)</u>
	2003		Total <i>HK\$'000</i>	
	Hong Kong <i>HK\$'000</i>	Others <i>HK\$'000</i>		
<b>ASSETS &amp; LIABILITIES</b>				
Assets	7,852	6	7,858	
Liabilities	4,819	-	4,819	
<b>OTHER INFORMATION</b>				
Depreciation	224	-	224	
Amortisation	357	-	357	
Capital expenditure	906	-	906	

## 6. LOSS FROM OPERATIONS

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 8</i> )	1,670	2,249
Retirement benefit scheme contributions for other staff	153	116
Other staff costs	3,624	3,229
	<hr/>	<hr/>
Total staff costs	5,447	5,594
Allowance for bad and doubtful debts	–	1,625
Amortisation of development expenditure included in direct costs	258	357
Auditors' remuneration	200	300
Depreciation	296	224
Impairment loss on development expenditure included in research and development expenses	81	2,170
Loss on disposal of property, plant and equipment	289	229
and after crediting:		
Interest income	–	7
	<hr/> <hr/>	<hr/> <hr/>

## 7. FINANCE COSTS

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	–	7
Convertible notes	–	26
Loans from a shareholder, net of interest waived	–	(22)
	<hr/>	<hr/>
	–	11
	<hr/> <hr/>	<hr/> <hr/>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) Directors

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Executive directors:		
Directors' fee	150	100
Salaries and other allowances	1,289	2,027
Retirement benefits scheme contributions	18	22
Non-executive director:		
Directors' fee	50	–
Salaries and other allowances	–	–
Retirement benefits scheme contributions	–	–
Independent non-executive directors:		
Directors' fee	163	100
Salaries and other allowances	–	–
Retirement benefits scheme contributions	–	–
Total emoluments	<u>1,670</u>	<u>2,249</u>

Details of emoluments by individual are as follows:

	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Director A	950	1,372
Director B	407	727
Director C	50	50
Director D	50	50
Director E	50	50
Director F	50	–
Director G	50	–
Director H	25	–
Director I	25	–
Director J	13	–
	<u>1,670</u>	<u>2,249</u>

The above emoluments included operating lease rentals of HK\$480,000 (2003: HK\$480,000) paid for a director's quarter for the year ended 31 December 2004.

**(b) Employees**

The five highest paid individuals included two (2003: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (2003: three) individuals, which fall within the band of nil to HK\$1,000,000 for each of the two years ended 31 December 2004, are as follows:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Salaries and other benefits	1,018	1,082
Retirement benefit scheme contributions	30	29
	<u>1,048</u>	<u>1,111</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 the years of 2004 and 2003.

**9. TAXATION**

No provision for taxation has been made in the financial statements for the year ended 31 December 2004 as the Group incurred a tax loss for the year.

The taxation can be reconciled to the loss per the income statement as follows:

	<b>2004</b>		<b>2003</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Loss for the year	<u>(8,950)</u>		<u>(16,708)</u>	
Tax at Hong Kong Profits				
Tax rate of 17.5% (2003: 17.5%)	(1,566)	(17.5)	(2,924)	(17.5)
Tax effect of expenses that are not deductible in determining taxable profit	496	5.5	508	3.0
Tax effect of income that is not taxable in determining taxable profit	(15)	–	(1)	–
Tax effect of unused tax losses not recognised	<u>1,085</u>	<u>12.0</u>	<u>2,417</u>	<u>14.5</u>
Taxation and effective tax rate for the year	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>

**10. DIVIDEND**

No dividend has been paid or declared by the Company or any of its subsidiaries during the years ended 31 December 2004 and 2003.

**11. LOSS PER SHARE**

The computation of the basic loss per share for the year is based on the loss for the year of approximately HK\$8,950,000 (2003: HK\$16,708,000) and on the weighted average number of 523,645,377 shares (2003: 478,464,789).

No diluted loss per share was presented as there were no dilutive potential ordinary shares outstanding.

**12. PROPERTY, PLANT AND EQUIPMENT**

	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>
<b>THE GROUP</b>				
<b>COST</b>				
At 1 January 2004	444	255	684	1,383
Additions	157	97	121	375
Disposals	(444)	(13)	(9)	(466)
	<u>157</u>	<u>339</u>	<u>796</u>	<u>1,292</u>
<b>DEPRECIATION</b>				
At 1 January 2004	43	149	510	702
Provided for the year	135	56	105	296
Eliminated on disposals	(165)	(4)	(4)	(173)
	<u>13</u>	<u>201</u>	<u>611</u>	<u>825</u>
<b>NET BOOK VALUES</b>				
At 31 December 2004	<u>144</u>	<u>138</u>	<u>185</u>	<u>467</u>
At 31 December 2003	<u>401</u>	<u>106</u>	<u>174</u>	<u>681</u>

**13. INVESTMENTS IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at cost	3,162	3,162
Amounts due from subsidiaries	<u>17,890</u>	<u>10,988</u>
Allowance for amounts due from subsidiaries	<u>21,052</u>	<u>14,150</u>
	<u>(15,920)</u>	<u>(6,000)</u>
	<u>5,132</u>	<u>8,150</u>



Details of the Company's subsidiaries at 31 December 2004 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	Principal place of operation
			Directly	Indirectly		
			%	%		
KanHan (BVI)	British Virgin Islands	US\$116,225	100	–	Investment holding	Hong Kong
KanHan Technologies Limited (“KanHan (HK)”)	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 (廣州看漢科技有限公司)	PRC	HK\$1,000,000	–	100	Provision of communication software platforms	PRC

The amounts due from subsidiaries are unsecured and non-interest bearing. In the opinion of the directors, the amounts will not be repaid within the next twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets.

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

#### 14. DEVELOPMENT EXPENDITURE

	<i>HK\$'000</i>
<b>THE GROUP</b>	
<b>COST</b>	
At 1 January 2004 and 31 December 2004	3,492
<b>AMORTISATION AND IMPAIRMENT</b>	
At 1 January 2004	3,153
Provided for the year	258
Impairment loss recognised	81
At 31 December 2004	3,492
<b>NET BOOK VALUES</b>	
At 31 December 2004	0
At 31 December 2003	339

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

**15. INVENTORIES**

Inventories comprise finished goods and are stated at cost as at 31 December 2004.

**16. TRADE AND OTHER RECEIVABLES**

The Group has a policy of allowing a credit period from 30 to 120 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$693,000 (2003: HK\$1,652,000), an aged analysis of which is as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	157	1,111
31 – 60 days	242	347
61 – 90 days	66	7
Over 90 days	228	187
	693	1,652
	693	1,652

**17. AMOUNTS DUE FROM SHAREHOLDERS**

The amounts were unsecured and non-interest bearing and were fully settled during the year ended 31 December 2004.

**18. FINANCIAL ASSISTANCE FROM GOVERNMENT**

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

In the opinion of the directors, HK\$223,000 will be repayable to the ITF within the next twelve months from 31 December 2004 by reference to the forecast revenue generated from the specific product. Accordingly, HK\$223,000 and HK\$1,196,000 are classified as current liability and non-current liability respectively.

**19. SHARE CAPITAL**

	Number of shares	Amount HK\$
Ordinary shares of HK\$0.01		
Authorised:		
At 1 January 2003	39,000,000	390,000
Increase in authorised share capital on 15 January 2003	1,961,000,000	19,610,000
	<u>2,000,000,000</u>	<u>20,000,000</u>
At 31 December 2003 and 31 December 2004	<u>2,000,000,000</u>	<u>20,000,000</u>
Issued and fully paid:		
At 1 January 2003	100,000	–
Issue of shares upon Group Reorganisation	11,522,500	115,225
Issue of shares by way of capitalisation	408,377,500	4,083,775
Credited as fully paid from share premium	–	1,000
Issue of shares under the placing on 13 February 2003	60,000,000	600,000
Issue of shares upon conversion of convertible notes	6,432,000	64,320
	<u>486,432,000</u>	<u>4,864,320</u>
At 31 December 2003	486,432,000	4,864,320
Issue of shares under the placing on 14 August 2004	97,286,400	972,864
	<u>583,718,400</u>	<u>5,837,184</u>
At 31 December 2004	<u>583,718,400</u>	<u>5,837,184</u>

On 14 August 2004, the Company completed the placement of 97,286,400 new shares to YesMobile at the subscription price of HK\$9,000,000. These new shares rank pari passu with the existing shares in all respects. The proceeds from these shares issued above have been used for working capital purpose.

**20. SHARE OPTIONS**

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

The purpose of the New Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board of Directors may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The options must be accepted within 28 days from the date of grant. The total number of shares of the Company available for issue under the New Scheme is 58,371,840 shares representing 10% of the issued share capital as at 31 December 2004. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the New Scheme and any other share option scheme adopted by the 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 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 daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares. The New Scheme will be valid and effective for a period of 10 years commencing 24 January 2003.

During the years of 2004 and 2003, no share options have been granted under the New Scheme.

## 21. RESERVES

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>THE COMPANY</b>				
At 1 January 2003	–	–	–	–
Arising from Group Reorganisation	–	3,047	–	3,047
Issue of shares by way of capitalisation	(4,085)	–	–	(4,085)
Issue of shares upon conversion of convertible notes	1,740	–	–	1,740
Issue of shares under the placing	19,200	–	–	19,200
Share issue expenses	(5,019)	–	–	(5,019)
Loss for the year	–	–	(8,855)	(8,855)
	<u>–</u>	<u>–</u>	<u>(8,855)</u>	<u>(8,855)</u>
At 31 December 2003	11,836	3,047	(8,855)	6,028
Issue of shares under the placing	8,027	–	–	8,027
Share issue expenses	(540)	–	–	(540)
Loss for the year	–	–	(11,521)	(11,521)
	<u>–</u>	<u>–</u>	<u>(11,521)</u>	<u>(11,521)</u>
At 31 December 2004	<u>19,323</u>	<u>3,047</u>	<u>(20,376)</u>	<u>1,994</u>

The contributed surplus of the Company arose from the Group Reorganisation on 15 January 2003. The balance represents the difference between the nominal amount of the Company's shares issued and the consolidated shareholders' funds of KanHan (BVI).

The Company's reserves available for distribution to shareholders as at 31 December 2004 represent the aggregate of share premium and contributed surplus less accumulated losses, amounting to approximately HK\$1,994,000 (2003: HK\$6,028,000).

**22. DEFERRED TAX**

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Development expenditure</b> <i>HK\$'000</i>	<b>Tax losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2003	25	459	(484)	–
(Credit) charge to income	(34)	(442)	476	–
Effect of change in tax rate	2	43	(45)	–
Net (credit) charge to income	(32)	(399)	431	–
At 31 December 2003	<u>(7)</u>	<u>60</u>	<u>(53)</u>	<u>–</u>
Net charge (credit) to income	40	(60)	20	–
At 31 December 2004	<u>33</u>	<u>–</u>	<u>(33)</u>	<u>–</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	<b>2004</b> <i>HK\$'000</i>	<b>2003</b> <i>HK\$'000</i>
Deferred tax liabilities	33	53
Deferred tax assets	(33)	(53)
	<u>–</u>	<u>–</u>

At 31 December 2004, the Group has unused tax losses of approximately HK\$27,194,000 (2003: HK\$21,237,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK\$190,000 (2003: HK\$303,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK\$27,004,000 (2003: HK\$20,934,000) due to the unpredictability of future profit streams.

**23. OPERATING LEASE COMMITMENTS**

The Group made approximately HK\$761,000 (2003: HK\$758,000) minimum lease payments under operating leases during the year in respect of office premises and a director's quarter.

**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments in respect of office premises and a director's quarter under non-cancellable operating leases which fall due as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	835	611
In the second to fifth years inclusive	601	96
	<u>1,436</u>	<u>707</u>

Leases are negotiated for an average term of two years and rentals are fixed throughout the lease period.

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

**24. RETIREMENT BENEFITS SCHEME**

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes the lower of 5% or HK\$1,000 of the relevant payroll costs to the Scheme, which contribution is matched by employees.

The total cost charged to the income statement of approximately HK\$170,000 (2003: HK\$162,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2004, contributions of approximately HK\$26,000 (2003: HK\$21,000) due in respect of the reporting period had not been paid over to the schemes.

## 25. RELATED PARTY TRANSACTIONS

The Group had significant transactions with related companies as follows:

Name of company	Nature of transactions	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Messrs. Yuen & Partners	Legal fees paid ( <i>note a</i> )	181	131
Yorkshire	Consultancy fee paid ( <i>note b</i> )	290	490
Comeasy	Rental expense paid ( <i>note c</i> )	480	480
Metrolink	Net interest expenses waived on advances ( <i>note d</i> )	–	(22)
Timeless Strategy and its affiliate	Interest expenses paid on convertible notes ( <i>note d</i> )	–	26
Timeless Strategy and its affiliate	Rental expenses paid ( <i>note d</i> )	<u>–</u>	<u>11</u>

*Notes:*

- (a) Mr. Yuen Ka Lok, Ernest, the director of the Company, is a partner of Messrs. Yuen & Partners. These transactions were carried out in accordance with terms determined and agreed by both parties.
- (b) Ms. Wai Lai Yung, the director of the Company, has beneficial interests in Yorkshire. These transactions were carried out in accordance with terms determined and agreed by both parties.
- (c) Mr. Mo Wai Ming, Lawrence, the director of the Company, has beneficial interest in Comeasy. These transactions were carried out in accordance with terms determined and agreed by both parties.
- (d) The interest expenses and rental expenses are charged by reference to the prevailing market rates.

## 3. INTERIM RESULTS

Set out below is the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2005 and for the nine months ended 30 September 2005 together with the comparative amounts as extracted from the 2005 half yearly report and the 2005 third quarterly report of the Company. The interim and the third quarterly financial reports have not been audited, but has been reviewed by the Company's audit committee:

**For the six months ended 30 June 2005****Unaudited Condensed Consolidated Income Statement**

*For the three months and six months ended 30 June 2005*

	Notes	Three months ended 30 June		Six months ended 30 June	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3	1,584	699	2,868	2,830
Direct costs		(900)	(443)	(1,383)	(897)
Gross profit		684	256	1,485	1,933
Research and development expenses		(284)	–	(570)	–
Administrative expenses		(1,216)	(1,511)	(2,195)	(2,865)
Selling and distribution expenses		(251)	(505)	(537)	(818)
Loss from operations	5	(1,067)	(1,760)	(1,817)	(1,750)
Taxation	6	–	–	–	–
Loss for the period		<u>(1,067)</u>	<u>(1,760)</u>	<u>(1,817)</u>	<u>(1,750)</u>
Loss per share – Basic	8	<u>0.18 cents</u>	<u>0.36 cents</u>	<u>0.31 cents</u>	<u>0.36 cents</u>



**Unaudited Condensed Consolidated Balance Sheet***As at 30 June 2005*

	<i>Notes</i>	<b>30 June 2005</b> <i>HK\$'000</i>	<b>31 December 2004</b> <i>HK\$'000</i> (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		434	467
<b>CURRENT ASSETS</b>			
Inventories		36	200
Trade and other receivables	9	1,583	1,296
Bank balances and cash		4,194	4,216
		<u>5,813</u>	<u>5,712</u>
<b>CURRENT LIABILITIES</b>			
Financial assistance from government		146	223
Trade and other payables	10	1,611	2,211
		<u>1,757</u>	<u>2,434</u>
<b>NET CURRENT ASSETS</b>		<u>4,056</u>	<u>3,278</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>4,490</u>	<u>3,745</u>
<b>NON-CURRENT LIABILITIES</b>			
Financial assistance from government		1,210	1,196
<b>NET ASSETS</b>		<u><u>3,280</u></u>	<u><u>2,549</u></u>
<b>CAPITAL AND RESERVES</b>			
Share capital		7,004	5,837
Reserves		(3,724)	(3,288)
<b>SHAREHOLDERS' FUNDS</b>		<u><u>3,280</u></u>	<u><u>2,549</u></u>

**Unaudited Condensed Consolidated Statement of Changes in Equity***For the six months ended 30 June 2005*

	<b>Share capital</b> <i>HK\$'000</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Special reserve*</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
2004					
At 1 January 2004	4,864	11,836	10,084	(23,745)	3,039
Loss for the period	—	—	—	(1,750)	(1,750)
At 30 June 2004	<u>4,864</u>	<u>11,836</u>	<u>10,084</u>	<u>(25,495)</u>	<u>1,289</u>

	<b>Share capital</b> <i>HK\$'000</i>	<b>Share premium</b> <i>HK\$'000</i>	<b>Special reserve</b> <i>HK\$'000</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
2005					
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)
Loss for the period	—	—	—	(1,817)	(1,817)
At 30 June 2005	<u>7,004</u>	<u>20,704</u>	<u>10,084</u>	<u>(34,512)</u>	<u>3,280</u>

\* *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 as disclosed in note 1 to the Annual Report 2003.*

**Unaudited Condensed Consolidated Cash Flow Statement***For the six months ended 30 June 2005*

	<b>Six months ended 30 June 2005</b>	<b>Six months ended 30 June 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(2,439)	(2,253)
Net cash used in investing activities	(68)	(1,498)
	<hr/>	<hr/>
Net cash outflow before financing activities	(2,507)	(3,751)
Net cash inflow from financing activities	2,485	3,106
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(22)	(645)
Cash and cash equivalents at beginning of the period	4,216	1,000
	<hr/>	<hr/>
Cash and cash equivalents at end of the period	<u>4,194</u>	<u>355</u>
	<hr/>	<hr/>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u>4,194</u>	<u>355</u>
	<hr/>	<hr/>

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

**2. Basis of Preparation**

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

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 2004.

**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	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of licensed software	857	327	1,788	2,273
Software maintenance	220	176	414	317
Software rental and subscription income	406	125	514	149
Putonghua learning platform	101	71	152	91
	<u>1,584</u>	<u>699</u>	<u>2,868</u>	<u>2,830</u>

#### 4. Segmental Information

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

##### *Geographical segments*

	Revenue		Net loss	
	Six months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	2,791	2,774	1,418	1,882
PRC	56	56	56	51
Others	21	–	11	–
	<u>2,868</u>	<u>2,830</u>	<u>1,485</u>	<u>1,933</u>
Segment Results			1,485	1,933
Unallocated expenses			<u>(3,302)</u>	<u>(3,683)</u>
Loss for the period			<u>(1,817)</u>	<u>(1,750)</u>

#### 5. Loss from Operations

Loss from operations has been arrived at after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amortisation of development expenditure	–	64	–	129
Depreciation	<u>51</u>	<u>78</u>	<u>101</u>	<u>153</u>

#### 6. Taxation

No provision for taxation has been made as the Group had no assessable profits for the six months ended 30 June 2005 (2004: Nil).

#### 7. Dividend

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 June 2005 respectively (2004: Nil).

**8. Loss Per Share**

The calculation of the basic loss per share for the three months ended 30 June 2005 is based on the loss for the period of approximately HK\$1,067,000 (2004: HK\$1,760,000) and on the weighted average number of 588,849,829 shares (2004: 486,432,000 shares).

The calculation of the basic loss per share for the six months ended 30 June 2005 is based on the loss for the period of approximately HK\$1,817,000 (2004: HK\$1,750,000) and on the weighted average number of 586,298,290 shares (2004: 486,432,000 shares).

No diluted loss per share was presented as there were no dilutive potential ordinary shares outstanding.

**9. Trade and Other Receivables**

The Group has a policy of allowing a credit period from 30 to 90 days to its trade customers.

	<b>30 June 2005</b>	<b>31 December 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	1,090	693
Other receivables	493	603
	<u>1,583</u>	<u>1,296</u>

An aged analysis of the Group's trade receivables as at the balance sheet date is as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	732	157
31 – 60 days	2	242
61 – 90 days	59	66
Over 90 days	297	228
	<u>1,090</u>	<u>693</u>

**10. Trade and Other Payables**

The Group has an average credit period ranging from 30 to 90 days from its trade creditors.

	<b>30 June 2005</b>	<b>31 December 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	763	244
Other payables	848	1,967
	<u>1,611</u>	<u>2,211</u>

An aged analysis of the Group's trade payables as at the balance sheet date is as follows:

	<b>30 June 2005</b>	<b>31 December 2004</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
0 – 30 days	591	184
31 – 60 days	62	–
61 – 90 days	99	16
Over 90 days	11	44
	<u>763</u>	<u>244</u>

**11. Related Party Transactions**

During the period, the Group had transactions with related companies as follows:

	<b>Six months ended 30 June 2005</b>	<b>Six months ended 30 June 2004</b>
<b>Nature of transactions</b>	<i>HK\$'000</i>	<i>HK\$'000</i>
Consultancy fee paid to Yorkshire Capital Ltd. ( <i>note a</i> )	–	200
Legal fees paid to Messrs. Yuen & Partners ( <i>note b</i> )	–	68
Rental expenses paid to Comeasy Communication Ltd. ( <i>note c</i> )	240	240
	<u>240</u>	<u>508</u>

*Notes:*

- (a) Ms. Wai Lai Yung, the director of the Company resigned on 1 June 2005, has beneficial interest in Yorkshire Capital Ltd.. The consultancy fee charged was determined and agreed by both parties in the ordinary course of business of the Group.
- (b) Mr. Yuen Ka Lok, Ernest, the director of the Company resigned on 1 May 2005, is also a partner of Messrs. Yuen & Partners. The legal fees were charged in the ordinary course of business of the Group on an arms-length basis.
- (c) Mr. Mo Wai Ming, Lawrence, the director of the Company, has beneficial interest in Comeasy Communication Ltd.. The rental charge was determined and agreed by both parties in the ordinary course of business of the Group.

## For the nine months ended 30 September 2005

## Unaudited Condensed Consolidated Income Statement

For the three months and nine months ended 30 September 2005

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3	2,307	904	5,175	3,734
Direct costs		(1,770)	(434)	(3,153)	(1,331)
Gross profit		537	470	2,022	2,403
Other operating income		5	–	5	–
Research and development expenses		(286)	–	(856)	–
Administrative expenses		(1,008)	(1,658)	(3,203)	(4,523)
Selling and distribution expenses		(244)	(1,183)	(781)	(2,001)
Loss from operations		(996)	(2,371)	(2,813)	(4,121)
Taxation	4	–	–	–	–
Loss for the period		<u>(996)</u>	<u>(2,371)</u>	<u>(2,813)</u>	<u>(4,121)</u>
Loss per share – Basic	6	<u>0.14 cents</u>	<u>0.44 cents</u>	<u>0.45 cents</u>	<u>0.82 cents</u>



**Unaudited Consolidated Statement of Changes in Equity***For the nine months ended 30 September 2005*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special* reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
2004					
At 1 January 2004	4,864	11,836	10,084	(23,745)	3,039
Issue of shares under the placing	973	8,027	–	–	9,000
Share issue expenses	–	(540)	–	–	(540)
Loss for the period	–	–	–	(4,121)	(4,121)
	<u>5,837</u>	<u>19,323</u>	<u>10,084</u>	<u>(27,866)</u>	<u>7,378</u>

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
2005					
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)
Loss for the period	–	–	–	(2,813)	(2,813)
	<u>7,004</u>	<u>20,704</u>	<u>10,084</u>	<u>(35,508)</u>	<u>2,284</u>

\* *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 as disclosed in note 1 to the Annual Report 2003.*

Notes:

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

## 2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

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 2004.

## 3. TURNOVER

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

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$’000	2004 HK\$’000	2005 HK\$’000	2004 HK\$’000
Sales of licensed software	216	486	2,004	2,759
Software maintenance	226	177	640	494
Software rental and subscription income	1,764	160	2,278	309
Putonghua learning platform	101	81	253	172
	<u>2,307</u>	<u>904</u>	<u>5,175</u>	<u>3,734</u>

## 4. TAXATION

No provision for taxation has been made as the Group had no assessable profits for the nine months ended 30 September 2005 (2004: Nil).

## 5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2005 respectively (2004: Nil).

**6. LOSS PER SHARE**

The computation of the basic loss per share for the three months ended 30 September 2005 is based on the loss for the period of approximately HK\$996,000 (2004: HK\$2,371,000) and on the weighted average number of 700,458,400 shares (2004: 537,190,122 shares)

The computation of the basic loss per share for the nine months ended 30 September 2005 is based on the loss for the period of approximately HK\$2,813,000 (2004: HK4,121,000) and on the weighted average number of 624,769,829 shares (2004: 503,474,873 shares).

No diluted loss per share was presented as the share options granted by the Company are anti-dilutive.

#### 4. INDEBTEDNESS

##### **Borrowings**

As at the close of business on 31 January 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this prospectus, the Group had outstanding borrowings and debts of other loan of approximately HK\$1,338,000 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.

##### **Disclaimer**

Save as aforesaid and apart from intra-group liabilities, at the close of business on 31 January 2006, 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.

The Directors confirmed that there has been no material change in the indebtedness and contingent liabilities of the Group since 31 January 2006 up to the Latest Practicable Date.

#### 5. MATERIAL CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

#### 6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the internal resources available to the Group and the net proceeds to be raised from the Rights Issue, the Group will have sufficient working capital for at least twelve months from the date of this prospectus.

**1. 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 Rule 13 of Appendix 1B and Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the Rights Issue on the net tangible assets of the Group as if the Rights Issue had taken place on 30 June 2005.

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 Rights Issue.

The following statement of unaudited pro forma adjusted consolidated net tangible assets of the Group is based on the unaudited consolidated net assets of the Group as at 30 June 2005, adjusted as described below:

	Unaudited consolidated net tangible assets of the Group as at 30 June 2005 <i>HK\$'000</i>	Estimated net proceeds from the Rights Issue <i>HK\$'000</i> <i>(Note 1)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group <i>HK\$'000</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share
Immediately before completion of the Rights Issue	<u>3,280</u>			HK\$0.0222/ Consolidated Share <i>(Note 2)</i>
Immediately after completion of the Rights Issue	<u>3,280</u>	23,200	<u>26,480</u>	HK\$0.0449/ Consolidated Share <i>(Note 3)</i>

*Notes:*

- (1) The estimated net proceeds from the issue of 442,475,040 Rights Shares are based on the Subscription Price of HK\$0.057 per Rights Share after deducting the related expenses of approximately HK\$2 million.
- (2) The calculation is based on 147,491,680 Consolidated Shares immediately before completion of the Rights Issue.
- (3) The calculation is based on 589,966,720 Consolidated Shares comprising 147,491,680 Consolidated Shares and 442,475,040 Rights Shares to be issued.

**2. REPORT ON UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP**

The following is the text of a report, prepared for the sole purpose of inclusion in this prospectus, received from Moores Rowland Mazars in respect of the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in this appendix.

10 March 2006

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

Dear Sirs,

We report on 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 in page 63 under the heading of unaudited pro forma adjusted consolidated net tangible assets of the Group in Appendix II of the Company’s prospectus dated 10 March 2006 in connection with the rights issue in the proportion of three rights shares for every one consolidated share (the “Rights Issue”) of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Rights Issue might have affected the relevant financial information of the Group as at 30 June 2005.

**RESPONSIBILITIES**

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Rule 7.31 and Rule 13 of Appendix 1B 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”).

It is our responsibility to form an opinion, as required by 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 those to whom those reports were addressed by us at the dates of their issue.

**BASIS OF OPINION**

We conducted our work in accordance with the Statement of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on pro forma financial information pursuant to the Listing Rules” issued by the Auditing Practice Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the management of the Company.

Because the above work does not constitute an audit or review made in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out in the first paragraph of this letter for illustration purpose only and, because of its nature, it may not be indicative of the financial position of the Group at 30 June 2005 or at any future date.

**OPINION**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to Rule 7.31 of the GEM Listing Rules.

Yours faithfully,  
**Moores Rowland Mazars**  
**Chartered Accountants**  
*Certified Public Accountants*

**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 propose 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**

The authorised and issued share capital of the Company as at the Latest Practicable Date were, and immediately following completion of the Rights Issue will be, as follows:

<i>Authorised share capital:</i>		<i>HK\$</i>
2,000,000,000	Consolidated Shares of HK\$0.05 each as at the Latest Practicable Date	100,000,000
<u>2,000,000,000</u>		<u>100,000,000</u>
<i>Issued and fully paid share capital or credited as fully paid:</i>		
147,491,680	Consolidated Shares of HK\$0.05 each in issue as at the Latest Practicable Date	7,374,584
442,475,040	Rights Shares of HK\$0.05 each to be issued pursuant to the Rights Issue	22,123,752
<u>589,966,720</u>	Consolidated Shares of HK\$0.05 each in issue immediately following the Rights Issue	<u>29,498,336</u>

All the issued Consolidated Shares rank pari passu with each other in all respects including the rights as to voting, dividends and return of capital. The Rights Shares to be allotted and issued will, when issued and fully paid, rank pari passu in all respects with the then existing Consolidated Shares in issue on the date of allotment of the Rights Shares in fully-paid form.

The Company did not have any other options, warrants and other convertible securities or rights that are exchangeable or convertible into Shares or conferring any right to subscribe for the Shares as at the Latest Practicable Date.



### 3. DISCLOSURE OF INTERESTS

#### (1) Interests of Directors and chief executive of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and 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 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 were as follows:

#### *Long position in Consolidated Shares*

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of Consolidated Shares</b>	<b>Approximate shareholding percentage</b>
Mr. Mo	Beneficial owner	163,734,172 (Note 1)	27.75%
Mr. Ma She Shing, Albert	Beneficial owner	5,600,000 (Note 2)	0.95%

#### *Notes:*

1. These Shares represent the aggregate of 35,301,600 Consolidated Shares having a par value of HK\$0.05 each held by Mr. Mo upon completion of the Share Consolidation and a maximum of 128,432,572 Rights Shares to be allotted and issued to Mr. Mo comprising 105,904,800 provisionally allotted Rights Shares and 22,527,772 excess Rights Shares which Mr. Mo has undertaken to accept and apply for under the Rights Issue.
2. These Shares represent the aggregate of 1,400,000 Consolidated Shares having a par value of HK\$0.05 each held by Mr. Ma She Shing, Albert upon completion of the Share Consolidation and a maximum of 4,200,000 Rights Shares to be provisionally allotted to him under the Rights Issue, assuming Mr. Ma She Shing, Albert will take up his entitlement under the Rights Issue.

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.

**(2) Directors' interests in assets of the Company**

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Group were made up.

**(3) Directors' service agreements**

As at the Latest Practicable Date, none of the Directors had entered or proposed to enter into a service contract with any member of the Group which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**(4) Other Directors' interests**

As at the Latest Practicable Date, save for the Underwriting Agreement, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2004, 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.

As at the Latest Practicable Date, none of the Directors had interest(s) (including any indirect interest) in any business which competes or may compete with the business of any member of the Group.

## 4. 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:

*Long position in Consolidated Shares*

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of Consolidated Shares</b>	<b>Approximate shareholding percentage</b>
Mr. Lau Kim Hung, Jack ( <i>Note 1</i> )	Interest of a controlled corporation	126,949,120	21.52%
Manciple Enterprises Limited ( <i>Note 1</i> )	Person having a security interest in the Shares	126,949,120	21.52%
YesMobile Holdings Company Limited ( <i>Note 2</i> )	Beneficial owner	83,029,120	14.07%
Alexandra Global Investment Fund I, Ltd. ( <i>Note 3</i> )	Beneficial owner	60,008,000	10.17%
Alexandra Investment Manager, LLC ( <i>Note 3</i> )	Investment manager	60,008,000	10.17%
Kingston Securities ( <i>Note 4</i> )	Other	164,143,268	27.82%
Ms. Chu Yuet Wah ( <i>Note 4</i> )	Other	164,143,268	27.82%
Ms. Ma Siu Fong ( <i>Note 4</i> )	Other	164,143,268	27.82%
Quam Securities ( <i>Note 5</i> )	Other	114,811,481	19.46%
Hantec Capital ( <i>Note 6</i> )	Other	35,087,719	5.95%

*Notes:*

1. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in 126,949,120 Consolidated Shares pursuant to the Share Charge Agreement. Details of the Share Charge Agreement have been addressed in Note 1 in the Letter from the Board under the heading “CHANGES IN SHAREHOLDING STRUCTURE”. The 126,949,120 Consolidated Shares represent the aggregate of 31,737,280 Consolidated Shares held by Mr. Mo which have been charged under the Share Charge Agreement in favour of Manciple, a company wholly and beneficially owned by Mr. Lau and 95,211,840 Rights Shares to be provisionally allotted and issued to Mr. Mo under the Rights Issue.
2. 83,029,120 Consolidated Shares represent the aggregate of 20,757,280 Consolidated Shares and a maximum of 62,271,840 Rights Shares (excluding any excess Rights Shares, if any, which may be applied for) to which YesMobile Holdings Company is entitled, assuming YesMobile Holdings Company Limited will take up all its entitlement under the Rights Issue.
3. 60,008,000 Consolidated Shares represent the aggregate of 15,002,000 Consolidated Shares and a maximum of 45,006,000 Rights Shares (excluding any excess Rights Shares, if any, which may be applied for), assuming Alexandra Investment Manager, LLC will take up all its entitlement under the Rights Issue.
4. 164,143,268 Consolidated Shares represent the maximum number of Rights Shares Kingston Securities as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Kingston Securities is deemed to be interested in 164,143,268 Consolidated Shares under the SFO. Kingston Securities is controlled by Ms. Chu Yuet Wah and Ms. Ma Siu Fong as to 51% and 49% respectively who are therefore also deemed to be interested in 164,143,268 Consolidated Shares under the SFO.
5. 114,811,481 Consolidated Shares represent the maximum number of Rights Shares Quam Securities as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Quam Securities is deemed to be interested in 114,811,481 Consolidated Shares under the SFO.
6. 35,087,719 Consolidated Shares represent the maximum number of Rights Shares Hantec Capital as underwriter is required to subscribe or procure to subscribe for pursuant to the Underwriting Agreement. As such, Hantec Capital is deemed to be interested in 35,087,719 Consolidated Shares under the SFO.

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.

## 5. PARTICULARS OF THE DIRECTORS AND SENIOR MANAGEMENT

## (a) Name and address of the Directors

Name	Correspondence Address
<i>Executive Directors</i>	
Mr. Mo Wai Ming, Lawrence	15/F., Sun House, 181 Des Voeux Road Central, Hong Kong
Mr. Ma She Shing, Albert	15/F., Sun House, 181 Des Voeux Road Central, Hong Kong
<i>Independent non-executive Directors</i>	
Mr. Hsu Shiu Foo, William	15/F., Sun House, 181 Des Voeux Road Central, Hong Kong
Mr. Lee Kun Hung	15/F., Sun House, 181 Des Voeux Road Central, Hong Kong
Mr. Kwok Chi Sun, Vincent	15/F., Sun House, 181 Des Voeux Road Central, Hong Kong

## (b) Qualification of the Directors

*Executive Directors*

Mr. Mo Wai Ming, Lawrence, aged 46, is an executive Director. Prior to the founding of 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 as a member of the HKSAR Government's Chinese Language Interface Advisory Committee in May 1999. Mr. Mo holds a degree in science from University of Toronto, Canada. As the chief executive, Mr. Mo has overall responsibility for the operations and performances of the Group.

Mr. Ma She Shing, Albert, aged 45, is an executive Director. Mr. Ma has over 19 years of corporate banking and private banking experience in major US and European institutions. He was previously a vice president in a renowned US investment bank in Hong Kong. Mr. Ma holds a Bachelor of Arts degree in Economics from Pomona College, California, US. Mr. Ma was an independent non-executive Director of a listed public company in Hong Kong in 2004.

*Independent non-executive Directors*

Mr. Lee Kun Hung, aged 39, is an independent non-executive Director and audit committee member of the Company. Mr. Lee has over 15 years of manufacturing experience in the watch industry. Mr. Lee holds a Bachelor of Arts degree from Boston College, Massachusetts, US. Mr. Lee has not held any directorship in any listed public company in the last 3 years.

Mr. Hsu Shiu Foo, William, aged 55, is an independent non-executive Director and audit committee member of the Company. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. 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. Mr. Hsu is currently an independent non-executive director of other listed companies.

Mr. Kwok Chi Sun, Vincent, aged 43, is an independent non-executive Director and audit committee member of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co, and is a Certified Public Accountants. He is an independent non-executive director of other listed companies.

**(c) Audit committee**

The Company has established an audit committee with written terms of reference prepared and adopted with reference to the guidelines recommended by the Hong Kong Institute of Certified Public Accountants. The audit committee provides an important link between the Board and the Company's auditors in matters coming within the scope of the Group's audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluation. The audit committee comprises three members, namely Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent who are all independent non-executive Directors, further details of whom are set out in the paragraph headed "Qualification of the Directors" above.

## 6. CORPORATE INFORMATION

<b>Registered Office</b>	Caledonian Bank & Trust Limited Caledonian House P.O. Box 1043 George Town Grand Cayman Cayman Islands
<b>Principal place of business in Hong Kong</b>	15/F., Sun House 181 Des Voeux Road Central Hong Kong
<b>Authorised representatives</b>	Mo Wai Ming, Lawrence 15/F., Sun House 181 Des Voeux Road Central Hong Kong  Au Shui Ming, Anna 15/F., Sun House 181 Des Voeux Road Central Hong Kong
<b>Principal share registrar in the Cayman Islands</b>	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Ford Street P.O. Box 705 George Town Grand Cayman Cayman Islands
<b>Branch share registrar in Hong Kong</b>	Standard Registrars Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong
<b>Legal advisers to the Company in relation to the Rights Issue</b>	<i>As to Hong Kong law</i> Michael Li & Co. 14/F., Printing House 6 Duddell Street Central, Hong Kong

**Financial advisers to the Company  
in relation to the Rights Issue**

Kingston Corporate Finance Limited  
Suite 2801, 28th Floor  
One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

INCU Corporate Finance Limited  
Unit 1602, Ruttonjee House  
Ruttonjee Centre  
11 Duddell Street  
Central, Hong Kong

Veda Capital Limited  
Suite 2816, 28th Floor  
One International Finance Centre  
1 Harbour View Street  
Central, Hong Kong

**Auditors**

Moores Rowland Mazars  
Chartered Accountants  
*Certified Public Accountants*  
34th Floor, the Lee Garden  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

**Principal bankers**

The Hongkong and Shanghai Banking  
Corporation Limited  
1 Queen's Road Central  
Hong Kong



**7. EXPERT**

The following is the qualification of the expert who has given an opinion or advice contained in this prospectus:

Moores Rowland Mazars

Certified public accountants

As at the Latest Practicable Date, Moores Rowland Mazars did not have any interest, either direct or indirect, in any assets which have been 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 since 31 December 2004, the date to which the latest published audited consolidated financial statements of the Company were made up.

As at the Latest Practicable Date, Moores Rowland Mazars was not interested beneficially or non-beneficially in any shares in the Company or any of its subsidiaries or any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Moores Rowland Mazars has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its respective letter and/or report and/or reference to its respective name, in the form and context in which it respectively appears.

**8. LITIGATION**

None of the member of the Group is engaged in any litigation or arbitration of material importance and there is no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

**9. 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 immediately preceding the issue of this prospectus which are or may be material:

- (a) a placing agreement dated 14 June 2005 and entered into between the Company as the issuer and Hantec Capital as the placing agent in respect of the placing of up to 116,740,000 new Pre-consolidation Shares to not fewer than six Placees at a placing price of HK\$0.023 per Pre-consolidation Share. Further details of the placing were set out in the announcement of the Company dated 16 June 2005; and
- (b) the Underwriting Agreement.

**10. GENERAL**

- (a) The company secretary and the qualified accountant of the Company is Ms. Au Shui Ming, Anna. Ms. Au is a certified practicing accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (b) The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence. Mr. Mo is an executive Director.
- (c) The expenses in connection with the Rights Issue, including financial, legal and other professional advisory fees, underwriting commission, printing and translation expenses are estimated to be approximately HK\$2 million and will be payable by the Company.
- (d) The English text of this document shall prevail over the Chinese text for the purpose of interpretation.

**11. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES**

A copy of this prospectus together with copy of each of the Provisional Allotment Letter, the Excess Application Form and the consent letter referred to in the paragraph headed “Expert” in this appendix have been registered with the Registrar of Companies in Hong Kong pursuant to Section 342C of the Companies Ordinance.

**12. LEGAL EFFECT**

This prospectus, the Provisional Allotment Letter and the Excess Application Form, and all acceptances of any offer or application contained in or made on such documents, are governed by and shall be construed in accordance with the laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions, of Section 44A and 44B of the Companies Ordinance, so far as applicable.

**13. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours on any Business Day at the principal place of business in Hong Kong of the Company at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong from the date of this prospectus up to and including 27 March 2006:

- (a) the memorandum and articles of association of the Company;
- (b) the annual reports of the Company for each of the three financial years ended 31 December 2004;
- (c) the report from Moores Rowland Mazars on the unaudited pro forma adjusted consolidated net tangible assets of the Group, the text of which is set out on pages 64 to 65 of this prospectus;
- (d) the written consent referred to under the paragraph headed “Expert” in this appendix;
- (e) the material contracts referred to under the paragraph headed “Material contracts” in this appendix; and
- (f) the circular of the Company dated 13 February 2006 in relation to, among other things, the Rights Issue.