

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in KanHan Technologies Group Limited ("the Company"), you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is addressed to the shareholders of the Company in connection with an extraordinary general meeting of the Company (the "EGM") to be held on 28 February 2006. This circular is not and does not constitute an offer of, nor is it intended to invite offers for, shares in or other securities of the Company.

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 circular, 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 circular.

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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)

(1) PROPOSED SHARE CONSOLIDATION; (2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL; AND (3) PROPOSED RIGHTS ISSUE 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



INC CORPORATE FINANCE LIMITED

And

Underwriters



KINGSTON SECURITIES LIMITED

And



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

And



HANTEC CAPITAL LIMITED

Independent financial adviser to the independent board committee and
the independent shareholders of the Company



**元富證券(香港)有限公司
MasterLink Securities (Hong Kong)
Corporation Limited**

The letter from MasterLink Securities (Hong Kong) Corporation Limited, the independent financial adviser, is set out on pages 32 to 46 of this circular. The letter from the Independent Board Committee (as defined herein) is set out on page 31 of this circular.

To qualify for the Rights Issue (as defined herein), Shareholder (as defined herein) must be registered as members of the Company on the Record Date (as defined herein) and must not be Excluded Shareholders (as defined herein). 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 Company's branch share registrar in Hong Kong, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than the Latest Lodging Date (as defined herein). The last day of dealings in Shares on a cum-rights basis is therefore expected to be Thursday, 2 March 2006. The Shares will be dealt with on an ex-rights basis from Friday, 3 March 2006.

A notice convening the EGM to be held at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong at 10:00 a.m. on Tuesday, 28 February 2006 is set out on pages 100 to 102 of this circular. If you are not able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and deposit it with the Company's branch share registrar in Hong Kong, 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 as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

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 19 of this circular. 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.

The Shares will be dealt in on an ex-rights basis from Friday, 3 March 2006. Dealing in the Rights Shares in the nil-paid form will take place from Tuesday, 14 March 2006 to Wednesday, 22 March 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of 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 persons 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), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings 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.

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

13 February 2006

* For identification purposes only

CHARACTERISTICS OF GEM

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the main board 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

Set out below is an indicative timetable for the implementation of the Share Consolidation and the Rights Issue. The timetable is subject to the results of the EGM and other changes in accordance with any agreement to be made between the Company, Underwriters and Mr. Mo. The Company will notify the Shareholders of any changes to the expected timetable by way of announcement(s) as and when appropriate.

2006

Latest time for lodging forms of proxy for the purpose of the EGM	10:00 a.m. on Sunday, 26 February
EGM	10:00 a.m. on Tuesday, 28 February
Effective date of the Share Consolidation	Wednesday, 1 March
Announcement of results of EGM to be published on the GEM website	Wednesday, 1 March
Original counter for trading in the Existing Shares in board lots of 10,000 of Existing Shares temporarily closes	9:30 a.m. on Wednesday, 1 March
Temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares opens (in the form of existing share certificates)	9:30 a.m. on Wednesday, 1 March
First day for free exchange of existing share certificates for new share certificates	Wednesday, 1 March
First day of operation of odd lots trading facility	Wednesday, 1 March
Last day of dealings in Shares on a cum-rights basis	Thursday, 2 March
First day of dealings in Shares on an ex-rights basis	Friday, 3 March
Latest time for lodging transfer of Shares in order to be qualified for the Rights Issue	4:00 p.m. on Monday, 6 March
Register of members of the Company closes (both dates inclusive)	Tuesday, 7 March to Friday, 10 March (both dates inclusive)
Record Date	Friday, 10 March

EXPECTED TIMETABLE

2006

Despatch of the Prospectus Documents (in case of the Excluded Shareholders, the Prospectus only)	Friday, 10 March
Register of members of the Company re-opens	Monday, 13 March
First day of trading in nil-paid Rights Shares	Tuesday, 14 March
Original counter for trading in the Consolidated Shares in board lots of 10,000 Consolidated Shares re-opens (in the form of new share certificates)	9:30 a.m. on Wednesday, 15 March
Parallel trading in the Consolidated Shares (in the forms of both existing and new share certificates) commences	9:30 a.m. on Wednesday, 15 March
Latest time for splitting of nil-paid Rights Shares	4:00 p.m. on Friday, 17 March
Last day of trading in nil-paid Rights Shares	Wednesday, 22 March
Latest time for acceptance of, and payment of 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
Temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares closes (in the form of existing share certificates)	4:00 p.m. on Thursday, 6 April

EXPECTED TIMETABLE

2006

Parallel trading in the Consolidated Shares (in the forms of both existing and new share certificates) ends	4:00 p.m. on Thursday, 6 April
Last day of operation of odd lots trading facility	Thursday, 6 April
Dealings in fully-paid Rights Shares commence	Thursday, 6 April
Last day of free exchange of existing share certificates for new share certificates	Monday, 10 April

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 of 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 of 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 of the Rights Shares does not take place on the Latest Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this circular may be affected. Further announcement(s) will be made by the Company in such event.

TERMINATION OF THE UNDERWRITING AGREEMENT

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 19 of this circular. 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.

DEFINITIONS

In this circular, 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 proposed Share Consolidation, the proposed increase in authorised share capital of the Company and the proposed 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
“Director(s)”	the director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be convened on Tuesday, 28 February 2006 to consider and, if thought fit, approve the Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue
“Excluded Shareholder(s)”	Overseas Shareholder(s), to whom the Directors, based on legal opinions provided by relevant legal advisers and on account either of legal restrictions under the laws of 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
“Existing Share(s)”	existing 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

DEFINITIONS

“GEM”	the Growth Enterprise Market of 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 Board Committee”	a committee of the Board, comprising Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, the independent non-executive Directors, which has been formed to advise the Independent Shareholders in relation to the Rights Issue
“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 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”	Friday, 10 February 2006, being the latest practicable date prior to the printing of this circular for inclusion of certain information in this circular

DEFINITIONS

“Last Trading Date”	Wednesday, 4 January 2006, being the last trading day of the Existing Shares prior to the release of the Announcement
“MasterLink”	MasterLink Securities (Hong Kong) Corporation Limited, a licensed corporation to carry on business in type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO, being the independent financial adviser in relation to the Rights Issue
“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
“Prospectus”	the prospectus to be issued by the Company in relation to the Rights Issue
“Prospectus Documents”	the Prospectus, the provisional allotment letter and the form of application for excess Rights Shares
“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)
“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

DEFINITIONS

“Rights Issue”	the proposed 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
“Rights Share(s)”	442,475,040 Consolidated Shares to be issued pursuant to Rights Issue
“SFO”	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Existing Share(s) and/or Consolidated Share(s), as the case may be
“Share Consolidation”	the proposed consolidation of every five Existing 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 Existing Shares or Consolidated Shares, as the case may be
“Share Option(s)”	the share option(s) granted under the Share Option Scheme
“Share Option Scheme”	a 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
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“%”	per cent



KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8175)

Executive Directors:

Mr. 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

13 February 2006

**(1) PROPOSED SHARE CONSOLIDATION;
(2) PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL;
AND
(3) PROPOSED RIGHTS ISSUE IN THE PROPORTION OF THREE RIGHTS
SHARES FOR EVERY ONE CONSOLIDATED SHARE
HELD ON THE RECORD DATE;**

To the 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 (as at the Latest Practicable Date, the authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 Existing Shares, of which 737,458,400 Existing Shares had been issued and fully paid or credited as fully paid)

* For identification purposes only

LETTER FROM THE BOARD

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 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 37,000,000 Share Options were exercised by the holders thereof. Therefore, the exact number of Rights Shares to be issued under the Rights Issue could be confirmed on the Latest Practicable Date. Subject to the Share Consolidation and the increase in authorised share capital of the Company becoming effective, the Board proposes to raise approximately HK\$25.2 million before expenses by issuing 442,475,040 Rights Shares at the Subscription Price of HK\$0.057 per Rights Share under the Rights Issue.

Pursuant to the Underwriting Agreement, Mr. Mo, who was directly or indirectly interested in 176,508,000 Existing Shares (equivalent to 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. 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 Underwriting Agreement contains provisions granting Kingston Securities (on behalf of all the Underwriters) the right to terminate its obligations thereunder on the occurrence of certain events as set out under the paragraph headed "Termination of the Underwriting Agreement" on or before the third Business Day after the Latest Acceptance Date.

The Independent Shareholders will be advised by the Independent Board Committee regarding the Rights Issue. MasterLink has been appointed by the Company to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Rights Issue are fair and reasonable and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to give you further information on, among other things, details of the Share Consolidation, the proposed increase in the authorised share capital of the Company and the Rights Issue. This circular also contains the recommendation of the Independent Board Committee and the advice of MasterLink in respect of the Rights Issue and the notice of EGM.

LETTER FROM THE BOARD

PROPOSED SHARE CONSOLIDATION

The Board proposes to implement the Share Consolidation pursuant to which every five Existing Shares of HK\$0.01 each be consolidated into one Consolidated Share of HK\$0.05. As at the Latest Practicable Date, the authorised share capital of the Company is HK\$20,000,000 divided into 2,000,000,000 Existing Shares of which 737,458,400 Existing Shares are in issue and are fully paid or credited as fully paid. 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.

Effects of the Share Consolidation

The Consolidated Shares will rank *pari passu* in all respects with the Existing Shares in issue prior to the Share Consolidation becoming effective and there will be no change in the respective rights of the Shareholders. Fractional Consolidated Shares will not be issued by the Company to the Shareholders. Any fractional entitlements of Consolidated Shares will be aggregated and sold for the benefit of the Company. Board lot size for trading in the Consolidated Shares will remain unchanged at 10,000 Consolidated Shares per board lot, which is the same as that of the board lot size for trading in the Existing Shares on GEM. Based on the closing price of HK\$0.48 per Consolidated Share (assuming the Share Consolidation becoming effective) on the Latest Practicable Date (based on the closing price of HK\$0.096 per Existing Share as quoted on GEM on the Latest Practicable Date), the value of each board lot of 10,000 Consolidated Shares would be HK\$4,800.

The effects of the Share Consolidation on the share capital of the Company is set out under the section headed “Effects of the proposed increase in authorised share capital of the Company and the Share Consolidation on the share capital of the Company” in this circular. Other than the expenses of approximately HK\$160,000 to be incurred by the Company in relation to the Share Consolidation, the implementation thereof will not, by itself, affect the underlying assets, business operations, management or financial position of the Group or the interests of the Shareholders as a whole (including the respective rights of the Shareholders).

Conditions of the Share Consolidation

The Share Consolidation is conditional upon the following conditions having been fulfilled:

- (i) the passing of an ordinary resolution by the Shareholders at the EGM to approve the Share Consolidation as contained in the notice of EGM; and
- (ii) the GEM Listing Committee granting the listing of, and permission to deal in, the Consolidated Shares in issue upon the Share Consolidation becoming effective.

Subject to the fulfillment of the conditions of the Share Consolidation, the effective date of the Share Consolidation is expected to be on Wednesday, 1 March 2006, being the date following the date of the EGM.

LETTER FROM THE BOARD

Reasons for the Share Consolidation

Taking into account the Share Consolidation will increase the nominal value of the Existing Shares and their trading price per board lot, and hence reducing the overall transaction and handling costs for dealings in the Consolidated Shares, and for compliance with the requirements under Rule 17.76 of the GEM Listing Rules, the Directors are of the view that the Share Consolidation is in the interests of the Company and the Shareholders as a whole and recommend the Shareholders to vote in favour of the ordinary resolution to approve the Share Consolidation at the EGM.

Application for listing

Application has been made to the GEM Listing Committee for the granting of the listing of, and permission to deal in, the Consolidated Shares in issue upon the Share Consolidation becoming effective on GEM.

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

Arrangement for odd lot trading

In order to facilitate the trading of odd lots (if any) of the Consolidated Shares arising from the Share Consolidation, the Company has appointed Kingston Securities to match the purchase and sale of odd lots of the Consolidated Shares at the relevant market price per Consolidated Share for the period from Wednesday, 1 March 2006 to Thursday, 6 April 2006 (both dates inclusive). Holders of odd lots of the Consolidated Shares who wish to take advantage of this facility either to dispose of their odd lots of the Consolidated Shares or top up to a full board lot may, directly or through their brokers, contact Ms. Rosita Kiu (Tel.: 2298-6215 and Fax: 2295-0682) of Kingston Securities during this period. Holders of odd lots of the Consolidated Shares should note that successful matching of the sale and purchase of odd lots of the Consolidated Shares is not guaranteed. Any Shareholder, who is in any doubt about the odd lot facility, is recommended to consult his/her/its own professional advisers.

Trading arrangement for the Consolidated Shares

Subject to the Share Consolidation becoming effective, the arrangements proposed for dealings in the Consolidated Shares are expected to be as follows:

- (i) from 9:30 a.m. on Wednesday, 1 March 2006, the original counter for trading in the Existing Shares in board lots of 10,000 Existing Shares will be temporarily closed and a temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares with existing share certificates which are blue in color will be set up;

LETTER FROM THE BOARD

- (ii) with effect from 9:30 a.m. on Wednesday, 15 March 2006, the original counter for trading in the Consolidated Shares will be re-opened for trading Consolidated Shares in board lots of 10,000 Consolidated Shares with new share certificates which are yellow in color;
- (iii) during the period from 9:30 a.m. on Wednesday, 15 March 2006 to 4:00 p.m. on Thursday, 6 April 2006 (both dates inclusive), there will be parallel trading at the above two counters; and
- (iv) the temporary counter for trading in the Consolidated Shares in board lots of 2,000 Consolidated Shares will be removed after the close of trading at 4:00 p.m. on Thursday, 6 April 2006. Thereafter, trading will only be in board lots of 10,000 Consolidated Shares with new share certificates and the existing share certificates for the Existing Shares will cease to be marketable and will not be acceptable for dealing and settlement purposes. However, such certificates will remain effective as documents of title on the basis of five Existing Shares for one Consolidated Share.

Free exchange of share certificates

Shareholders may exchange their share certificates for the Existing Shares for new share certificates for the Consolidated Shares on or after Wednesday, 1 March 2006. This may be done free of charge by delivering the share certificates for the Existing Shares to the office of the Registrar, Standard Registrars Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, during the period from Wednesday, 1 March 2006 to Monday, 10 April 2006 (both dates inclusive). After the prescribed time for free exchange of share certificates, share certificates for the Existing Shares will be accepted for exchange for share certificates for the Consolidated Shares only on payment of a fee of HK\$2.50 (or such higher amount as may be stipulated by the Stock Exchange from time to time) for each new share certificate to be issued or each old share certificate submitted, whichever number of share certificates is higher, to the Registrar for exchange of share certificates.

New share certificates for the Consolidated Shares will be yellow in color in order to distinguish them from share certificates for the Existing Shares which are blue in color.

It is expected that new share certificates for the Consolidated Shares will be available for collection on or after the tenth business day from the date of submission of the certificates for the Existing Shares to the Registrar. Unless otherwise instructed, new share certificates for the Consolidated Shares will be issued in board lots of 10,000 Consolidated Shares.

PROPOSED INCREASE IN AUTHORISED SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company was HK\$20,000,000 divided into 2,000,000,000 Existing Shares, of which 737,458,400 Existing Shares had been issued and fully paid or credited as fully paid. Assuming the Share Consolidation becoming effective, the Board proposes 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. The increase in the authorised share capital is proposed for accommodating future expansion and growth of the Group and the Rights Issue.

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Conditions of the proposed increase in authorised share capital

The proposed increase in the authorised share capital is conditional on the passing of an ordinary resolution by the Shareholders at the EGM to approve the same as contained in the notice of EGM.

Effect of the proposed increase in authorised share capital of the Company and the Share Consolidation on the share capital of the Company

The following table shows the total authorised share capital of the Company as at the Latest Practicable Date and immediately before and after the increase in the authorised share capital of the Company:

	As at the Latest Practicable Date		Immediately before the increase in authorised share capital of the Company		Immediately after the increase in authorised share capital of the Company	
	Number of Existing Shares	HK\$	Number of Consolidated Shares	HK\$	Number of Consolidated Shares	HK\$
Total authorised	2,000,000,000	20,000,000	400,000,000	20,000,000	2,000,000,000	100,000,000
Total issued	737,458,400	7,374,584	147,491,680	7,374,584	147,491,680	7,374,584
Total unissued	1,262,541,600	12,625,416	252,508,320	12,625,416	1,852,508,320	92,625,416

PROPOSED RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	Three Rights Shares for every one Consolidated Share held on the Record Date
Number of Existing Shares in issue and Consolidated Shares in issue assuming the Share Consolidation becoming effective:	737,458,400 Existing Shares (equivalent to 147,491,680 Consolidated Shares) as at the Latest Practicable Date
Number of Rights Shares:	442,475,040 Rights Shares

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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.

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 (assuming the Share Consolidation becoming effective) on the Last Trading Date (based on the closing price of HK\$0.108 as quoted on GEM on the Last Trading Date);

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- (ii) a discount of approximately 85.62% to the average closing price of HK\$0.3965 per Consolidated Share (assuming the Share Consolidation becoming effective) for the 10 consecutive trading days up to and including the Last Trading Date (based on the average closing price as quoted on GEM for the 10 consecutive trading days up to and including the Last Trading Date);
- (iii) a discount of approximately 83.50% to the average closing price of HK\$0.3455 per Consolidated Share (assuming the Share Consolidation becoming effective) for the 20 consecutive trading days up to and including the Last Trading Date (based on the average closing price as quoted on GEM for the 20 consecutive trading days up to and including the Last Trading Date);
- (iv) a discount of approximately 82.67% to the average closing price of HK\$0.329 per Consolidated Share (assuming the Share Consolidation becoming effective) for the 30 consecutive trading days up to and including the Last Trading Date (based on the average closing price as quoted on GEM for the 30 consecutive trading days up to and including the Last Trading Date);
- (v) a discount of approximately 67.94% to the theoretical ex-rights price of HK\$0.1778 per Consolidated Share (assuming the Share Consolidation becoming effective) based on the closing price of HK\$0.108 as quoted on GEM on the Last Trading Date;
- (vi) a discount of approximately 88.13% to the closing price of HK\$0.48 per Consolidated Share (assuming the Share Consolidation becoming effective) on the Latest Practicable Date (based on the closing price of HK\$0.096 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 (assuming the Share Consolidation becoming effective), 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

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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.

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.

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If any of the conditions of the Rights Issue are 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.

Status of the Rights Issue

The Rights Shares, when allotted, issued and fully-paid, will rank pari passu with the Consolidated Shares (assuming the Share Consolidation becoming effective) 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 Existing 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 send (i) the Prospectus Documents to Qualifying Shareholders and (ii) the Prospectus, for information only, to the Excluded 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 last day of dealings in Shares on a cum-rights basis is therefore expected to be Thursday, 2 March 2006. The Shares will be dealt with on an ex-rights basis from Friday, 3 March 2006.

Closure of register of members

The Company's register of members will be 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 will be 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, there are four Shareholders who have a registered address in the British Virgin Islands and one Shareholder with registered address in Taiwan as at the Latest Practicable Date. 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

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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.

If there is any Overseas Shareholder whose registered address is in any jurisdiction other than Hong Kong, the British Virgin Islands and Taiwan on the Record Date, the Directors will seek further legal advice regarding the legal restrictions under the laws of the relevant place to which such Shareholder is subject. If based on the relevant legal advice, the Directors are of the view that it is necessary or expedient not to offer the Rights Shares to such Shareholder, such Shareholder will be regarded as an Excluded Shareholder.

The Company will send the Prospectus, for information only, to the Excluded Shareholders but will not send the provisional allotment letter and the form of application for excess Rights Shares to them.

The Excluded Shareholders will, however, be entitled to vote at the EGM to consider and, if thought fit, approving the resolutions in respect of the Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue.

Arrangements will be made for the Rights Shares, which would otherwise have been provisionally allotted to the Excluded Shareholders in nil-paid form, to be sold as soon as practicable after dealings in nil-paid Rights Shares commence, if a premium, net of expenses, can be obtained. The proceeds of each sale, less expenses, of HK\$100 or more will be paid to the relevant Excluded Shareholders in Hong Kong dollars pro rata to their respective shareholdings. The Company will keep individual amounts of less than HK\$100 for its own benefit. Any unsold Rights Shares will be available for excess application under the Rights Issue.

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

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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.

Subject to the grant of 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.

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.

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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.

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.

UNDERWRITING ARRANGEMENT

Undertakings from Mr. Mo

Pursuant to the Underwriting Agreement, Mr. Mo, who was directly or indirectly interested in 176,508,000 Existing Shares (equivalent to 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 Right 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.

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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 circular, 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.

Underwriting Agreement

Date:	20 January 2006
Underwriters: (<i>Note 1</i>)	Kingston Securities, Quam Securities and Hantec Capital
Number of Rights Shares underwritten: (<i>Note 2</i>)	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 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 that 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

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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 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 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**

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- (c) any material adverse change in the business or in the financial or trading position of the Group as a whole; or
- (2) any adverse change in market conditions (including without limitation, any change in fiscal or monetary policy, or foreign exchange or currency markets, suspension or material restriction or trading in securities) occurs which in the 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 of member of the Group or the destruction of any material asset of the Group; or
- (4) any suspension in the trading of securities generally or the Company's securities on the Stock Exchange for a period of more than ten consecutive business days, excluding any suspension in connection with the clearance of the announcement or the Prospectus Documents or other announcements or circulars in connection with the 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 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.

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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 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.

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 DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

The Shares will be dealt in on an ex-rights basis from Friday, 3 March 2006. Dealing in the Rights Shares in the nil-paid form will take place from Tuesday, 14 March 2006 to Wednesday, 22 March 2006 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled and/or, in respect of 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 persons contemplating buying or selling 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), bear the risk that the Rights Issue may not become unconditional or may not proceed.

Any Shareholder or other persons contemplating dealings 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.

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CHANGES IN SHAREHOLDING STRUCTURE

The following is the shareholding structure of the Company immediately before and after the Share Consolidation, but before completion of the Rights Issue:

Shareholders	Immediately before completion of the Share Consolidation		Immediately after completion of the Share Consolidation but before completion of the Rights Issue	
	No. of Existing Shares	Approximate %	No. of Consolidated Shares	Approximate %
Mr. Mo <i>(Note 1)</i>	176,508,000	23.93	35,301,600	23.93
Ma She Shing, Albert <i>(Note 2)</i>	7,000,000	0.95	1,400,000	0.95
YesMobile Holdings Company Ltd. <i>(Note 3)</i>	103,786,400	14.07	20,757,280	14.07
Alexandra Investment Manager, LLC <i>(Note 4)</i>	75,010,000	10.17	15,002,000	10.17
Underwriters <i>(Note 5)</i> :				
– Kingston Securities	–	–	–	–
– Quam Securities	–	–	–	–
– Hantec Capital	–	–	–	–
Other Shareholders	<u>375,154,000</u>	<u>50.88</u>	<u>75,030,800</u>	<u>50.88</u>
Total	<u><u>737,458,400</u></u>	<u><u>100.00</u></u>	<u><u>147,491,680</u></u>	<u><u>100.00</u></u>

LETTER FROM THE BOARD

The following is the shareholding structure of the Company immediately before and after completion of the Rights Issue (assuming the Share Consolidation having become effective):

Shareholders	Immediately before completion of the Rights Issue		Immediately after completion of the Rights Issue (assuming no Qualifying Shareholders shall take 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 shall 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 6)	35,301,600	23.93	163,734,172	27.75	141,206,400
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
Total	<u>147,491,680</u>	<u>100.00</u>	<u>589,966,720</u>	<u>100.00</u>	<u>589,966,720</u>	<u>100.00</u>

LETTER FROM THE BOARD

Notes:

1. Mr. Mo is an executive Director and a substantial Shareholder. As at the date of the Announcement, Mr. Mo held 169,508,000 Existing Shares and 7,000,000 Share Options. Of the 169,508,000 Existing Shares, 151,686,400 Existing Shares were charged by way of a share charge agreement dated 13 April 2005 (the “Share Charge Agreement”) in favour of Manciple Enterprises Limited (“Manciple”), a company incorporated in the British Virgin Islands and 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). Upon the exercise of the 7,000,000 Share Options previously held by Mr. Mo as at the date of the Announcement, the Shares to be issued thereof would also be charged in favour of Manciple.

On 2 February 2006, Mr. Mo exercised all his 7,000,000 Share Options and his shareholding in the Company has increased from 169,508,000 Existing Shares to 176,508,000 Existing Shares as the Latest Practicable Date. The 7,000,000 Existing Shares issued to Mr. Mo upon the exercise of the 7,000,000 Share Options were charged in favour of Manciple as aforesaid. Accordingly, Manciple had a security interests in 158,686,400 Existing Shares, comprising 151,686,400 Existing Shares mentioned above and 7,000,000 Existing Shares issued upon exercise of the 7,000,000 Shares Options held by Mr. Mo.

As at the Latest Practicable Date, under the SFO, each of Manciple and Mr. Lau was deemed to be interested in those 158,686,400 Existing Shares, representing approximately 21.52% of the total issued share capital of the Company as at the Latest Practicable Date.

2. Mr. Ma She Shing, Albert is an executive Director. As 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 Shing, Albert exercised all his 7,000,000 Share Options and his shareholding in the Company has increased to 7,000,000 Existing Shares. As at the Latest Practicable Date, Mr. Ma She Shing, Albert held 7,000,000 Existing 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).
6. Pursuant to the Share Charge Agreement, assuming no Qualifying Shareholder other than Mr. Mo takes up any of their respective entitlement under 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 (consolidated from 158,686,400 Existing Shares held by Mr. Mo which have been charged in favour of Manciple pursuant to the Share Charge Agreement), 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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 of 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 of 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 of the Rights Shares does not take place on the Last Acceptance Date, the dates mentioned in the section headed “Expected timetable” in this circular 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 were exercised on 2 February 2006, no adjustments in relation to the Share Options were required to be made.

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 Existing Shares to 8 Placees who are independent third parties not connected with the Company and connected persons of the Company 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.

LETTER FROM THE BOARD

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.

LETTER FROM THE BOARD

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.

EGM

There is set out on pages 100 to 102 of this circular a notice convening the EGM to be held at 10:00 a.m. on Tuesday, 28 February 2006 at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong, at which ordinary resolutions will be proposed to consider and, if thought fit, by the Shareholders and the Independent Shareholders to approve the Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue respectively.

Pursuant to Rule 10.29(1) of the GEM Listing Rules, any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue. As at the Latest Practicable Date, there is no controlling Shareholder. Therefore, Mr. Mo and Mr. Ma She Shing, Albert, being the executive Directors, and their respective associates will abstain from voting in favour of the ordinary resolution numbered 3 set out in the notice of EGM in relating to the Rights Issue. The Rights Issue is conditional on, among other things, the approval by the Independent Shareholders. The EGM will be held for the Independent Shareholders to consider and, if thought appropriate, approve the Rights Issue on votes to be taken by way of poll.

Under the GEM Listing Rules, parties that are required to abstain from voting in favour at the general meeting pursuant to the GEM Listing Rules may vote against the resolution at the general meeting of the issuer provided that their intention to do so has been stated in the relevant listing document or circular to Shareholders. Any such party may change his mind as to whether to abstain or vote against the resolution, in which case the issuer must, if it becomes aware of the change before the date of the general meeting, immediately despatch a circular to its Shareholders or publish an announcement notifying its Shareholders of the change and, if known, the reason for such change. Where the circular is despatched or the announcement is published less than 14 days before the date originally scheduled for the general meeting, the meeting must be adjourned before considering the relevant resolution to a date that is at least 14 days from the date of despatch or publication by the chairman or, if that is not permitted by the issuer's constitutional documents, by resolution to that effect.

Based on the confirmations received by the Board, none of Mr. Mo or Mr. Ma She Shing, Albert or their respective associates has intention to vote against the resolution in respect of the Rights Issue. In case that any of them has changed his mind as to whether to abstain or vote against the resolution, in which case the Company will, if it becomes aware of the change before the date of the EGM immediately publish an announcement notifying its Shareholders of the change and, if known, the reason for such change. Where the announcement is published less than 14 days before the date of the EGM, the Company will propose a resolution to its Shareholders to adjourn the EGM so as to comply with the aforesaid provision under the GEM Listing Rules.

LETTER FROM THE BOARD

There was no (i) voting trust or other agreement or arrangement or understanding entered into by or binding upon any of Mr. Mo or Mr. Ma She Shing, Albert or their respective associates; or (ii) obligation or entitlement of any of Mr. Mo or Mr. Ma She Shing, Albert or their respective associates, whereby he/she had or might have temporarily or permanently passed control over the exercise of the voting rights in respect of his/her Shares to a third party, either generally or on a case-by-case basis as at the Latest Practicable Date.

There is no discrepancy between the beneficial shareholding interest of each of Mr. Mo and Mr. Ma She Shing, Albert in the Company as disclosed in this circular and the number of Shares in respect of which he/she will control or will be entitled to exercise control over the voting rights at the EGM.

A form of proxy for use at the EGM is enclosed. If you are not able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar in Hong Kong, 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 as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

POLL PROCEDURE

Pursuant to article 72 of the articles of association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

- (a) by the chairman of the meeting; or
- (b) by at least two Shareholders present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or
- (d) by any Shareholder present in person or in the case of a Shareholder being a corporation by its duly authorised representative or by proxy and holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

In accordance with Rule 17.47(4)(b) of the GEM Listing Rules, the chairman of the EGM will demand a poll in relation to the ordinary resolution approving the Rights Issue at the EGM.

LETTER FROM THE BOARD

RECOMMENDATION

Your attention is drawn to the letter from the Independent Board Committee set out on page 31 in this circular which contains its recommendation to the Independent Shareholders as to voting at the EGM in relation to the Rights Issue.

Your attention is also drawn to the letter from MasterLink set out on pages 32 to 46 in this circular which contains its advice to the Independent Board Committee and the Independent Shareholders as regards the Rights Issue and the principal factors and reasons considered by it in arriving thereat.

The Independent Board Committee has considered the terms of the Rights Issue and the advice given by MasterLink and recommends the Independent Shareholders to vote in favour of the ordinary resolution numbered 3 set out in the notice of the EGM in relation to the Rights Issue.

The Directors consider that the Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue are in the best interests of the Company and its Shareholders and the terms of the Rights Issue are fair and reasonable and recommend the Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM.

Yours faithfully,

By order of the Board

KanHan Technologies Group Limited

Mo Wai Ming, Lawrence

Director



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)

13 February 2006

To the Independent Shareholders

Dear Sir or Madam,

We refer to the Letter from the Board set out in the circular dated 13 February 2006 (the “Circular”) of which this letter forms part. Capitalised terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the Rights Issue and to advise the Independent Shareholders as to the fairness and reasonableness of the Rights Issue and to recommend whether or not the Independent Shareholders should vote for the resolution to be proposed at the EGM to approve the Rights Issue. MasterLink has been appointed as the independent financial adviser to advise the Independent Board Committee in relation to the terms of the Rights Issue.

We wish to draw your attention to the letter from MasterLink to the Independent Board Committee and the Independent Shareholders which contains its advice to us in relation to the Rights Issue as set out in the Circular. We also draw your attention to the Letter from the Board.

Having taken into account principal factors and reasons considered by and the opinion of MasterLink as stated in its letter of advice, we consider the terms of the Rights Issue are fair and reasonable so far as the interests of the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution approving the Rights Issue to be proposed at the EGM.

Yours faithfully,

For and on behalf of

Independent Board Committee

Hsu Shiu Foo, William Lee Kun Hung Kwok Chi Sun, Vincent

Independent non-executive Directors

* *For identification purposes only*

LETTER FROM MASTERLINK

The following is the text of a letter of advice prepared by MasterLink to the Independent Board Committee and the Independent Shareholders in relation to the Rights Issue for the purpose of inclusion in this circular:



元富證券(香港)有限公司
MasterLink Securities (Hong Kong)
Corporation Limited

Unit 2603, 26/F
The Center
99 Queen's Road Central
Hong Kong

13 February 2006

*To the Independent Board Committee and
the Independent Shareholders*

Dear Sirs,

**PROPOSED RIGHTS ISSUE
IN THE PROPORTION OF THREE RIGHTS SHARES
FOR EVERY ONE CONSOLIDATED SHARE HELD
ON THE RECORD DATE**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Rights Issue, details of which are set out in the "Letter from the Board" contained in the circular dated 13 February 2006 to the Shareholders (the "Circular"), of which this letter forms part. Terms used in this letter shall have the same meanings as defined elsewhere in the Circular.

Under the Rights Issue and after taking into account of the full exercise of the 37,000,000 Share Options on 2 February 2006 as described in more details under the paragraph headed "Introduction" in the "Letter from the Board" contained in the Circular, the Company will conditionally issue 442,475,040 Rights Shares at a subscription price of HK\$0.057 per Rights Share. The nil-paid Rights Shares will be provisionally allotted to the Qualifying Shareholders on the basis of three Rights Shares for every one Consolidated Share held on the Record Date. As the Rights Issue would increase the issued share capital of the Company by more than 50%, the Rights Issue is conditional on, *inter alia*, approval by the Independent Shareholders whereas any controlling Shareholders and their associates or, where there are no controlling Shareholders, the Directors (excluding the independent non-executive Directors), the chief executive of the Company and their respective associates shall abstain from voting in favour of the resolution relating to the Rights Issue pursuant to Rule 10.29(1) of the GEM Listing Rules. As at the Latest Practicable Date, there is no controlling Shareholder and therefore Mr. Mo and Mr. Ma She Shing, Albert, both being executive Directors, and their respective associates will abstain from voting in favor of the resolution approving the Rights Issue at the EGM.

LETTER FROM MASTERLINK

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, has been formed to advise the Independent Shareholders as to whether the terms of the Rights Issue are fair and reasonable and whether the Rights Issue is in the interests of the Company and the Shareholders as a whole. MasterLink is engaged to advise the Independent Board Committee and the Independent Shareholders in these regards.

In formulating our recommendation, we have relied on the information and representations supplied, and the opinions expressed, by the Directors and management of the Company and have assumed that all statements and representations made or referred to in the Circular are true and accurate at the time they were made and as at the date of the Circular, and will continue to be true at the date of the EGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us. The Directors have confirmed, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no material facts the omission of which would make any statements in the Circular misleading. We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our recommendation. We confirm that we have taken all reasonable steps and performed sufficient work, which are applicable to the Rights Issue, as referred to in Rule 17.92 of the GEM Listing Rules (including the notes thereto). We have not, however, for the purpose of this exercise, conducted any independent detailed investigation or audit into the businesses or affairs or future prospects of the Group.

We have not considered the tax consequences on the Independent Shareholders arising from the subscription for, holding of or dealing in the Rights Shares or exercising any rights attached thereto or otherwise, since these are particular to their individual circumstances. Independent Shareholders who are in any doubt as to their tax position or who are subject to overseas tax or Hong Kong taxation on securities dealing should consult their own professional advisers.

LETTER FROM MASTERLINK

PRINCIPAL FACTORS AND REASONS CONSIDERED

The principal factors and reasons that we have taken into consideration in arriving at our opinion are set out as follows:

(1) Reasons for the Rights Issue

Financial resources of the Group

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.

Set out below is the Group's financial information as extracted from its annual report for the year ended 31 December 2004, the interim report for the six months ended 30 June 2005 and the third quarter report for the nine months ended 30 September 2005:–

	Year ended 31 December		Six months ended	Nine months ended
	2003	2004	30 June 2005	30 September 2005
	(Audited)	(Audited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2,984	4,320	2,868	5,175
Loss for the year/period	(16,708)	(8,950)	(1,817)	(2,813)
Net cash used in operating activities	(5,468)	(8,804)	(2,439)	n/a*

* *No consolidated cash flow statement was included in the third quarter report of the Company for the nine months ended 30 September 2005*

As the historical financial information of the Group demonstrated, the Group's business is improving progressively. Turnover for 2004 had increased by approximately 44.8% compared with that for 2003 while turnover for the nine months ended 30 September 2005, on an annualised basis, had increased by approximately 59.7% compared with 2004. The amount of losses incurred by the Company had also been reduced since 2003. Nevertheless, the Group still required a significant amount of working capital to support its operations. For the two years ended 31 December 2004 and the six months ended 30 June 2005, net cash used in operating activities of the Group amounted to approximately HK\$5.5 million, HK\$8.8 million and HK\$2.4 million respectively.

LETTER FROM MASTERLINK

We have examined the Group's annual report of 2004 and interim report of 2005, in which it stated that the Group mainly financed its operations with its own working capital, internally generated cash flow and the net proceeds from the placing of the Shares. In addition, we have also observed that the Group did not have any banking facilities available. As at 31 December 2003 and 2004 and 30 June 2005, the Group did not have any long-term liabilities, except for the financial assistance provided by The Innovation and Technology Fund of the Hong Kong government for assisting the development of a specific product of the Group of approximately HK\$1.3 million, HK\$1.2 million and HK\$1.2 million respectively.

Given the continued losses of the Group incurred during the past few years and the lack of external available banking facilities, the Group was unable to generate sufficient internal funds to support its operating cash outflow. Therefore, it is envisaged that the Group could only finance its operations by funds generating from other fund-raising activities.

In each of the year 2004 and 2005, the Company had undertaken a share placement activity. On 14 August 2004, the Company completed a placement of 97,286,400 new Shares at HK\$0.0925 per Share to YesMobile Holdings Company Limited which had raised net proceeds of approximately HK\$8.7 million (the "2004 Placement"). Another placement of 116,740,000 new Shares at HK\$0.023 per Share which had raised net proceeds of approximately HK\$2.55 million was completed on 27 June 2005 (the "2005 Placement").

As stated in the announcement regarding the 2004 Placement, the amount of funds raised was designated for general working capital purpose and we noted that it was of similar magnitude as the Group's operating cash outflow requirement in 2004 amounting to approximately HK\$8.8 million. For the 2005 Placement, the net proceeds was designated as to approximately HK\$1.275 million for development of the Group's existing business and as to approximately HK\$1.275 million for general working capital. We have been advised by the Board that approximately HK\$0.7 million of the proceeds raised from the 2005 Placement have been utilized as general working capital as at the date of the Announcement and 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 will be applied as general working capital. Given the fact that the amount of operating cash outflow of the Group for the six months ended 30 June 2005 already amounted to approximately HK\$2.4 million, we believe that the Group will be in need of further working capital to support its future operations.

In view of the above, we consider that the Rights Issue is beneficial to the Group as it will provide immediate working capital to the Group to support the daily operating activities and any other business development plans, as well as enhancing its liquidity and financial position.

LETTER FROM MASTERLINK

Use of proceeds from the Rights Issue

As stated in the “Letter from the Board” contained in the Circular, 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. Those potential investment opportunities that are 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. However, no suitable investment has been identified nor any concrete plan or arrangement has been made. The balance of the net proceeds of the Rights Issue, which amount to approximately HK\$3.2 million, is then intended to be used as general working capital.

The Group has been incurring losses from its existing principal line of business. We have reviewed the 2005 interim report of the Group and noted that as contained in the “Chairman’s statement” section therein, the Directors were aware of the fact that the Group was still slow to turn its existing products into solid revenue and needed to expand its sales network both locally and outside of Hong Kong. As also mentioned under the paragraph headed “Financial and trading prospects” in the “Letter from the Board” contained in the Circular, the Group is still optimistic with its existing two flagship products, HanWEB and HanPhone, and believes that these products would provide steady revenue. The Group has also launched the Putonghua e-learning platform (ePTH) and the web based fax service platform (efaxonline) and looks forward for surge in the number of subscribers or users when more promotions are to be conducted. To achieve the objective of strengthening the Group’s revenue base, we believe that it is necessary for the Group to have sufficient funding to carry out plans including but not limited to modifying its current technology and/or related software to cater for different types of customers in various sectors, as well as expanding its sales network to the Greater China market.

Whilst it is still the Group’s intention to continue to pursue its existing principal business, the Directors also stated in the 2005 interim report that the Group would possibly diversify into other business in order to boost revenue. Given the uncertainty in the future prospect of the Internet industry in which the Group is participating, we concur with the Directors’ view that seeking other investment opportunities that can increase the value of the Group is in the interests of the Company and the Shareholders as a whole and we also believe that it could diversify the business risks and broaden the revenue base of the Group. Based on the above, we consider that the intended use of proceeds of the Rights Issue is consistent with the views of the Directors as informed to the Shareholders in the Group’s annual/interim reports in the past, and that it is reasonable and fits the operating environment and financial position of Group.

In view of the continued losses of the Group in the past few years and therefore the lack of sufficient funding for development and expansion of business, we consider that the proceeds of the Rights Issue could provide financial flexibility for the Group to facilitate its business expansion plan when the opportunities arise, which is essential to the Group’s long-term development. Based on the factors mentioned above, we are of the view that the Rights Issue, and the use of the net proceeds raised therefrom towards future investment(s) which may or may not be in the principal line of business of the Group, are in the interests of the Company and the Shareholders as a whole.

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Alternative fund raising methods

The Directors have considered other alternative fund raising methods such as issue of new Shares and bank borrowings. However, due to the fact that the Group is operating in the Internet industry where limited amount of fixed assets is required for conducting business, it only had non-current assets of approximately HK\$0.4 million as at 30 June 2005. In view of the lack of sufficient amount of fixed assets available as collateral for banking facilities, it would be difficult for the Group to obtain sufficient loan financing from banks. Furthermore, the Directors consider that the financing cost associated with loan financing would be costly in view of the recent continuous increase in interest rate.

As to the issue of new Shares, the Directors also consider that placing of Shares would result in a dilution to the shareholding interest of existing Shareholders. Thus, the Directors believe that the Rights Issue is appropriate as it provides a good opportunity for the Group to strengthen its capital base and to enhance its financial position while allowing the Qualifying Shareholders to maintain their respective pro rata shareholdings in the Company. Moreover, the Rights Issue allows the Qualifying Shareholders to sell their nil-paid Rights Shares in the market should they decide not to take up their entitlements. Therefore, we are of the opinion that the Rights Issue is the best alternative among different fund raising methods.

After taking into account the reasons stated above, we are of the view that (i) the Rights Issue will strengthen the capital base and the financial position of the Group for continuation of its operating activities; (ii) provide financial flexibility for the Group's future business development plan; and (iii) compared to other fund raising methods, such as bank borrowings and issue of new Shares, the Rights Issue is the best alternative to the Company. As such, we concur with the Directors' view that the Rights Issue is in the interests of the Company and the Shareholders as a whole.

(2) Fund raising exercise in the past twelve months

The following summarises the capital raising activity of the Group for the twelve months immediately before the date of the Announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds as at the date of the Announcement
16 June 2005	Placing of 116,740,000 new Shares at HK\$0.023 per new Share pursuant to the general mandate granted at the annual general meeting of the Company held on 22 April 2005	Approximately HK\$2.55 million	Approximately HK\$1.275 million for the development of the Group's business and the balance of approximately HK\$1.275 million for the Group's general working capital	Approximately HK\$700,000 was used as general working capital of the Group in accordance with the usage disclosed in the relevant announcement

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As stated under the paragraph headed “Fund raising activities of the Company in the past twelve months from the date of the Announcement” in the “Letter from the Board” contained in the Circular, we are given to understand that approximately HK\$700,000 of the proceeds raised in the aforesaid 2005 Placement have been applied as general working capital and that the remaining balance of approximately HK\$1.85 million, of which approximately HK\$1.275 million is intended for the development of the Group’s existing business and approximately HK\$575,000 will be applied for general working capital, have not yet been used and is maintained as cash in the Group’s accounts. As stated in the paragraph headed “Financial resources of the Group” above, given (i) the continued losses incurred by the Group during the past few years; (ii) the operating cash outflow requirement for its daily operations; and (iii) the additional funding requirement to finance any future business expansion plan, we consider that the fund raising exercise in the past twelve months will not be able to fulfill its future funding requirement.

(3) Principal terms of the Rights Issue

Subscription Price

The Subscription Price represents:

- a discount of approximately 89.44% to the closing price of HK\$0.54 per Consolidated Share (based on the closing price of HK\$0.108 per Existing Share as quoted on GEM on the Last Trading Day and adjusted for the effect assuming the Share Consolidation becoming effective);
- a discount of approximately 85.62% to the average closing price of approximately HK\$0.3965 per Consolidated Share (based on the average closing price of each Existing Share as quoted on GEM for the 10 consecutive trading days up to and including the Last Trading Day and adjusted for the effect assuming the Share Consolidation becoming effective);
- a discount of approximately 83.50% to the average closing price of approximately HK\$0.3455 per Consolidated Share (based on the average closing price of each Existing Share as quoted on GEM for the 20 consecutive trading days up to and including the Last Trading Day and adjusted for the effect assuming the Share Consolidation becoming effective);
- a discount of approximately 82.67% to the average closing price of approximately HK\$0.329 per Consolidated Share (based on the average closing price of each Existing Shares as quoted on GEM for the 30 consecutive trading days up to and including the Last Trading Day and adjusted for the effect assuming the Share Consolidation becoming effective);
- a discount of approximately 67.94% to the theoretical ex-rights price of approximately HK\$0.1778 per Consolidated Share (based on the closing price of HK\$0.108 per Existing Share as quoted on GEM on the Last Trading Day and adjusted for the effect assuming the Share Consolidation becoming effective);

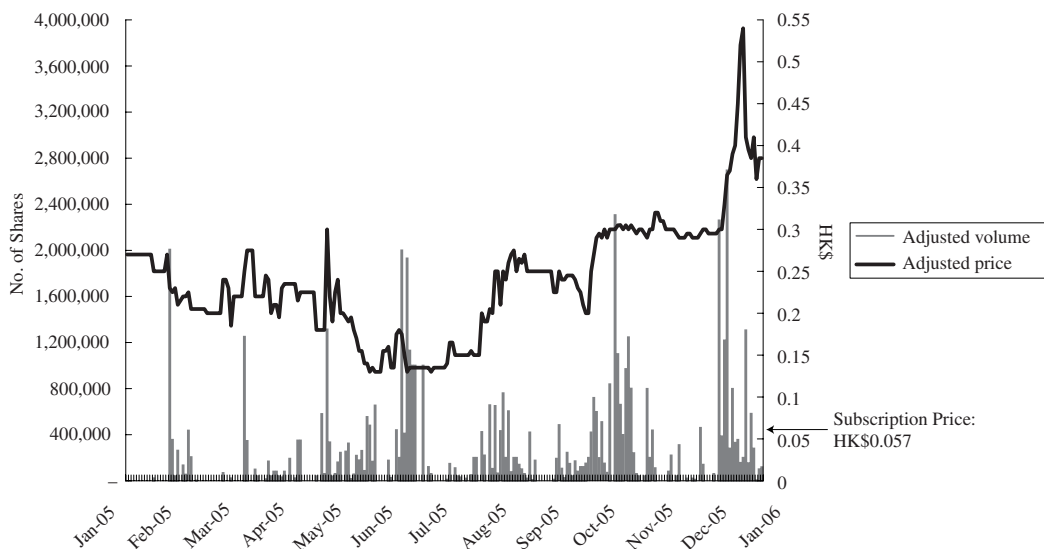
LETTER FROM MASTERLINK

- a premium of approximately 156.76% over the net assets 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 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 and taking into account of the full exercise of the Share Options; and
- a discount of approximately 88.13% to the closing price of HK\$0.48 per Consolidated Share (based on the closing price of HK\$0.096 per Existing Share as quoted on GEM on the Latest Practicable Date and adjusted for the effect assuming the Share Consolidation becoming effective).

We have been advised by the Directors that 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 and the fact that the Group incurred losses during the past few years. The Directors are therefore of the view that a substantial discount of the Subscription Price will have to be offered in order to increase the attractiveness of the Rights Issue to the Qualifying Shareholders. Taking into account of the financial position of the Group as mentioned under the paragraph headed "Financial resources of the Group" above, we concur with the Directors' view in this regard.

A chart of historical closing prices and trading volumes of the Consolidated Shares (assuming the Share Consolidation becoming effective and after being adjusted for the effect of the Share Consolidation) for the twelve full calendar month period prior to the date of the Announcement to the Latest Practicable Date (the "Review Period") is set out below:

Chart I: Consolidated Share Price Performance



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As illustrated above, the historical closing prices of the Consolidated Shares (assuming the Share Consolidation becomes effective and after being adjusted for the effect of the Share Consolidation) were higher than the Subscription Price during the entire Review Period. The highest closing price of the Consolidated Share of HK\$0.54 was recorded on 4 January 2006 which was the last trading day of the Existing Shares prior to the release of the Announcement. In forming our view as to whether the Subscription Price is fair and reasonable, however, we noted that most of the time during the Review Period prior to the date of the Announcement, the closing prices of the Consolidated Shares were below HK\$0.30 and that the price only raised from HK\$0.30 to HK\$0.54 (representing an increase of 80%) during a very short period of time of eight trading days from 21 December 2005 to 4 January 2006. During this period, the daily trading volume also increased to an average of 754,000 Shares compared with an average of 236,132 Shares during the entire Review Period. However, we noted that such substantial rise in both the trading price and volume of the Shares was not supported by any specific reasons that were aware of by the Directors. Based on the above, we considered that there might have been speculation of the Shares during this period which would distort the comparison benchmark and therefore we have excluded the closing prices of the Consolidated Shares for the period from 21 December 2005 to 4 January 2006 in our analysis.

Calculating based on the closing prices of the Consolidated Shares during the Review Period prior to the date of the Announcement (but excluding the period from 21 December 2005 to 4 January 2006), the average closing price of the Consolidated Shares was approximately HK\$0.23 (the “Adjusted Average Price”). The Subscription Price then represents discounts of approximately 75.22% to the Adjusted Average Price and 43% to the adjusted theoretical ex-right price of approximately HK\$0.10 (collectively referred to as the “Comparison Discounts”). For comparison, we have made reference to the pricing statistics of, as far as we are aware, all the rights issues carried out by other companies (the “Comparables”) listed on the Stock Exchange (including the Main Board and GEM) in the 6-month period prior to the date of the Announcement, details of which are summarised in Table I below:

Table I: Comparables

No.	Company (Stock code)	Date of announcement	Basis of entitlement	Discount/(Premium) of subscription price to	
				closing price on the last trading day prior to date of announcement	theoretical ex-right price
				%	%
1.	Wealthmark International Limited (39)	7-Jul-05	1 for 2	14.29	10.00
2.	Zhong Hua International Holdings Limited (1064)	19-Jul-05	1 for 2	65.80	26.90
3.	Asia Alliance Holdings Limited (616)	22-Jul-05	10 for 1	53.50	9.50
4.	Unity Investments Holdings Limited (913)	26-Jul-05	10 for 1	62.96	13.04
5.	Symphony Holdings Limited (1223)	27-Jul-05	1 for 2	61.80	51.90
6.	Gorient (Holdings) Limited (729)	5-Aug-05	3 for 1	60.00	27.50

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No.	Company (Stock code)	Date of announcement	Basis of entitlement	Discount/(Premium) of subscription price to	
				closing price on the last trading day prior to date of announcement	theoretical ex-right price
				%	%
7.	Garron International Limited (1226)	9-Aug-05	5 for 1	90.48	61.54
8.	Capital Estate Limited (193)	11-Aug-05	4 for 1	60.00	23.10
9.	Oriental Investment Corporation Limited (735)	12-Aug-05	3 for 10	22.48	18.23
10.	Century Legend (Holdings) Limited (79)	15-Aug-05	1 for 5	30.80	27.10
11.	United Power Investment Limited (674)	29-Aug-05	1 for 1	67.40	50.80
12.	Renren Holdings Limited (59)	5-Oct-05	6 for 1	45.50	11.80
13.	Wonson International Holdings Limited (651)	6-Oct-05	4 for 1	54.95	19.35
14.	Heritage International Holdings Limited (412)	7-Oct-05	5 for 2	46.20	19.70
15.	B&S Entertainment Holdings Ltd. (8167)	7-Oct-05	4 for 1	65.50	28.60
16.	Wai Yuen Tong Medicine Holdings Limited (897)	10-Oct-05	3 for 1	49.15	19.48
17.	Earnest Investment Holdings Limited (339)	12-Oct-05	8 for 1	90.70	52.40
18.	Foundation Group Limited (1182)	18-Oct-05	3 for 1	77.00	45.63
19.	Anex International Holdings Limited (723)	27-Oct-05	2 for 5	(8.70)	(6.40)
20.	QPL International Holdings Limited (243)	1-Nov-05	1 for 5	13.89	11.43
21.	New World CyberBase Limited (276)	14-Nov-05	2 for 1	35.60	15.70
22.	Far East Technology International Limited (36)	9-Nov-05	1 for 2	25.00	18.20
23.	HKR International Limited (480)	19-Dec-05	1 for 6	1.30	(2.40)
24.	Innovis Holdings Limited (8065)	28-Dec-05	1 for 2	64.29	54.55
	Maximum discount			90.70	61.54
	Minimum discount			1.30	9.50
	Average			47.91	25.32
				Comparison Discounts	
	The Company (8175)	24-Jan-06	3 for 1	75.22	43.00

Source: The Stock Exchange of Hong Kong Limited

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We note that the Comparison Discounts are higher than the average of the Comparables. Nevertheless, Independent Shareholders should be aware of the fact that the pricing of a rights issue may vary under different stock market conditions as well as for companies with different financial standing and business performance. Still, each of the Comparison Discounts is within the range of discounts of the Comparables. We consider that it is not uncommon to offer a substantial discount to the prevailing market price under a rights issue in order to enhance the attractiveness and to conclude an underwriting arrangement. In particular for the case of the Company, having considered the losses incurred during the past few years, we are of the view that the discount of the Subscription Price to the Share's market price offered under the Rights Issue is acceptable and in line with market practice.

In terms of the net tangible asset value per Consolidated Share, however, the Subscription Price represents a premium of approximately 156.76% based on the unaudited consolidated net assets of the Group as at 30 June 2005. Nevertheless, we note that the Group had net asset value of only about HK\$2.5 million and HK\$3.3 million as at 31 December 2004 and 30 June 2005 respectively and the Shares were traded on GEM at the price always above the net tangible asset value per Share throughout the Review Period. We consider that such characteristic is not uncommon to companies engaged in the Internet industry where industry players generally have lower net asset values. As such, we consider that the premium of the Subscription Price over the Group's unaudited consolidated net assets as at 30 June 2005 is reasonable and in line with the Group's industry characteristics.

We would also like to emphasize that all Qualifying Shareholders are offered an equal opportunity to participate in the Rights Issue and to subscribe for the Rights Shares at the Subscription Price. Those Qualifying Shareholders who do not exercise their rights to take up in full or part of their Rights Shares entitlements also have the opportunity to realise all or part of their nil-paid Rights Shares on the market, subject to the then prevailing market conditions. On the other hand, those Qualifying Shareholders who wish to increase their shareholdings in the Company under the Rights Issue may apply for excess Rights Shares.

Based on the above, we consider that the Subscription Price is on normal commercial terms and is fair and reasonable so far as the Shareholders are concerned.

Application for excess Rights Shares

As stated in the "Letter from the Board", 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, but will give preference to topping-up odd lots to whole board lots of Shares. 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 allocation of excess

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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) himself (themselves) prior to the Record Date to increase the chances of allotment of the excess Rights Shares.

We are of the view that such arrangement is in line with normal market practice.

Having considered the above factors, we are of the opinion that the terms of the Rights Issue are in line with market practice for rights issues and there are adequate arrangements for Qualifying Shareholders to maintain their proportionate interest in the Company should they wish to do so.

(4) Effect on shareholding of the Independent Shareholders

For those Qualifying Shareholders subscribing for their full entitlements under the Rights Issue, their shareholding interests in the Company will remain unchanged after the Rights Issue.

For those Qualifying Shareholders not subscribing for their full entitlements under the Rights Issue, depending on the extent to which they subscribe for the Rights Shares, their attributable interests in the Company upon completion of the Rights Issue will be diluted by the maximum of 75% on the basis that three Rights Shares will be provisionally allotted for every one Consolidated Share held.

We are of the view that the dilution effect is not prejudicial as all Qualifying Shareholders are offered an equal opportunity to participate in the enlargement of the capital base of the Company at a price below the market price of the Shares and Independent Shareholders' interests in the Company will not be diluted if they elect to subscribe for their full entitlements under the Rights Issue.

Independent Shareholders should note that the nil-paid Rights Shares will be traded on the Stock Exchange. Subject to market conditions, Qualifying Shareholders who do not take up their entitlements in full will have the opportunity to realise their nil-paid Rights Shares on the market. However, in the event that there is small or even no demand for the nil-paid Rights Shares in the market, such Qualifying Shareholders may not be able to realise their entitlements to the nil-paid Rights Shares and their shareholdings will be diluted without compensation.

In addition, Independent Shareholders should note that any dealings in the Rights Shares in their nil-paid form between 14 March 2006 to 22 March 2006 (both dates inclusive), bear the risk that the Rights Issue may not become unconditional or may not proceed.

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(5) Restoration of public float

Shareholders are reminded that, in the event that no Qualifying Shareholder (other than Mr. Mo who will take up all his provisional allotments and excess Rights Shares applied by him under the Rights Issue) takes up any Rights Shares, the public float of the Shares will drop to approximately 18.67% upon completion of the Rights Issue. 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.

Nevertheless, the Company and each of the Directors have given undertakings to the Stock Exchange that they will use their best endeavors 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. As also mentioned in the paragraph headed "Restoration of public float" in the "Letter from the Board" contained in the Circular, 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 enlarged issued share capital of the Company following the completion of the Share Consolidation and the Rights Issue. We are also given to understand that those sub-underwriters of Kingston Securities and their 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). Accordingly, the public float of the Shares will not be less than 25% of the enlarged issued share capital of the Company upon completion of the Rights Issue.

Having considered the above, we are of the view that the Company has already taken sufficient steps to avoid the public float of the Shares being less than 25% as required under the GEM Listing Rules upon completion of the Rights Issue.

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(6) Financial impact of the Rights Issue on the Group

Net tangible assets

Set out below is the pro forma effects of the Rights Issue on the unaudited consolidated net tangible assets of the Group as at 30 June 2005 based on the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group as set out in Appendix II to the Circular:

	After completion of the Share Consolidation but before the Rights Issue	After completion of the Share Consolidation and the Rights Issue
Unaudited consolidated net tangible assets/unaudited pro forma adjusted consolidated net tangible assets (<i>HK\$'000</i>)	3,280	26,480
Number of Shares in issue	147,491,680	589,966,720
Unaudited pro forma adjusted consolidated net tangible asset value per Consolidated Share (<i>HK\$</i>)	0.0222	0.0449

Upon completion of the Rights Issue, the unaudited pro forma adjusted consolidated net tangible assets of the Group would have improved to approximately HK\$26.5 million or approximately HK\$0.0449 on a per Consolidated Share basis. We are of the view that the improvement in the capital base of the Group resulted from the Rights Issue are in the interests of the Company and the Shareholders as a whole.

Gearing ratio and working capital

The gearing ratio (calculated as total liabilities divided by shareholders' equity) of the Group as at 30 June 2005 was approximately 0.90. The gearing ratio of the Group will improve to approximately 0.11 following the completion of the Rights Issue.

The cash position and working capital of the Group will be increased by the amount of the net proceeds of the Rights Issue.

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RECOMMENDATION

Having considered the above principal factors and reasons, in particular:

1. the Rights Issue will provide funding to the Group for its present and future operations and any future investments which may or may not be in its principal line of business, which as a whole is essential and beneficial to the Group's long-term development;
2. compared to other fund raising methods, such as bank borrowings and issue of new shares, the Rights Issue is the best alternative to the Company while it will provide an opportunity for the Qualifying Shareholders to maintain their respective pro rata shareholding interests in the Company;
3. the substantial discount of the Subscription Price to the historical trading prices of the Shares provides incentive to the Qualifying Shareholders to participate in the Rights Issue;
4. the terms of the Rights Issue are fair and reasonable so far as the Shareholders are concerned and are in line with market practice; and
5. the Rights Issue will have positive impact on the Group's financial position in terms of net tangible asset value, gearing ratio and working capital position,

we are of the view that the terms of the Rights Issue are fair and reasonable so far as the Independent Shareholders are concerned and the Rights Issue is in the interests of the Company and the Shareholders as a whole. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to approve the Rights Issue at the upcoming EGM.

Yours faithfully,
For and on behalf of
MasterLink Securities (Hong Kong)
Corporation Limited
Lai Voon Wai
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

	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	4,320	2,984	8,801
Direct costs	(1,645)	(1,758)	(791)
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	(6,817)	(9,960)	(3,975)
(Loss) profit from operations	(8,950)	(16,697)	3,902
Finance costs	–	(11)	(181)
(Loss) profit for the year	<u>(8,950)</u>	<u>(16,708)</u>	<u>3,721</u>
(Loss) earnings per share – Basic	<u>(1.71 cents)</u>	<u>(3.49 cents)</u>	<u>0.89 cents</u>

Consolidated Balance Sheet*At 31 December 2004*

	2004	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	467	681	228
Development expenditure	–	339	2,866
	<u>467</u>	<u>1,020</u>	<u>3,094</u>
CURRENT ASSETS			
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>
CURRENT LIABILITIES			
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>
NET CURRENT ASSETS	<u>3,278</u>	<u>3,320</u>	<u>3,375</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>3,745</u>	<u>4,340</u>	<u>6,469</u>
NON-CURRENT LIABILITIES			
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>
CAPITAL AND RESERVES			
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>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover	4	4,320	2,984
Direct costs		<u>(1,645)</u>	<u>(1,758)</u>
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		<u>(6,817)</u>	<u>(9,960)</u>
Loss from operations	6	(8,950)	(16,697)
Finance costs	7	<u>–</u>	<u>(11)</u>
Loss for the year		<u><u>(8,950)</u></u>	<u><u>(16,708)</u></u>
Loss per share – Basic	11	<u><u>(1.71 cents)</u></u>	<u><u>(3.49 cents)</u></u>

Consolidated Balance Sheet*At 31 December 2004*

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

Balance Sheet*At 31 December 2004*

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

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*

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
OPERATING ACTIVITIES		
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/>
NET CASH USED IN OPERATING ACTIVITIES	(8,804)	(5,468)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(375)	(906)
Proceeds for sale of property, plant and equipment	4	–
	<hr/>	<hr/>
CASH USED IN INVESTING ACTIVITIES	(371)	(906)
	<hr/>	<hr/>

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
FINANCING ACTIVITIES		
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)
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	12,391	9,156
	<hr/>	<hr/>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,216	2,782
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,000	(1,782)
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	4,216	1,000
	<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	4,216	1,000
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

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:

	2004	2003
	<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:

	2004			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
OPERATING RESULTS				
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>
	2004			Total <i>HK\$'000</i>
	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Others <i>HK\$'000</i>	
ASSETS & LIABILITIES				
Assets	6,061	118		6,179
Liabilities	3,598	32		3,630
OTHER INFORMATION				
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>	
OPERATING RESULTS				
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>		
ASSETS & LIABILITIES				
Assets	7,852	6	7,858	
Liabilities	4,819	–	4,819	
OTHER INFORMATION				
Depreciation	224	–	224	
Amortisation	357	–	357	
Capital expenditure	906	–	906	

6. LOSS FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <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

	2004 <i>HK\$'000</i>	2003 <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/>
	<hr/> <hr/>	<hr/> <hr/>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors

	2004	2003
	<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:

	2004	2003
	<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:

	2004	2003
	<i>HK\$'000</i>	<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:

	2004		2003	
	<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>
THE GROUP				
COST				
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>
At 31 December 2004	<u>157</u>	<u>339</u>	<u>796</u>	<u>1,292</u>
DEPRECIATION				
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>
At 31 December 2004	<u>13</u>	<u>201</u>	<u>611</u>	<u>825</u>
NET BOOK VALUES				
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

	THE COMPANY	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares at cost	3,162	3,162
Amounts due from subsidiaries	17,890	10,988
	<u>21,052</u>	<u>14,150</u>
Allowance for amounts due from subsidiaries	(15,920)	(6,000)
	<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>
THE GROUP	
COST	
At 1 January 2004 and 31 December 2004	3,492
AMORTISATION AND IMPAIRMENT	
At 1 January 2004	3,153
Provided for the year	258
Impairment loss recognised	81
At 31 December 2004	3,492
NET BOOK VALUES	
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:

	THE GROUP	
	2004	2003
	<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
	<u>693</u>	<u>1,652</u>

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>
THE COMPANY				
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>11,836</u>	<u>3,047</u>	<u>(8,855)</u>	<u>6,028</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>19,323</u>	<u>3,047</u>	<u>(20,376)</u>	<u>1,994</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.

	Accelerated tax depreciation <i>HK\$'000</i>	Development expenditure <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <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:

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

	THE GROUP	
	2004	2003
	<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	2003
		HK\$'000	HK\$'000
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>)	–	11

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

	<i>Notes</i>	Three months ended 30 June		Six months ended 30 June	
		2005	2004	2005	2004
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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>	30 June 2005 <i>HK\$'000</i>	31 December 2004 <i>HK\$'000</i> (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		434	467
CURRENT ASSETS			
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>
CURRENT LIABILITIES			
Financial assistance from government		146	223
Trade and other payables	10	1,611	2,211
		<u>1,757</u>	<u>2,434</u>
NET CURRENT ASSETS		<u>4,056</u>	<u>3,278</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,490</u>	<u>3,745</u>
NON-CURRENT LIABILITIES			
Financial assistance from government		1,210	1,196
NET ASSETS		<u><u>3,280</u></u>	<u><u>2,549</u></u>
CAPITAL AND RESERVES			
Share capital		7,004	5,837
Reserves		(3,724)	(3,288)
SHAREHOLDERS' FUNDS		<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*

	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
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>

	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	—	—	—	(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*

	Six months ended 30 June 2005	Six months ended 30 June 2004
	<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>
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	<u>4,194</u>	<u>355</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

The Company 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			(3,302)	(3,683)
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.

	30 June 2005	31 December 2004
	<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:

	30 June 2005	31 December 2004
	<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.

	30 June 2005	31 December 2004
	<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:

	30 June 2005	31 December 2004
	<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:

Nature of transactions	Six months ended 30 June 2005	Six months ended 30 June 2004
	<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		(996)	(2,371)	(2,813)	(4,121)
Loss per share – Basic	6	0.14 cents	0.44 cents	0.45 cents	0.82 cents

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		Nine months ended	
	30 September		30 September	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	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 December 2005, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, 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 December 2005, 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 December 2005 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 circular.

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 HK\$'000	Estimated net proceeds from the Rights Issue HK\$'000 (a)	Unaudited pro forma adjusted consolidated net tangible assets of the Group HK\$'000	Unaudited pro forma adjusted consolidated net tangible assets of the Group per Share
Before completion of the Share Consolidation and the Rights Issue	<u>3,280</u>			HK\$0.0047/ Existing Share (b)
After completion of the Share Consolidation but before completion of the Rights Issue	<u>3,280</u>			HK\$0.0222/ Consolidated Share (c)
After completion of the Share Consolidation and the Rights Issue	<u>3,280</u>	23,200	<u>26,480</u>	HK\$0.0449/ Consolidated Share (d)

- (a) 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.
- (b) The calculation is based on 700,458,400 Existing Shares in issue as at 30 June 2005 assuming no Share Options have been exercised.
- (c) The calculation is based on 147,491,680 Consolidated Shares before completion of the Rights Issue.
- (d) 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 circular, 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.

13 February 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 pages 85 to 86 under the heading of unaudited pro forma adjusted consolidated net tangible assets of the Group in Appendix II of the Company’s circular dated 13 February 2006 in connection with the proposed share consolidation and proposed 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,
Moore Rowland Mazars
Chartered Accountants
Certified Public Accountants

1. RESPONSIBILITY STATEMENT

This circular, 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 circular 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 circular misleading; and (3) all opinions expressed in this circular 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 Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue will be, as follows:

As at the Latest Practicable Date

Authorised share capital: *HK\$*

	<u>2,000,000,000</u> Existing Shares	<u>20,000,000</u>
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Issued and fully paid share capital or credited as fully paid:

	<u>737,458,400</u> Existing Shares	<u>7,374,584</u>
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Upon completion of the Share Consolidation, the proposed increase in authorised share capital of the Company and the Rights Issue

Authorised share capital: *HK\$*

	<u>2,000,000,000</u> Consolidated Shares	<u>100,000,000</u>
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Issued and fully paid share capital or credited as fully paid:

	147,491,680 Consolidated Shares	7,374,584
	442,475,040 Rights Shares	22,123,752
	<u>589,966,720</u> Consolidated Shares	<u>29,498,336</u>

All the issued 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) Directors' interests in 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 Existing Shares

Name of Director	Capacity	Number of Existing Shares	Approximate shareholding percentage
Mr. Mo	Beneficial owner	176,508,000	23.93%
Mr. Ma She Shing, Albert	Beneficial owner	7,000,000	0.95%

Long position in Consolidated Shares

Name of Director	Capacity	Number of Consolidated Shares	Approximate shareholding percentage
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:

- These Shares represent the aggregate of 35,301,600 Consolidated Shares having a par value of HK\$0.05 each to be 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.
- These Shares represent the aggregate of 1,400,000 Consolidated Shares having a par value of HK\$0.05 each to be 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 in this circular, 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 Existing Shares

Name of Shareholder	Capacity	Number of Existing Shares	Approximate shareholding percentage
Mr. Lau Kim Hung, Jack	Interest of a controlled corporation (<i>Note</i>)	158,686,400	21.52%
Manciple Enterprises Limited	Person having a security interest in Shares (<i>Note</i>)	158,686,400	21.52%
YesMobile Holdings Company Limited	Beneficial owner	103,786,400	14.07%
Alexandra Global Investment Fund I, Ltd.	Beneficial owner	75,010,000	10.17%
Alexandra Investment Manager, LLC	Investment manager	75,010,000	10.17%

Note: As at the Latest Practicable Date, 158,686,400 Existing Shares held by Mr. Mo were charged pursuant to the Share Charge Agreement in favour of Manciple, a company wholly and beneficially owned by Mr. Lau, which accordingly, had a security interest in those 158,686,400 Existing Shares. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in those 158,686,400 Existing Shares. 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”.

Long position in Consolidated Shares

Name of Shareholder	Capacity	Number of Consolidated Shares	Approximate shareholding percentage
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:

- 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. The 126,949,120 Consolidated Shares represent the aggregate of 30,337,280 Consolidated Shares (consolidated from 151,686,400 Existing Shares held by Mr. Mo which have been charged by the Share Charge Agreement in favour of Manciple, a company wholly and beneficially owned by Mr. Lau), 1,400,000 Consolidated Shares (consolidated from 7,000,000 Existing Shares allotted and issued to Mr. Mo by his exercising of his 7,000,000 Share Options on 2 February 2006) and 95,211,840 Rights Shares to be provisionally allotted and issued to Mr. Mo under the Rights Issue. 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".
- 83,029,120 Consolidated Shares represent the aggregate of 20,757,280 Consolidated Shares (consolidated from 103,786,400 Existing 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 (consolidated from 75,010,000 Existing 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 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 of the Company. Prior to the founding of KanHan Technologies Inc. in 1999, Lawrence 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 of the Company. 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 Vincnet 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, 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

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
Authorised representatives	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
Principal share registrar in the Cayman Islands	Butterfield Fund Services (Cayman) Limited Butterfield House, 68 Ford Street, P.O. Box 705 George Town Grand Cayman Cayman Islands
Branch share registrar in Hong Kong	Standard Registrars Limited 26/F., Tesbury Centre 28 Queen's Road East Wanchai, Hong Kong

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

As to Hong Kong law
Michael Li & Co.
14/F., Printing House
6 Duddell Street
Central, Hong Kong

**Financial adviser 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

Moore 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. EXPERTS

The following are the qualifications of the experts who have given an opinion or advice contained in this circular:

MasterLink	A licensed corporation to carry on type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Moores Rowland Mazars	Certified public accountants

As at the Latest Practicable Date, none of MasterLink and Moores Rowland Mazars had 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, none of MasterLink and Moores Rowland Mazars was 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.

Each of MasterLink and Moores Rowland Mazars has given and has not withdrawn its respective written consent to the issue of this circular 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 circular 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 Existing Shares to not fewer than 6 Placees at a placing price of HK\$0.023 per Existing 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 AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours on 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 circular up to and including 7 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 87 to 88 of this circular;
- (d) the letter from the Independent Board Committee, the text of which is set out on page 31 of this circular;
- (e) the letter from MasterLink to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 32 to 46 of this circular;
- (f) the written consents referred to under the paragraph headed “Experts” in this appendix; and
- (g) the material contract referred to under the paragraph headed “Material contracts” in this appendix.



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)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (“**EGM**”) of KanHan Technologies Group Limited (the “**Company**”) will be held at 10:00 a.m. on Tuesday, 28 February 2006 at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong for the purpose of considering and, if thought fit, passing, with or without amendments, the following resolutions numbered 1 to 3 as ordinary resolutions of the Company with ordinary resolution numbered 3 to be taken by poll:

1. ORDINARY RESOLUTION 1

“**THAT** subject to and conditional upon the granting by the GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) of the listing of, and permission to deal in, the ordinary shares of the Company consolidated in the manner as set out in paragraph (a) of this resolution below:

- (a) every five issued and unissued ordinary shares of HK\$0.01 each in the capital of the Company be consolidated into one share of HK\$0.05 (each a “**Consolidated Share**”), such Consolidated Shares shall rank *pari passu* in all respects with each other and have the rights and privileges and be subject to the restrictions in respect of ordinary shares contained in the articles of association of the Company;
- (b) all fractions of the Consolidated Shares to which holders of issued shares of HK\$0.05 each in the capital of the Company would otherwise be entitled, if any, shall be aggregated, sold and retained for the benefit of the Company; and
- (c) the directors of the Company (the “**Directors**”) be and are generally authorised to do all such acts and things and execute all such documents, including under the seal of the Company, where applicable, as they consider necessary or expedient to give effect to the foregoing arrangements.”

2. ORDINARY RESOLUTION 2

“**THAT** assuming the passing of ordinary resolution numbered 1, the authorised share capital of the Company be and is hereby increased 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 Consolidation Shares of HK\$0.05 each.”

* For identification purposes only

NOTICE OF EGM

3. ORDINARY RESOLUTION 3

“THAT, subject to the passing of ordinary resolutions no. 1 and no. 2 above and the fulfillment or waiver of the conditions set out in the underwriting agreement dated 20 January 2006 (the **“Underwriting Agreement”** including, if any, all supplemental agreements or deeds relating thereto) in respect of a proposed rights issue by the Company and entered into among the Company, Kingston Securities Limited (**“Kingston Securities”**), Quam Securities Company Limited (**“Quam Securities”**), Hantec Capital Limited (**“Hantec Capital”**) (Kingston Securities, Quam Securities and Hantec Capital are collectively referred to as the **“Underwriters”**) (a copy of the Underwriting Agreement having been produced to the meeting marked “A” and initialed by the chairman of the meeting (the **“Chairman”**) for the purpose of identification):

- (a) the Underwriting Agreement in relation to the issue by way of rights (the **“Rights Issue”**) of 442,475,040 Consolidated Shares (the **“Rights Shares”**) at a subscription price of HK\$0.057 per Rights Share to the shareholders (the **“Shareholders”**) of the Company and the matters contemplated thereby be and are hereby approved, confirmed and ratified;
- (b) the Rights Issue of 442,475,040 Rights Shares at a subscription price of HK\$0.057 per Rights Share to the Shareholders (the **“Qualifying Shareholders”**) whose names appear on the register of members of the Company on the date by reference to which entitlements under the Rights Issue will be determined (other than those Shareholders (the **“Excluded Shareholders”**) with registered addresses outside Hong Kong whom the board of Directors, after making relevant enquiry, considers their exclusion from the Rights Issue to be necessary or expedient on account either of the legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place) in the proportion of three Rights Shares for every Consolidated Share then held and otherwise pursuant to and in accordance with the terms and conditions set out in the circular dated on or about 13 February 2006 despatched to the Shareholders (a copy of which had been produced to the meeting marked “B” and initialed by the Chairman for the purpose of identification) and the terms and conditions set out in the prospectus of the Company and the relevant application form(s) in relation to the Rights Issue to be despatched to the Shareholders be and are hereby approved;
- (c) the Directors be and are hereby authorised to allot and issue the Rights Shares pursuant to the Rights Issue notwithstanding the same may be offered, allotted or, issued otherwise than pro rata to the Qualifying Shareholders and, in particular, the Directors may make such exclusions or other arrangements in relation to Excluded Shareholders as they deem necessary or expedient having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong;

NOTICE OF EGM

- (d) the Directors be and are hereby authorised to do all acts and things in connection with the allotment and issue of the Rights Shares, the implementation of the Rights Issue and the Underwriting Agreement, the exercise or enforcement of any of the Company's rights under the Underwriting Agreement and to make and agree to make such variations of the terms of the Underwriting Agreement as they may in their discretion consider to be appropriate and desirable in the best interests of the Company."

By order of the board of Directors
KanHan Technologies Group Limited
Mo Wai Ming, Lawrence
Director

Dated: Hong Kong 13 February 2006

*Head office and principal place
of business in Hong Kong:*
15/F Sun House
181 Des Voeux Road Central
Hong Kong

Registered office:
Caledonian Bank & Trust Limited
Caledonian House
P.O. Box 1043
George Town
Grand Cayman
Cayman Islands

Notes:

1. A member entitled to attend and vote at the EGM may appoint one or more than one proxy to attend and to vote in his stead. A proxy need not be a Shareholder.
2. Where there are joint registered holders of any share of the Company (the "Shares"), any one of such persons may vote at the EGM, either personally or by proxy, in respect of such Share as if he/she/it were solely entitled thereto. However, if more than one of such joint registered holders is present at the EGM personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such Shares shall be entitled to vote in respect thereof to the exclusion of the votes of the other joint holders.
3. A form of proxy for use at the EGM is enclosed with the circular of the Company dated 13 February 2006. In order to be valid, the form of proxy duly completed and signed in accordance with the instructions printed thereon together with the power of attorney or other authority, if any, under which it is signed or a certified copy thereof must be delivered to the Company's branch share registrar, Standard Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the EGM or any adjournment thereof.
4. Delivery of the form of proxy appointing a proxy will not preclude a member from attending and voting in person at the EGM or adjourned meeting.