THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in KanHan Technologies Group Limited (the "**Company**"), you should at once hand this circular and accompanying 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 appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities.

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)

MAJOR TRANSACTION:
THE ACQUISITION OF THE ENTIRE EQUITY INTEREST IN SILKY SKY INVESTMENTS LIMITED

Financial adviser to the Company

INCU Corporate Finance Limited

A notice convening an extraordinary general meeting (the "**EGM**") of the Company to be held on Friday, 11 May 2007 at 11:00 a.m. at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong is set out on pages 84 to 85 of this circular. A form of proxy for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are encouraged to complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the branch share registrar of the Company in Hong Kong, Standard Registrars Limited, at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event no later than 48 hours before the time appointed for the holding of the EGM. Completion and return of the enclosed form of proxy will not preclude you from attending and voting in person at such meeting or any adjournment meeting should you so wish.

This circular will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for seven days from the date of its publication.

20 April 2007

* *for identification purpose 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. 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.

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

"associates"	has the meaning ascribed to this term under the GEM Listing Rules
"Board"	the board of Directors
"Business Day"	a day (other than a Saturday, Sunday and public holiday) on which licensed banks are generally open for business in Hong Kong throughout their normal business hours
"Company"	KanHan Technologies Group Limited, a company incorporated in the Cayman Islands with limited liability and the issued shares of which are listed on GEM
"Completion"	completion of the sale and purchase of the Sale Share and the Sale Loan in accordance with the terms and conditions of the Formal Agreement
"Consideration Shares"	135,750,000 new Shares to be allotted and issued by the Company at Issue Price as part of the consideration for the Proposed Acquisition
"Deposit"	the aggregate deposit for the Proposed Acquisition of HK$20,000,000 of which as to HK$5,000,000 in cash paid by the Purchaser to the Vendor at the time of entering into of the MOU and as to HK$15,000,000 in cash paid by the Purchaser to the Vendor within three days from the date of the Formal Agreement
"Director(s)"	the director(s), including the independent non-executive director(s), of the Company
"EGM"	the extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve the Proposed Acquisition
"Enlarged Group"	the Group as enlarged by the Proposed Acquisition
"Formal Agreement"	the formal sale and purchase agreement dated 21 March 2007 and entered into between the Vendor and Purchaser in respect of the Proposed Acquisition
"GEM"	the Growth Enterprise Market of the Stock Exchange
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"Group"	the Company and its subsidiaries

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party"	third party independent of the Company and its connected persons (as defined in the GEM Listing Rules)
"Issue Price"	the issue price of HK0.125 per Consideration Share
"Latest Practicable Date"	18 April 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"MOU"	the conditional legally binding memorandum of understanding dated 2 February 2007 entered into between the Purchaser and the Vendor in relation to the sale and purchase of the Sale Share and the Sale Loan
"PRC"	the People's Republic of China
"Profit Guarantee"	the profit guarantee provided by the Vendor under the MOU and the Formal Agreement in respect of the audited net consolidated profit after tax and any extraordinary or exceptional items of the Target for the year ending 31 December 2007 will not be less than HK$5 million
"Proposed Acquisition"	the proposed acquisition of the Sale Share and the Sale Loan by the Purchaser as contemplated under the MOU and the Formal Agreement
"Promissory Note"	the promissory note to be executed by the Purchaser in the favour of the Vendor for the purpose of settling partially the consideration for the Sale Share and the Sale Loan under the MOU and the Formal Agreement
"Purchaser"	Rise Assets Limited, a wholly owned subsidiary of the Company
"Sale Share"	one ordinary share of US$1.00 in the issued share capital of the Target, representing the entire issued share capital of the Target
"Sale Loan"	all obligation, indebtedness and liabilities due, owing or incurred by the Target to the Vendor as at Completion, whether actual, contingent or deferred and irrespective whether or not the same is due and payable on Completion, which amounted to approximately HK$4.53 million as at the date of the MOU and approximately HK$9.53 million as at the date of the Formal Agreement
"SFO"	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Shareholder(s)"	holder(s) of the Share(s)

"Share Option(s)"	the share option(s) granted under the Share Option Scheme
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 24 January 2003
"Share(s)"	ordinary share(s) of HK$0.05 each in the share capital of the Company
"Sky Rich"	Sky Rich Limited, a company incorporated in Hong Kong and is wholly and beneficially owned by the Target
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary"	北京世紀江山再生資源技術開發有限公司 (Beijing Shiji Jiangshan Resource Recycling Technology Ltd.)#, an equity joint venture company established in the PRC and is owned as to 51% of its equity interests by Sky Rich
"Target"	Silky Sky Investments Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by the Vendor
"Target Group"	the Target, Sky Rich and the Subsidiary
"Target Group Reorganisation"	the reorganisation of the Target Group prior to the Completion in such approved manner as the Purchaser agree and the Target will indirectly own 51% of the equity interest of the Subsidiary upon the completion of the reorganisation
"Vendor"	Yang Pei Gen, an Independent Third Party
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

\# *the English translations of Chinese names or words in this circular, where indicated, are included for information purpose only, and should not be regarded as the official English translation of such Chinese names or words.*

For the purpose of this circular, unless otherwise indicated, conversion of RMB into HK$ is calculated at the approximate exchange rate of HK$1.00 to RMB0.988. This exchange rate is for illustration purpose only and does not constitute a representation that any amounts have been, could have been, or may be exchanged at this or any other rate at all.

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

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

Executive Directors:
Mr. Mo Wai Ming, Lawrence
Mr. Ma She Shing, Albert

Independent non-executive Directors:
Mr. Hsu Shiu Foo, William
Mr. Lee Kun Hung
Mr. Kwok Chi Sun, Vincent

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

Head office and principal place of business in Hong Kong:
15th Floor, Sun House
181 Des Voeux Road Central
Hong Kong

20 April 2007

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION:
THE ACQUISITON OF THE ENTIRE EQUITY INTEREST IN
SILKY SKY INVESTMENTS LIMITED

INTRODUCTION

Reference is made to the announcement of the Company dated 9 February 2007 in which the Board announced that the MOU dated 2 February 2007 was entered into between the Purchaser, a wholly owned subsidiary of the Company, and the Vendor in respect of the Proposed Acquisition of the Sale Share and the Sale Loan for a total consideration of HK$61,000,000. Reference is also made to the announcement of the Company dated 21 March 2007 in which the Board announced that the Formal Agreement in respect of the Proposed Acquisition was entered into between the Purchaser and the Vendor on 21 March 2007.

The entering into of the MOU and the Formal Agreement constitutes a major transaction on the part of the Company under Chapter 19 of the GEM Listing Rules.

The purpose of this circular is to provide you with further details regarding the Proposed Acquisition in accordance with the GEM Listing Rules.

THE MOU

Date: 2 February 2007

Parties:

Purchaser: Rise Assets Limited, a wholly owned subsidiary of the Company

Vendor: Yang Pei Gen, an Independent Third Party

On 2 February 2007, the Purchaser entered into the MOU to acquire from the Vendor the Sale Share and the Sale Loan, for a total consideration of HK$61,000,000.

The MOU is legally binding. The MOU only sets out the major material terms of the Proposed Acquisition and the terms of the MOU shall be subject to the terms and conditions of the Formal Agreement. For further details of the terms of the MOU, please refer to the announcement of the Company dated 9 February 2007.

THE FORMAL AGREEMENT

Date: 21 March 2007

Parties:

Purchaser: Rise Assets Limited, a wholly owned subsidiary of the Company

Vendor: Yang Pei Gen, an Independent Third Party

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, the Vendor is an Independent Third Party.

The Formal Agreement was entered into between the Vendor and the Purchaser on 21 March 2007 after arm's length negotiations.

Assets to be acquired

Pursuant to the Formal Agreement, the Purchaser has agreed to acquire and the Vendor has agreed to sell: (i) the Sale Share, representing the entire issued share capital of the Target; and (ii) the Sale Loan, which amounted to approximately HK$9.53 million as at the date of the Formal Agreement.

Consideration

The total consideration for the Sale Share and the Sale Loan is HK$61,000,000 and shall be settled by the Purchaser upon Completion in the following manner:

(i) as to the first part of the Deposit of HK$5,000,000 in cash paid at the time of the entering into of the MOU;

(ii) as to the balance of the Deposit of HK$15,000,000 in cash paid within three days from the date of the entering into of the Formal Agreement;

(iii) as to HK$16,968,750 by the Purchaser procuring the Company to allot and issue 135,750,000 Consideration Shares to the Vendor credited as fully paid, at the Issue Price; and

(iv) as to HK$24,031,250 by issuing the Promissory Note to the Vendor.

Details of the Consideration Shares and the Promissory Note are further elaborated under the headings "The Consideration Shares" and "Terms of Promissory Note" below.

Conditions precedent

Completion is subject to the following conditions having been fulfilled or waived (as the case may be):

(a) the Purchaser being satisfied with the results of the due diligence review to be conducted on the assets, liabilities, operations and affairs of the Target Group;

(b) all necessary consents and approvals required to be obtained on the part of the Vendor, the Purchaser and the Target in respect of the Proposed Acquisition and the transactions contemplated thereunder having been obtained;

(c) the passing by the Shareholders at the EGM to be convened and held of an ordinary resolution to approve the Proposed Acquisition and the transactions contemplated hereunder, including but not limited to the allotment and issue of the Consideration Shares to the Vendor credited as fully paid at the Issue Price;

(d) the obtaining of a PRC legal opinion (in form and substance satisfactory to the Purchaser) from a PRC legal adviser appointed by the Purchaser in relation to the legality and the validity in respect to the establishment and subsistence of the Subsidiary and the transactions contemplated under the MOU and the Formal Agreement;

(e) the warranties provided by the Vendor under the MOU (further elaborated below) and the Formal Agreement including the warranties concerning the issued share capital, corporate power, accounts, taxation, litigation and other business matters of the Target Group remaining true and accurate in all respects;

(f) the Listing Committee of the Stock Exchange granting listing of and permission to deal in the Consideration Shares; and

(g) the completion of the Target Group Reorganisation.

The warranties provided by the Vendor under the MOU and the Formal Agreement include, among others, the following warranties:

(i) Save as disclosed in the management accounts of the Subsidiary, the Subsidiary does not have any other liabilities or contingent liabilities as at the date of the MOU and the Formal Agreement;

(ii) From the date of the management accounts of the Subsidiary to the date of Completion, there will not be any actions or omissions causing any claims based on the MOU and the Formal Agreement or other contracts;

(iii) The Subsidiary does not ultilise any methods or involve in any actions which would infringe any third party intellectual property rights; and

(iv) The Subsidiary is duly established in accordance with the laws of the PRC and all necessary approvals for the establishment and the operation of business of the Subsidiary have been duly obtained.

Conditions (a) and (e) above are waivable by the Purchaser under the Formal Agreement. The Purchaser has no current intention to waive such conditions. Other than Conditions (a) and (e), the other conditions are incapable of being waived.

Completion

Completion shall take place at 4:00 p.m. within three Business Days after all the conditions of the Formal Agreement have been fulfilled or waived or such later date as may be agreed between the Vendor and the Purchaser.

In the event that Completion does not take place as stipulated due to breach of terms by the Purchaser, the Vendor shall have the right to forfeit the Deposit as liquidated damages.

In the event that Completion does not take place as stipulated due to breach of terms by the Vendor, the Vendor shall refund the Deposit to the Purchaser and the Vendor shall pay an additional amount equivalent to the Deposit to the Purchaser as liquidated damages.

In the event that Completion does not take place as stipulated and that is not due to breach of terms by the Vendor and the Purchaser, the Vendor shall refund the Deposit to the Purchaser and neither party shall have any obligations and liabilities under the MOU and/or the Formal Agreement.

Upon Completion, the Target will become an indirect wholly owned subsidiary of the Company.

Long-stop date

If all of the conditions are not fulfilled (or as the case may be, waived by the Purchaser) on or before the date falling 150 days from the date of the MOU (or such later date as the Vendor and the Purchaser may agree), the Formal Agreement shall cease and terminate.

Profit Guarantee

The Vendor has guaranteed and warranted to the Purchaser that the audited consolidated net profit after taxation and extraordinary or exceptional items of the Target for the year ending 31 December 2007 (the "**Net Profit**") shall not be less than HK$5 million (the "**Guaranteed Profit**"). In the event the Guaranteed Profit is not achieved, the amount of total consideration will be adjusted downwards by setting off against the payment obligations of the Purchaser under the Promissory Note on a dollar to dollar basis in an amount equivalent to the shortfall which will be equal to the difference between the actual Net Profit and the Guaranteed Profit.

If the Target records a loss in its consolidated audited accounts for the year ending 31 December 2007, the compensation amount under the Profit Guarantee will be the aggregation of the amount of such loss (expressed in positive figure) and the amount of the Guaranteed Profit.

In the event that the compensation amount under the Profit Guarantee exceeds the payment obligations of the Purchaser under the Promissory Note, the Vendor shall be obligated to pay any such shortfall to the Purchaser in cash.

Further announcement will be made by the Company in the event that the Net Profit is less than the Guaranteed Profit.

CONSIDERATION

The consideration for the Proposed Acquisition represents a price earning multiple of approximately 12.2 times of the Guaranteed Profit. Such price earning multiple was determined by the Board with reference to eleven companies listed in major stock markets which are engaged in the manufacturing of fertilisers, business similar to the Target Group. The consideration for the Sale Share and the Sale Loan was agreed between the Vendor and the Purchaser after arm's length negotiations after considering: i) the Profit Guarantee given by the Vendor; ii) the relatively low price earning ratio with reference to the companies listed in major stock markets which are engaged in business similar to the Target Group; and iii) the Directors' belief that the Proposed Acquisition will provide a stable income source to the Group. The Directors consider the terms and conditions of the Proposed Acquisition to be fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

On 22 January 2007, Sky Rich entered into a share transfer agreement with Fortune Pacific Limited, an independent third party, pursuant to which Sky Rich agreed to sell 24% equity interest in the Subsidiary to Fortune Pacific. The consideration of such transfer was RMB7.2 million, which was arrived based on the 24% shareholding interest to be owned by Fortune Pacific through such transfer in the registered capital of the Subsidiary of RMB30 million. It was reached through arm's length negotiations between both parties on normal commercial terms.

The Directors are of the view that the Proposed Acquisition and the transfer of 24% interest in the Subsidiary are two separate independent transactions entered into by the Vendor with Silky Sky and Fortune Pacific respectively at different points of time. The Vendor already intended and agreed to transfer 24% interest in the Subsidiary to Fortune Pacific way back to when the Subsidiary was formed in November 2006 at its infant stage whilst the Proposed Acquisition was entered into in February 2007 when the business of the Subsidiary has been developed. The Directors are of the view that it is reasonable that different bases were applied to reach the considerations for the two different transactions and the consideration for the Proposed Consideration is fair and reasonable.

THE CONSIDERATION SHARES

The 135,750,000 new Shares will be issued at an Issue Price of HK$0.125 per Consideration Share, credited as fully paid. The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends, distributions and other payments made or to be made, on the record date which falls on or after the date of such allotment and issue.

The Issue Price represents:

(i) a discount of approximately 19.35% to the closing price of HK$0.155 per Share as quoted on the Stock Exchange on 2 February 2007, being the last trading day immediately prior to the entering into of the MOU;

(ii) a discount of approximately 19.56% to the average of the closing prices of HK$0.1554 per Share as quoted on the Stock Exchange for the last five consecutive trading days up to and including 2 February 2007, being the last trading day immediately prior to the entering into of the MOU;

(iii) a discount of approximately 50.00% to the closing price of HK$0.25 per Share as quoted on the Stock Exchange on 21 March 2007, being the last trading day immediately prior to the entering into of the Formal Agreement; and

(iv) a premium of approximately 228.95% over the net asset value per Share of approximately HK$0.038 based on the audited consolidated financial statements of the Group as at 31 December 2006.

The Issue Price was reached through arm's length negotiations between the Vendor and the Purchaser on normal commercial terms prior to the entering into of the MOU, which is legally binding in nature. It represents a premium of approximately 228.95% over the net asset value per Share of approximately HK$0.038 as at 31 December 2006. As the Issue Price has been already reached and stipulated in the MOU, which was legally binding in nature, the Directors consider that the subsequent fluctuations of Share prices are irrelevant. In view of the above, the Directors are of the view that the Issue Price and the total consideration paid for the Proposed Acquisition is fair and reasonable.

The Consideration Shares will be allotted and issued pursuant to the specific mandate to be sought at the EGM and will be allotted and issued on the date of Completion. Application will be made to the Stock Exchange for the listing of and permission to deal in the securities.

Based on the closing price of HK$0.155 per Share as quoted on the Stock Exchange on 2 February 2007, being the last trading day immediately prior to the entering into of the MOU, the Consideration Shares has a total market value of approximately HK$21 million.

The Issue Price represents a discount of approximately 50.00% to the closing price of HK$0.25 per Share as quoted on the Stock Exchange on 21 March 2007, being the last trading day immediately prior to the entering into of the Formal Agreement. Accordingly, the Consideration Shares have a total market value of approximately HK$33.9 million and the total consideration for the Proposed Acquisition will be approximately HK$78.0 million.

The Consideration Shares represent approximately 23.01% of the existing issued share capital of the Company and approximately 18.71% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

The Vendor undertakes to and covenants with the Purchaser that subject to that the single largest substantial Shareholder remains the same, he will not, within the period commencing on the date of Completion and ending on the date falling 6 months after Completion, transfer or otherwise dispose of or create any encumbrance or other rights in respect of any of the Consideration Shares or any interests therein or grant any options or rights in respect of any of the Consideration Shares without prior approval from the Purchaser. As at the Latest Practicable Date, the single largest substantial Shareholder is Mr. Mo Wai Ming, Lawrence, an executive Director of the Company.

The Issue Price was determined by the Board after taking into consideration of various factors including, the net loss of the Group for the six months ended 30 June 2006 and the net asset value per Share. Given that the Issue Price represents a premium of approximately 220.51% over the net asset value (as at 30 June 2006) per Share, the Directors (including the independent non-executive Directors) consider that the Issue Price is fair and reasonable. In addition, since the Vendor will become a substantial Shareholder upon Completion, the Board considers that the Consideration Shares will give extra incentive for him to manage the Subsidiary.

Although the Vendor will become the second largest substantial Shareholder of the Company upon Completion, the Vendor will not be appointed to the Board. There are no terms or provisions contained in the MOU or the Formal Agreement which confer the Vendor with the right to nominate any person to the Board.

CHANGES IN SHAREHOLDINGS STRUCTURE

The following table sets out the shareholding structure of the Company (i) as at the Latest Practicable Date and before Completion; and (ii) immediately after Completion and the allotment and issue of the Consideration Shares:

	As at the Latest Practicable Date and before Completion		Immediately after Completion and the allotment and issue of the Consideration Shares	
Shareholders	Number of Shares	Approximate %	Number of Shares	Approximate %
Mr. Mo Wai Ming, Lawrence *(Note 1)*	144,024,172	24.41%	144,024,172	19.84%
Mr. Ma She Shing, Albert *(Note 2)*	5,600,000	0.95%	5,600,000	0.77%
The Vendor	–	–	135,750,000	18.71%
Public	440,342,548	74.64%	440,342,548	60.68%
Total:	589,966,720	100.00%	725,716,720	100.00%

Notes:

1. Mr. Mo Wai Ming, Lawrence is an executive Director and a substantial Shareholder. On 13 April 2005, 129,766,892 Shares of such 144,024,172 Shares were charged in favour of Manciple Enterprises Limited, a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack. Mr. Lau Kim Hung, Jack is an Independent Third Party. To the best of the Directors' knowledge, both Manciple Enterprises Limited and Mr. Lau Kim Hung, Jack are third party independent of the Vendor and not connected with the Vendor and his associates.

2. Mr. Ma She Shing, Albert is an executive Director. These 5,600,000 Shares are directly held by Mr. Ma She Shing, Albert.

Based on the number of Consideration Shares to be issued, there will not be any change in control of the Company upon Completion.

TERMS OF PROMISSORY NOTE

Issuer

The Company

Principal amount

HK$24,031,250

Interest

The Promissory Note will carry interest at 2% per annum payable in arrears at maturity. The aggregate interest payable upon maturity will amount to HK$961,250.

Maturity

Two years from the date of issue of the Promissory Note.

Early repayment

The Company may, at its option, repay the Promissory Note in whole or in part in integral multiples of HK$1,000,000 by giving a prior ten Business Days' written notice to the Vendor, commencing on the date six months after the date of issue of the Promissory Note and up to the date immediately prior to the maturity date. There will not be any premium or discount to the payment obligations under the Promissory Note for any early repayment.

Assignment

The Promissory Note may be transferred or assigned in whole or in part in integral multiples of HK$1,000,000 and in whole only if the outstanding amount of the Promissory Note is less than or equal to HK$1,000,000 by the holder of the Promissory Note to any party other than a connected person of the Company.

INFORMATION ON THE TARGET GROUP

The Target Group is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic wastes into organic fertilizer. Such technology, being developed by the Subsidiary, serves as a good solution for the prevailing environmental and ecological problems in the PRC. The Target and Sky Rich are investment holding companies and the Subsidiary is responsible for the main operation of the Target Group.

According to the audited consolidated financial statements of the Target for the period commencing from 18 August 2006, being the date of incorporation of the Target, to 31 December 2006, there was no turnover and the net loss after taxation and extraordinary items was approximately HK$0.02 million. For the two months ended 28 February 2007, there was no turnover and the net loss after taxation and extraordinary items was approximately HK$0.89 million.

As at 28 February 2007, the principal assets of the Target Group were cash and bank balances of approximately HK$5.2 million and the prepayments of approximately HK$2 million. The net liability of the Target Group was approximately HK$0.8 million.

According to the unaudited financial statements of the Subsidiary for the period commencing from 25 December 2006, being the date of establishment of the Subsidiary, to 28 February 2007, there was no turnover and the net loss after taxation and extraordinary items was approximately HK$0.89 million.

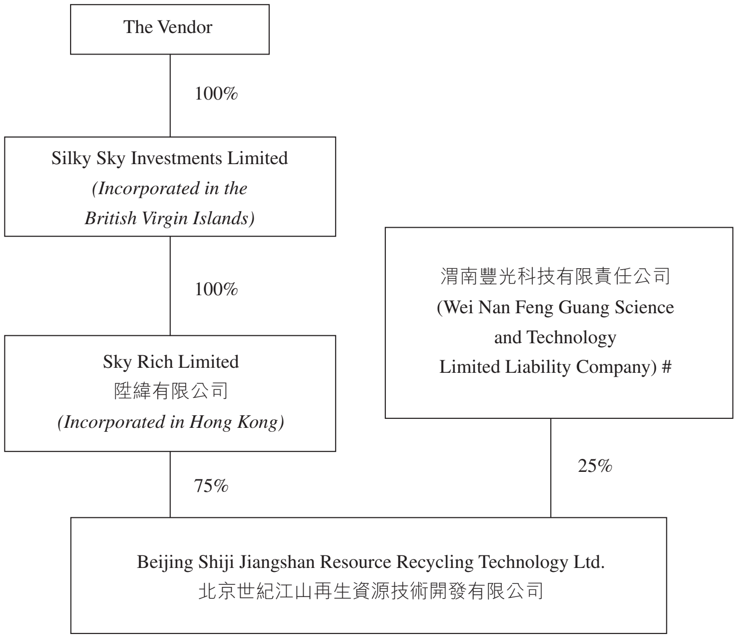
On 22 January 2007, Sky Rich entered into a share transfer agreement with Fortune Pacific Limited. Pursuant to the agreement, Sky Rich agreed to sell and transfer 24% equity interest of the Subsidiary to Fortune Pacific Limited, an Independent Third Party at a consideration of RMB7.2 million of which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

The registered capital of the Subsidiary amounts to RMB30 million. As at the Latest Practicable Date, the equity interest of the Subsidiary is owned as to 51% by Sky Rich, 24% by a company incorporated in Hong Kong, Fortune Pacific Limited and the balance of 25% by a PRC entity, 渭南豐光科技有限責任公司(Wei Nan Feng Guang Science and Technology Limited Liability Company)#, which is an Independent Third Party.

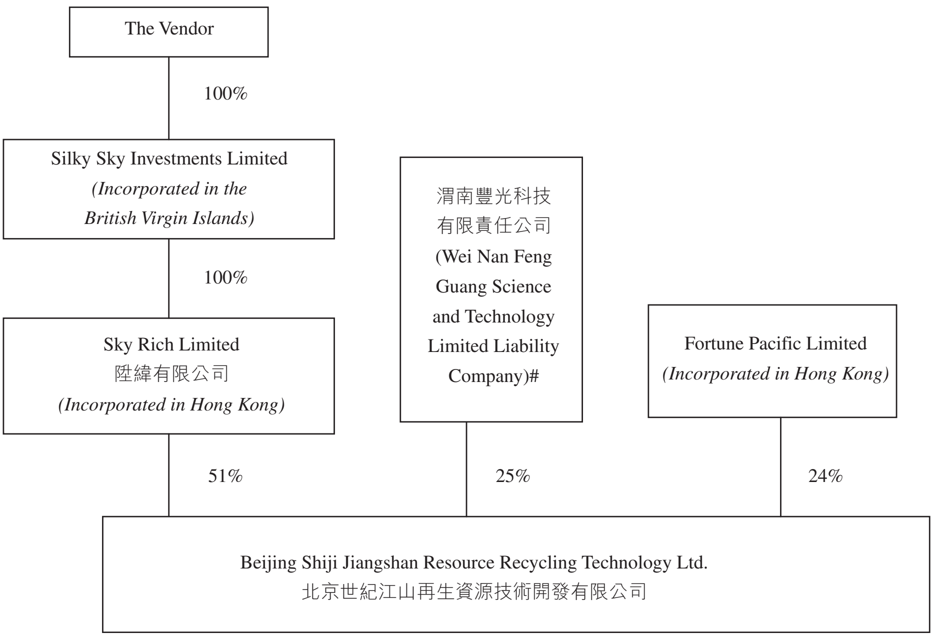
As at Latest Practicable Date, the total injected capital paid by Sky Rich in the Subsidiary was approximately RMB9.5 million. The capital commitment on the Subsidiary to be borne by the Group after Completion will be approximately RMB7.245 million.

The following charts show the group structure of the Target Group immediately before and after the completion of Target Group Reorganisation and immediately after the Completion:

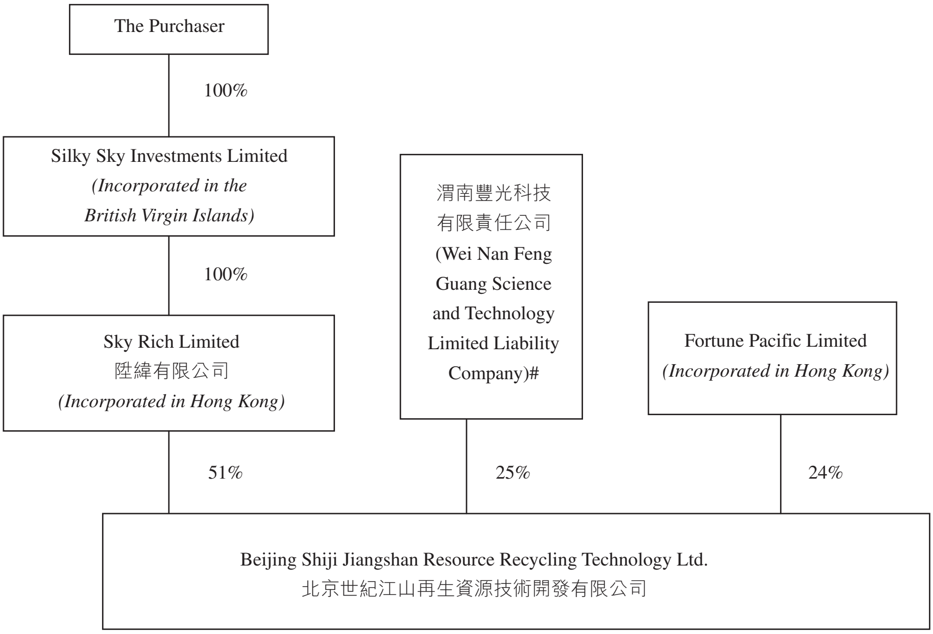
Immediately before the completion of Target Group Reorganisation



Immediately after the completion of Target Group Reorganisation and before the Completion



Immediately after the Completion



The Target Group Reorganisation has completed and it is the intention of the Company to acquire 51% of the interest in the Subsidiary through the Proposed Acquisition. To avoid unnecessary complications as to the respective shareholdings in the Subsidiary of each party, the Proposed Acquisition is made conditional upon the completion of the Target Group Reorganisation. It is the commercial decision of the Company, after arm's length negotiations with the relevant parties, to acquire 51% of the interest in the Subsidiary through the Proposed Acquisition.

To the best of the Directors' knowledge, information and belief, each of Fortune Pacific Limited and its ultimate beneficial owners is independent of and not connected with the Vendor. Fortune Pacific Limited is principally engaged in investment holding.

REASONS FOR THE PROPOSED ACQUISITION

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

The Group recorded net loss of approximately HK$6.3 million for the year ended 31 December 2006 and a cash position of HK$22.7 million as at 31 December 2006.

The Directors have always been active in seeking investment opportunities, whether or not within the principal line of business of the Company, in order to increase the value of the Company.

The Directors are of the opinion that the fertilizer production industry is in a growing trend with immense potential. According to the China Statistical Year Book 2006, to meet the increasing market demand, the fertilizer production in the PRC increase from approximately 33 million metric tones in 1999 to approximately to 52 million metric tones in 2005. The Directors consider that the organic fertilizer production business is a fast growing industry in the PRC in view of the ongoing development of the agricultural industry in the PRC and the increasing emphasis of environmental protection by the PRC Government. In view of the above and the Profit Guarantee provided by the Vendor, the Directors consider that the Proposed Acquisition provide an excellent opportunity for the development of future business of the Group and a stable income stream for the Group. The Directors consider that the Proposed Acquisition represents a good opportunity for the Group to diversify the existing business into a new line of business with significant growth potential.

The technology of converting organic wastes into organic fertilizer applied by the Target Group in the production of organic fertilizer is unique in the fertilizer industry in the PRC. The Directors are of the view that such technology uniqueness would enable the Target Group to enjoy competitive edge over other competitors in the fertilizer industry in the PRC. Moreover, the Directors are of the view that such technology of converting organic wastes into organic fertilizer applied by the Subsidiary in the production of its products serves as a solution for the environmental and ecological problems in the PRC and hence would induce additional business opportunities for the Target Group.

The Vendor is a medical doctor by profession and is a graduate of 蕪湖市皖南醫學院 (Wuhu Wan Nan Medical College)# where he majored in clinical medicine. He has over ten years experience in corporate management, marketing and innovation of new products. The Vendor is the managing director of the Subsidiary. He is involved in the supervision of the daily operation of and the formation of strategic direction of the Subsidiary. He is one of the pioneers in the PRC to carry out research on ultra-filtration technology, the foundation on which the recycling technology applied by the Subsidiary was developed.

The Vendor and the management team of the Subsidiary have been engaged in the research and development of the unique technology applied by the Subsidiary for over ten years. Prior to the establishment of the Subsidiary, the Vendor and the management team of the Subsidiary have established demonstration farms in the PRC for the research and development of the unique technology applied by the Subsidiary and hence have already established long term relationships with local farmers in the PRC. The Directors are of the view that such long established relationships with the farmers will serve to develop a solid customer base for the distribution of organic fertilizer business of the Target Group.

Furthermore, the Subsidiary has entered into sole distribution agreements with distribution agents in the PRC for the sole distribution of the Target Group's products in Shanxi Province and Shandong Province, the PRC.

Although the Company has no previous experience in managing organic fertilizer production business, the Company will retain the existing management team of the Subsidiary, including the Vendor, to manage the organic fertilizer production business after Completion.

For the aforesaid reasons, the Directors believe that the Proposed Acquisition would further enhance the future growth of the Group in order to maximise returns to the Shareholders.

Taking into account the benefits of the Proposed Acquisition, the Board is of the view that the terms of the Proposed Acquisition are fair and reasonable and the Proposed Acquisition is in the interests of the Company and the Shareholders as a whole.

The Company will continue its existing information technology related business along with the new fertilizer production business.

Management discussion and analysis of the results of the Target Group

Set out below is a summary of the key financial data of the Target Group, which accounts for 51% of the shareholding interest held by Sky Rich in the Subsidiary and are extracted from the accountants' report on the Target Group as contained in Appendix I to this circular prepared based on the generally accepted accounting principles in Hong Kong.

	Period from 18 August 2006 (date of incorporation) to 31 December 2006 (audited) *HK$*	For the two months ended 28 February 2007 (audited) *HK$*
Results		
TURNOVER	–	–
Cost of sales	–	–
Gross profit	–	–
Other revenue	6,059	770
Administrative expenses	(22,853)	(886,803)
LOSS BEFORE TAXATION	(16,794)	(886,033)
Tax	–	–
LOSS FOR THE PERIOD	(16,794)	(886,033)
Assets and liabilities		
Non-current assets	–	228,618
Current assets	5,557	8,227,959
Current liabilities	22,343	9,279,064
Non-current liabilities	–	–
Net liabilities	(16,786)	(822,487)

The Target Group was incorporated on 18 August 2006. On 23 November 2006, Sky Rich, a wholly owned subsidiary of the Target, entered into an agreement with 渭南豐光科技有限責任公司 (Wei Nan Feng Guang Science and Technology Limited Liability Company)[#], an Independent Third Party, to form the Subsidiary which was subsequently established on 25 December 2006, in which Sky Rich held as to 75% shareholding interest. On 22 January 2007, Sky Rich entered into a share transfer agreement with Fortune Pacific Limited, an Independent Third Party, pursuant to which Sky Rich agreed to sell 24% equity interest in the Subsidiary to Fortune Pacific and such transfer was completed on 21 March 2007.

Up to 28 February 2007, the Target Group has not yet commenced its operation.

During the relevant financial periods, the Directors confirm that the Target Group did not 1) hold any significant investments 2) adopt any share option schemes and training schemes 3) have any charges against the Target Group assets 4) have any bank borrowings 5) have any material exposures to exchange rate fluctuation and 6) have any contingent liabilities

Turnover

The Target Group has not yet commenced its operation. Hence, no turnover was recorded during the relevant financial periods.

Administrative expenses

The increase in administrative expenses for the two months ended 28 February 2007 as compared to the financial year ended 2006 was mainly attributable to the recurring office expenditure incurred in conjunction with the establishment of the Subsidiary on 25 December 2006.

Current assets

It mainly represents prepayments for the acquisition of production machinery and technology which amounted to approximately HK$2.1 million as at 28 February 2007 and cash and bank balances which amounted to approximately HK$5.2 million as at 28 February 2007.

Current liabilities

It mainly represents the shareholder's loan due to the Vendor which amounted to approximately HK$9.3 million as at 28 February 2007. Such shareholder's loan is non-interest bearing and has no fixed terms of repayments.

Capital Commitment

The capital commitment on the Subsidiary to be borne by the Group after Completion will be approximately RMB7.245 million.

FINANCIAL EFFECT OF THE PROPOSED ACQUISITION

(1) Net tangible assets/net asset value

After the Completion, the unaudited pro forma net assets value of the Enlarged Group is about HK$38.8 million. The increase in unaudited net assets value of the Enlarged Group is mainly attributable to the goodwill arising from acquisition of the Target Group.

Upon Completion, 135,750,000 Consideration Shares will be issued. As a result, the issued share capital will be enlarged and net asset value of the Company will be increased.

(2) Earnings

The Group recorded an audited consolidated loss attributable to Shareholders of approximately HK$6.3 million for the year ended 31 December 2006. The Target Group recorded an audited net loss approximately HK$0.89 million for the two months ended 28 February 2007. The Proposed Acquisition is expected to enhance the revenue and earning base of the Group and the Enlarged Group looks forward to the business opportunities to be arised from the fertilizer production industry in the PRC.

(3) Liabilities

The liabilities of the Enlarged Group upon completion will be increased by approximately HK$24 million, which mainly represents the Promissory Note due to the Vendor.

(4) Capital commitment

The capital commitment on the Subsidiary to be borne by the Group after Completion will be approximately RMB7.245 million.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

The Group is principally engaged in development and marketing of patented server based technology for its real time on-line communication software platform for the Chinese language. In addition, the Group is also engaged in the provision of software related services. As mentioned in the annual report of the Company for the financial year ended 31 December 2006, year 2006 was a year of solid growth from its early strategic investment into the interactive voice response and e-putonghua businesses. Accordingly, the turnover of the Group achieved an increase of approximately 48.1% from approximately HK$4.47 million to approximately HK$6.62 million. The Group forecast the interactive voice response and e-putonghua businesses will experience a substantial growth in 2007.

On the other hand, the Group has always been active in seeking investment opportunities whether or not within the principal line of the Group business so as to increase the value of the Group.

The fertilizer production industry is in a growing trend with immense potential. According to the China Statistical Year Book 2006, to meet the increasing market demand, the fertilizer production in the PRC increase from approximately 33 million metric tones in 1999 to approximately to 52 million metric tones in 2005. In particular, the organic fertilizer production business is a fast growing industry in the PRC in view of the ongoing development of the agricultural industry in the PRC and the increasing emphasis of environmental protection by the PRC Government.

The Target Group is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic wastes into organic fertilizer. Such technology, which is unique in the fertilizer industry in the PRC, serves as a good solution for the prevailing environmental and ecological problems in the PRC.

In view of the above and the Profit Guarantee provided by the Vendor, the Proposed Acquisition represents a good opportunity for the Group to diversify its existing business into a new line of business with significant growth potential and provides a stable income stream for the Group.

The Group recorded net loss of approximately HK$4.9 million and approximately HK$6.3 million for each of the two years ended 31 December 2006. In view of the anticipated significant growth to be experienced by its interactive voice response and e-putonghua businesses and the stable income stream to be provided to the Enlarged Group through the Proposed Acquisition which is also with immense growth potential, the Enlarged Group is in a strong position to improve its financial and trading prospects and thus provide better returns to the Shareholders.

PROCEDURES FOR DEMANDING A POLL AT GENERAL MEETING

In accordance with the articles of association of the Company, a resolution put to the vote of the 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 or Shareholders 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 or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company 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.

GEM LISTING RULES IMPLICATION

The Proposed Acquisition constitutes a major transaction on the part of the Company under the GEM Listing Rules and is subject to the approval of the Shareholders at the EGM. To the best belief, information and knowledge of the Directors, after having made reasonable enquiries, no Shareholders have material interest in the Proposed Acquisition and are required to abstain from voting at the EGM.

EGM

A notice convening the EGM to be held on Friday, 11 May 2007 at 11:00 a.m. at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong is set out on pages 84 to 85 of this circular.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and deposit the same at the office of the branch share registrar of the Company in Hong Kong, 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 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.

RECOMMENDATION

The Board considers that the terms of the Proposed Acquisition are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution as set out in the notice of the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

By order of the Board
KANHAN TECHNOLOGIES GROUP LIMITED
Ma She Shing, Albert
Chairman

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the reporting accountants, Cheung & Siu.

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

20 April 2007

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

Dear Sirs,

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

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

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

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

 # English translation of company names are for identification purpose only

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

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

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

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

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

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

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

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

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

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

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

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

CONSOLIDATED BALANCE SHEETS

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

BALANCE SHEETS

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

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

CONSOLIDATED CASH FLOW STATEMENTS

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

B. NOTES TO THE FINANCIAL INFORMATION

1. GENERAL INFORMATION AND BASIS OF PRESENTATION OF FINANCIAL INFORMATION

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

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

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

2. ADOPTION OF NEW OR REVISED STANDARDS

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

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

3. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

(b) Subsidiaries

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

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

(c) Impairment of assets

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

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

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

(d) Related parties

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

(i) directly, or indirectly through one or more intermediaries, the party

- controls, is controlled by, or is under common control with, the Silky Sky Group;
- has an interest in the Silky Sky Group that gives it significant influence over the Silky Sky Group; or
- has joint control over the Silky Sky Group;

(ii) the party is a jointly-controlled entity;

(iii) the party is a member of the key management personnel of the Silky Sky Group;

(iv) the party is a close member of the family of any individual referred to in (i) or (iii) above;

(v) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv) above; or

(vi) the party is a post-employment benefit plan for the benefit of the employees of the Silky Sky Group, or of any entity that is a related party of the Silky Sky Group.

(e) Property, plant and equipment and depreciation

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

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

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

Furniture and fixtures	20%
Office equipment	20%

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

(f) Operating leases

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

(g) Cash and cash equivalents

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

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

(h) Income tax

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

(i) Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Silky Sky Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

(j) Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Impairment of assets

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

5. TURNOVER AND OTHER REVENUE

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

	Period from 18 August 2006 (date of incorporation) to 31 December 2006	Two months ended 28 February 2007
	HK$	*HK$*
Turnover	–	–
Other revenue		
Interest income	6,059	770
	6,059	770

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

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

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

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

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

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

	Period from 18 August 2006 (date of incorporation) to 31 December 2006	**Two months ended 28 February 2007**
	HK$	*HK$*
Wages and salaries	–	164,980

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

	Number of individuals	
	Period from 18 August 2006 (date of incorporation) to 31 December 2006	**Two months ended 28 February 2007**
HK$Nil to HK$1,000,000	–	5

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

8. TAX

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

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

9. PROPERTY, PLANT AND EQUIPMENT

Silky Sky Group

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

10. INTERESTS IN SUBSIDIARIES

	As at 31 December 2006	As at 28 February 2007
	HK$	*HK$*
Unlisted shares, at cost	1	1
Due from a subsidiary	–	9,530,000
	1	9,530,001

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

Particulars of the subsidiaries are as follows:

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

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

11. PREPAYMENTS

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

12. OTHER RECEIVABLES

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

13. CASH AND CASH EQUIVALENTS

	Silky Sky Group		Silky Sky	
	As at 31 December 2006	**As at 28 February 2007**	**As at 31 December 2006**	**As at 28 February 2007**
	HK$	*HK$*	*HK$*	*HK$*
Cash and bank balances	5,557	5,206,524	7	7

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

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

14. DUE TO THE SHAREHOLDER

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

15. SHARE CAPITAL

	As at 31 December 2006	**As at 28 February 2007**
	HK$	*HK$*
Authorised:		
50,000 ordinary shares of US$1 each	390,000	390,000
Issued and fully paid:		
1 ordinary share of US$1 each	8	8

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

16. RESERVES

Silky Sky	**Accumulated losses**
	HK$
Loss for the period	(7,500)
At 31 December 2006 and 1 January 2007	(7,500)
Loss for the period	–
At 28 February 2007	(7,500)

17. RELATED PARTY TRANSACTIONS

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

18. OPERATING LEASE ARRANGEMENTS

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

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

	As at 31 December 2006 *HK$*	As at 28 February 2007 *HK$*
Within one year	–	457,287
In the second to fifth years, inclusive	–	708,502
	–	1,165,789

19. CAPITAL COMMITMENTS

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

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

Note

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

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

20. FINANCIAL RISK AND MANAGEMENT

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

(i) Interest rate risk

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

(ii) Foreign currency risk

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

(iii) Credit risk

The Silky Sky Group has no concentration of credit risk.

(iv) Liquidity risk

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

(v) Fair values

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

21. SUBSEQUENT EVENTS

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

22. SUBSEQUENT FINANCIAL STATEMENTS

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

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

1. SHARE CAPITAL

(a) Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date and upon Completion are and will be as follows:

As at the Latest Practicable Date

Authorised:		*HK$*
2,000,000,000	Shares	100,000,000
Issued and fully paid:		
589,966,720	Shares	29,498,336

Upon Completion

Authorised:		*HK$*
2,000,000,000	Shares	100,000,000
Issued and fully paid:		
589,966,720	Shares	29,498,336
135,750,000	Consideration Shares	6,787,500
725,716,720		36,285,836

All the Shares and Consideration Shares in their fully paid form to be issued rank and will rank pari passu in all respects with each other including as regards to dividends, voting and return of capital.

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

(b) Share Option Schemes

As at the Latest Practicable Date, there are 23,400,000 outstanding Share Options, which were granted pursuant to the Share Option Schemes:

(i) Post-IPO Scheme

Grantee	Number of share to be allotted and issued upon exercise of outstanding Share Options
Directors and employees	23,400,000

(ii) Non-listed warrants

The Company has issued an aggregate of 117,800,000 warrants at an issue price of HK$0.015 per warrant on 14 September 2006. The warrants entitle the subscribers thereto to subscribe for new Shares at an initial subscription price of HK$0.155 per new Share for a period of 18 months commencing from the date of issue of the warrants.

Except for the foregoing, the Company has no other options, warrants and conversion rights convertible into Shares. No share or loan capital of the Company has been issued or is proposed to be issued for cash (save for the Consideration Shares) or otherwise and no commissions, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any such capital.

No share or loan capital of the Company or any member of the Group has been put under option or agreed conditionally or unconditionally to be put under option and no warrant or conversion right affecting the Shares has been issued or granted or agreed conditionally, or unconditionally to be issued or granted.

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

2. SUMMARY OF FINANCIAL INFORMATION

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

RESULTS

	For the year ended 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Turnover	6,622	4,472	4,320
Loss before taxation	(6,273)	(4,913)	(8,950)
Taxation	–	–	–
Loss for the year	(6,273)	(4,913)	(8,950)
Attributable to:			
Equity holders of the Company	(6,273)	(4,913)	(8,950)
		(Restated)	(Restated)
Loss per share – Basic	(1.11 cents)	(1.13 cents)	(2.54 cents)

ASSETS AND LIABILITIES

	At 31 December		
	2006	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	27,565	4,394	6,179
Total liabilities	5,284	3,643	3,630
Total equity	22,281	751	2,549

3. AUDITED CONSOLIDATED FINANCIAL STATEMENTS

The following are the audited financial statements of the Group for the three years ended 31 December 2006 together with accompanying notes as extracted from the 2006 Annual Report of the Company. References to page numbers in this appendix are to the page numbers of the 2006 Annual Report of the Company.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2006

		2006	**2005**	**2004**
	NOTE	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	*3*	6,622	4,472	4,320
Cost of sales		(3,489)	(1,888)	(1,645)
Gross profit		3,133	2,584	2,675
Other income	*5*	656	204	–
Research and development expenses		(1,166)	(1,250)	(2,460)
Selling and distribution expenses		(1,189)	(1,062)	(2,348)
Administrative expenses		(7,707)	(5,389)	(6,817)
Loss before taxation	*6*	(6,273)	(4,913)	(8,950)
Taxation	*8*	–	–	–
Loss for the year		(6,273)	(4,913)	(8,950)
Attributable to:				
Equity holders of the Company	*10*	(6,273)	(4,913)	(8,950)
			(Restated)	(Restated)
Loss per share – Basic	*11*	(1.11 cents)	(1.13 cents)	(2.54 cents)

CONSOLIDATED BALANCE SHEET

		At 31 December		
		2006	**2005**	**2004**
	NOTE	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Property, plant and equipment	*12*	158	334	467
CURRENT ASSETS				
Inventories, at cost		62	–	200
Trade and other receivables	*14*	4,638	1,807	1,296
Bank balances and cash		22,707	2,253	4,216
		27,407	4,060	5,712
CURRENT LIABILITIES				
Trade and other payables	*15*	3,989	2,305	2,211
Financial assistance from government	*16*	236	166	223
		4,225	2,471	2,434
NET CURRENT ASSETS		23,182	1,589	3,278
TOTAL ASSETS LESS CURRENT LIABILITIES		23,340	1,923	3,745
NON-CURRENT LIABILITIES				
Financial assistance from government	*16*	1,059	1,172	1,196
NET ASSETS		22,281	751	2,549
CAPITAL AND RESERVES				
Share capital	*17*	29,498	7,004	5,837
Reserves	*18*	(7,217)	(6,253)	(3,288)
TOTAL EQUITY		22,281	751	2,549

BALANCE SHEET

		At 31 December		
		2006	**2005**	**2004**
	NOTE	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS				
Interests in subsidiaries	*13*	132	2,041	5,132
CURRENT ASSETS				
Other receivables		2,804	181	181
Bank balances		22,150	30	3,269
		24,954	211	3,450
CURRENT LIABILITIES				
Other payables		532	369	751
NET CURRENT ASSETS (LIABILITIES)		24,422	(158)	2,699
NET ASSETS		24,554	1,883	7,831
CAPITAL AND RESERVES				
Share capital	*17*	29,498	7,004	5,837
Reserves	*18*	(4,944)	(5,121)	1,994
TOTAL EQUITY		24,554	1,883	7,831

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

Note:

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

CONSOLIDATED CASH FLOW STATEMENT

	NOTE	2006 HK$'000	2005 HK$'000	2004 HK'000
NET CASH USED IN OPERATING ACTIVITIES	*19*	**(5,553)**	(4,384)	(8,804)
INVESTING ACTIVITIES				
Purchase of property, plant and equipment		**(49)**	(73)	(375)
Proceeds for sale of property, plant and equipment		**–**	–	4
Interest received		**585**	27	–
NET CASH USED IN INVESTING ACTIVITIES		**536**	(46)	(371)
FINANCING ACTIVITIES				
Proceeds from issue of shares		**–**	2,685	9,000
Proceeds from issue of rights shares		**25,221**	–	–
Proceeds from exercise of share options		**1,073**	–	–
Proceeds from issue of warrants		**1,767**	–	–
Share/warrants issue expenses		**(2,548)**	(137)	(540)
Repayment of financial assistance from government		**(43)**	(81)	(40)
Decrease in amount due from shareholders		**–**	–	3,971
NET CASH FROM FINANCING ACTIVITIES		**25,470**	2,467	12,391
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**20,453**	(1,963)	3,216
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**2,253**	4,216	1,000
CHANGES IN FOREIGN EXCHANGE RATE		**1**	–	–
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**22,707**	2,253	4,216

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

1. CORPORATE INFORMATION

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

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

(b) Basis of consolidation

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

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

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

(c) Subsidiaries

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

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

(d) Property, plant and equipment

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

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

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

Leasehold improvements	$33^{1}/_{3}\%$
Furniture, fixtures and office equipment	20%
Computer equipment	$33^{1}/_{3}\%$

(e) Trade receivables and payables

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

(f) Revenue recognition

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

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

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

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

(g) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Overseas subsidiaries

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

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates; and

(c) all resulting exchange differences are recognised as a separate component of equity.

(h) Inventories

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

(i) Impairment of non-financial assets

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

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

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

(j) Leases

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight-line basis over the term of the relevant lease.

(k) Employee benefits

(i) Defined contribution plan

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

(ii) Share-based compensation transactions

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

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

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

(l) Taxation

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

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

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

(m) Related parties

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

(n) Critical accounting estimates and judgements

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

Allowance for bad and doubtful debts

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

(o) Future changes in HKFRS

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

3. TURNOVER AND REVENUE

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

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

4. SEGMENT INFORMATION

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

5. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Bank interest income	585	27
Commission income	41	177
Gain on exchange	30	–
	656	204

6. LOSS BEFORE TAXATION

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

7. EMOLUMENTS OF THE DIRECTORS AND THE HIGHEST PAID INDIVIDUALS

(a) DIRECTORS' EMOLUMENTS

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

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

(b) FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

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

	2006 *HK$'000*	**2005** *HK$'000*
Salaries and other benefits	1,268	1,320
Retirement benefit scheme contributions	47	41
	1,315	1,361

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

8. TAXATION

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

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

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

9. DIVIDEND

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

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

11. LOSS PER SHARE

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

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

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

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Total HK$'000
THE GROUP				
COST				
At 1 January 2006	165	354	846	1,365
Additions	11	13	25	49
Disposal	–	(53)	–	(53)
Exchange difference	–	1	–	1
At 31 December 2006	176	315	871	1,362
ACCUMULATED DEPRECIATION				
At 1 January 2006	67	241	723	1,031
Charge for the year	57	23	93	173
At 31 December 2006	124	264	816	1,204
NET BOOK VALUES				
At 31 December 2006	52	51	55	158
THE GROUP				
COST				
At 1 January 2005	157	339	796	1,292
Additions	8	15	50	73
At 31 December 2005	165	354	846	1,365
ACCUMULATED DEPRECIATION				
At 1 January 2005	13	201	611	825
Charge for the year	54	40	112	206
At 31 December 2005	67	241	723	1,031
NET BOOK VALUES				
At 31 December 2005	98	113	123	334

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY 2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	3,162	3,162
Impairment loss	(3,162)	(3,162)
	–	–
Due from subsidiaries	22,012	22,236
Provision for doubtful debts	(21,880)	(20,195)
	132	2,041
	132	2,041

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

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

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

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

14. TRADE AND OTHER RECEIVABLES

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

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
0 – 30 days	175	177
31 – 60 days	559	494
61 – 90 days	10	–
Over 90 days	31	348
	775	1,019

Note:

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

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

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

15. TRADE AND OTHER PAYABLES

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

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

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

16. FINANCIAL ASSISTANCE FROM GOVERNMENT

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

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

17. SHARE CAPITAL

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

Notes:

(a) Pursuant to an ordinary resolution passed by the shareholders in the extraordinary general meeting ("EGM") held on 28 February 2006, every five shares of HK$0.01 each in the issued and unissued ordinary share capital of the Company are consolidated into one consolidated share HK$0.05 each (the "Share Consolidation"). Subsequently, the authorised share capital of the Company has been increased from HK$20,000,000 divided into 400,000,000 shares of HK$0.05 each to HK$100,000,000 divided into 2,000,000,000 shares of HK$0.05 each by the creation of an additional 1,600,000,000 unissued shares of HK$0.05 each.

(b) Pursuant to an ordinary resolution passed by the shareholders in the EGM held on 28 February 2006, 442,475,040 ordinary shares are issued by way of rights issue on the basis of three rights shares for every one consolidated share of HK$0.05 each at a subscription price of HK$0.057 each. The shares were allotted by the Company on 30 March 2006.

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

18. RESERVES

THE GROUP

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

THE COMPANY

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

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

(b) The Company did not have reserves available for distribution to shareholders as at 31 December 2006 (2005: Nil).

(c) Employee share-based compensation reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees recognised in accordance with the accounting policy adopted for share-based compensation as described in note 2(k)(ii) to the financial statements.

(d) On 28 August 2006, the Company entered into a conditional placing agreement in relation to a private placing of 117,800,000 warrants granted to a subscriber at an issued price of HK$0.015 per warrant. The warrants entitle the subscriber to subscribe for new 117,800,000 ordinary shares of par value HK$0.05 at an initial price of HK$0.155 per new share for a period of 18 months commencing from the issue date of the warrants. Each warrant carries the right to subscribe for one new share.

19. NET CASH USED IN OPERATING ACTIVITIES

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

20. EMPLOYEE SHARE OPTION SCHEME

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

The purpose of the Scheme is to provide eligible employees with performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership. The Board of Directors may, at its discretion, invite any full-time employee of the Company, including any executive and non-executive directors of the Company, or any subsidiaries of the Company to take up options to subscribe for shares of the Company. The total number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time. The total number of shares of the Company issued and to be issued upon exercise of the options granted to a participant under the Scheme and any other share option scheme adopted by the Company (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the shares of the Company in issue from time to time.

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

The subscription price for the shares of the Company will be a price determined by the Board of Directors and will be the highest of (i) the closing price of the shares on the GEM as stated in the Stock Exchange's daily quotation on the date of the offer grant; (ii) the average closing price of the shares on the GEM as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer grant; and (iii) the nominal value of the shares.

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

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

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

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

(b) Details of share options granted

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

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

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

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

21. RETIREMENT BENEFITS SCHEME

The Group operates a Mandatory Provident Fund Scheme ("Scheme") for all its qualifying employees. The assets of the Scheme are held separately from those of the Group in funds under the control of trustees. Both the Group and each eligible employee contribute the lower of 5% or HK$1,000 of the relevant payroll costs to the Scheme.

22. DEFERRED TAX

Recognised deferred tax (assets) liabilities

	Depreciation allowances	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2005	33	(33)	–
(Credit) Charge to income	(21)	21	–
At 31 December 2005	12	(12)	–
Charge (Credit) to income	(12)	12	–
At 31 December 2006	–	–	–

Unrecognised deferred tax assets arising from

	2006	**2005**
	HK$'000	*HK$'000*
Deductible temporary differences	47	–
Tax losses	32,267	29,887
At the balance sheet date	32,314	29,887

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

23. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	THE GROUP	
	2006	**2005**
	HK$'000	*HK$'000*
Within one year	543	281
In the second to fifth years inclusive	430	–
	973	281

24. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

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

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

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

(a) The Group trades only with creditworthy third parties; and

(b) Receivables balances are monitored closely for objective evidence of any potential/existence of loss event.

25. POST BALANCE SHEET EVENTS

(a) On 13 February 2007, the Company granted further share options to certain of its directors and employees to subscribe for an aggregate 4,000,000 shares at a nominal consideration of HK$1 for each lot of share option under the Scheme at the exercise price of HK$0.19 per share.

(b) On 2 February 2007, Rise Assets Limited ("Rise Assets", a wholly-owned subsidiary of the Company) entered into a conditional legally binding memorandum of understanding ("MOU") with Mr. Yang Pei Gen ("Mr. Yang"), in which Rise Assets has agreed to acquire and Mr. Yang has agreed to sell: (i) the Sale Share, representing the entire issued share capital of Silky Sky Investments Limited ("Silky Sky"); and (ii) the Sale Loan, representing all obligation, indebtedness and liabilities due by Silky Sky to Mr. Yang, for a total consideration of HK$61,000,000. On 21 March 2007, a formal agreement ("Formal Agreement") was entered into between Rise Assets and Mr. Yang. Details of the MOU and the Formal Agreement were disclosed in the announcements of the Company dated 9 February 2007 and 21 March 2007 respectively.

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

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

26. COMPARATIVE FIGURES

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

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

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

4. INDEBTEDNESS

Borrowings

At the close of business on 28 February 2007, the Enlarged Group has a total borrowing of HK$10,551,721. These borrowings comprised of unsecured amount due to a shareholder of HK$9,256,721, and unsecured financial assistance from government of HK$1,295,000.

Commitments

As at 28 February 2007, the Enlarged Group had operating lease commitments of approximately HK$2,047,579.

As at 28 February 2007, the Enlarged Group had capital commitments of approximately HK$3,244,736.

Disclaimer

Save as aforesaid and apart from intra-group liabilities, as at 28 February 2007, the Enlarged 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 Enlarged Group since 28 February 2007 up to the Latest Practicable Date.

5. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into consideration the financial resources available to the Enlarged Group including the internally generated funds, the present bank and other facilities, the Enlarged Group will have sufficient working capital for at least twelve months from the date of this circular.

6. MATERIAL ADVERSE CHANGE

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Cheung & Siu.

Cheung & Siu **Certified Public Accountants**
張、蕭會計師事務所

20 April 2007

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

Dear Sirs,

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

Respective Responsibilities of Directors of the Company and Reporting Accountants

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

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

Basis of Opinion

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

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

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

Opinion

In our opinion:

- the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

- such basis is consistent with the accounting policies of the Group; and

- the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 7.31(1) of the GEM Listing Rules.

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

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

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

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

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

	The Group As at 31 December 2006 *HK$'000*	The Target Group As at 28 February 2007 *HK$'000*	Pro-forma adjustments *HK$'000*	*Notes*	Total *HK$'000*
NON-CURRENT ASSETS					
Property, plant and equipment	158	229	–		387
Goodwill	–	–	52,131	(iv)	52,131
Total non-current assets	158	229	52,131		52,518
CURRENT ASSETS					
Inventories	62	–	–		62
Trade and other receivables	4,638	3,021	–		7,659
Cash and bank balances	22,707	5,207	(20,000)	(vii)	7,914
Total current assets	27,407	8,228	(20,000)		15,635
CURRENT LIABILITIES					
Trade and other payables	3,989	22	–		4,011
Financial assistance from government	236	–	–		236
Due to a shareholder	–	9,257	(9,257)	(vi)	–
Total current liabilities	4,225	9,279	(9,257)		4,247
NET CURRENT ASSETS/ (LIABILITIES)	23,182	(1,051)	(10,470)		11,388
TOTAL ASSETS LESS CURRENT LIABILITIES	23,340	(822)	41,388		63,906
NON-CURRENT LIABILITIES					
Financial assistance from government	1,059	–	–		1,059
Promissory note	–	–	24,031	(viii)	24,031
Total non-current liabilities	1,059	–	24,031		25,090
Net assets/(liabilities)	22,281	(822)	17,357		38,816
EQUITY					
Issued capital	29,498	–	6,788	(ii)	36,286
Reserves	(7,217)	(601)	10,782	(iii)	2,964
	22,281	(601)	17,570		39,250
Minority interests	–	(221)	(213)	(v)	(434)
Total equity	22,281	(822)	17,357		38,816

Notes:

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

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

(i) the total consideration for the Sale Share and the Sale Loan is HK$61,000,000 which shall be settled in the following manner:

(a) HK$20,000,000 as deposits which have already been paid by the Purchaser to the Vendor at of the date of this circular;

(b) HK$16,968,750 by procuring the Company to allot and issue 135,750,000 Consideration Shares at an issue price of HK$0.125 per Consideration Share; and

(c) HK$24,031,250 by issuing the Promissory Note to the Vendor.

(ii) the pro forma adjustment of approximately HK$6,788,000 represents the nominal value of 135,750,000 Consideration Shares at HK$0.05 per share of the Company amounting to HK$6,787,500 arising from issuance of the said Shares as described in note (i)(b) above and the elimination of share capital of the Target Group on consolidation.

(iii) the pro forma adjustment of approximately HK$10,782,000 represents the share premium arising from issuance of the Consideration Shares amounting to approximately HK$10,181,000, and the elimination of the pre-acquisition reserves of the Target Group on consolidation of approximately HK$601,000 (note (iv)).

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

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

(v) the pro forma adjustment of minority interest represents the minority shareholder's share of 24% of the net losses of approximately HK$886,000 of the Subsidiary upon the completion of the share transfer agreement dated 22 January 2007 entered into between Sky Rich and Fortune Pacific Limited.

(vi) the pro forma adjustment of HK$9,257,000 represents the Sale Loan to be assigned to the Group according to the Formal Agreement.

(vii) the pro forma adjustment of HK$20,000,000 represents the payment of the consideration as described in note (i)(a) above.

(viii) the pro forma adjustment of approximately HK$24,031,000 represents the payment of the consideration by issuing the Promissory Note to the Vendor as described in note (i)(c) above.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

(1) the information contained in this 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. DISCLOSURE OF INTERESTS

(a) Director's interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the following Director had or was deemed to have interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing

Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange:

(i) Directors' long positions in Shares

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Mo Wai Ming, Lawrence *(Note 1)*	Beneficial owner	149,824,172	25.40%
Mr. Ma She Shing, Albert *(Note 2)*	Beneficial owner	11,400,000	1.93%

(ii) Directors' short positions in Shares

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Mo Wai Ming, Lawrence *(Note 3)*	Beneficial owner	129,766,892	22.00%

Notes:

1. Mr. Mo Wai Ming, Lawrence is interested in 144,024,172 shares and was granted options to subscribes for 4,400,000 shares on 5 June 2006 and 1,400,000 shares on 13 February 2007 at a subscription price of HK$0.21 per share and HK$0.19 per share respectively.

2. Mr. Ma She Shing, Albert is interested in 5,600,000 shares and was granted options to subscribes for 4,400,000 shares on 5 June 2006 and 1,400,000 shares on 13 February 2007 at a subscription price of HK$0.21 per share and HK$0.19 per share respectively.

3. Pursuant to a share charge agreement dated 13 April 2005, 129,766,892 of the 144,024,172 shares held by Mr. Mo Wai Ming, Lawrence, have been charged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau") who is a third party independent of, and not connected with the Company and its connected persons. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 129,766,892 shares.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) (i) which were 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 they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by Directors to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders

So far as is known to the Directors, as at the Latest Practicable Date, the following person (not being Directors or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange 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 any member of the Group:

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Lau Kim Hung, Jack	Interest of a controlled corporation *(Note 1)*	129,766,892	22.00%
Manciple Enterprises Limited	Person having a security interest in shares *(Note 1)*	129,766,892	22.00%
Mr. Yip Yung Kan	Beneficial owner *(Note 2)*	2,760,000	0.47%
	Interest of a controlled corporation *(Note 3)*	117,800,000	16.64%

Notes:

1. Pursuant to a share charge agreement dated 13 April 2005, 129,766,892 of the 144,024,172 shares held by Mr. Mo Wai Ming, Lawrence, have been charged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau") who is a third party independent of, and not connected with the Company and its connected persons. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 129,766,892 shares.

2. Mr. Yip held 2,660,000 shares and his spouse, Ms. Lei I Si held 100,000 shares.

3. Mr. Yip beneficially owns 100% issued share capital of Glory Force Limited which was granted 117,800,000 warrants on 14 September 2006 to subscribe for 117,800,000 new shares at a subscription price of HK$0.155 per share. Upon full exercise of the subscription rights attaching to the warrants, a total of 117,800,000 new shares, representing 16.64% of the issued share capital of the Company as enlarged by the issue of new shares.

Save as disclosed, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was 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 any member of the Enlarged Group.

3. DIRECTORS' SERVICE CONTRACTS

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

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the management Shareholders (as defined in the GEM Listing Rules) or substantial Shareholder or any of their respective associates has any interest in business which competes with or may compete with the business of the Group or has any other conflict of interests which any person has or may have with the Group.

5. LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or arbitration of material importance and no litigation, arbitration or claim of material importance was known to the Directors to be pending or threatened against any member of the Enlarged Group.

6. INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, no contract or arrangement of significance in relation to the Enlarged Group's business to which any member of the Enlarged Group was a party and in which any of the Directors had a material interest, whether directly or indirectly, subsisted as at the Latest Practicable Date.

None of the Directors nor expert referred to in paragraph 9 has any direct or indirect interests in any assets which had been acquired or disposed of by or leased to, or which are proposed to be acquired or disposed of by or leased to, any member of the Enlarged Group during the period since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up, up to and including the Latest Practicable Date.

7. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately preceding the Latest Practicable Date which are or may be material:

(a) the 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 Shares to not fewer than six Placees at a placing price of HK$0.023 per Share;

(b) the underwriting agreement dated 20 January 2006 and entered into with the Company, Mr. Mo Wai Ming, Lawrence, Kingston Securities Limited, Quam Securities Company Limited and Hantec Capital Limited in relation to the rights issue of 442,475,040 rights Shares at HK$0.057 per rights Share;

(c) the warrant placing agreement dated 28 August 2006 and entered into among the Company as the issuer, Glory Force Limited as the subscriber and Mr. Yip Yung Kan as the guarantor in relation to the subscription of 117,800,000 unlisted warrants of the Company by Glory Force Limited at an issue price of HK$0.015 per warrant and subscription price of HK$0.155 per share; and

(d) the MOU and the Formal Agreement.

8. SHARE CAPITAL

The authorised share capital of the Company as at the Latest Practicable Date and immediately following the allotment and issue of the Consideration Shares are as follows:

Authorised		***HK$***
2,000,000,000	Shares	100,000,000
Issued and to be issued, fully paid or credited as fully paid		
589,966,720	Shares in issue as at the Latest Practicable Date	29,498,336
135,750,000	Consideration Shares to be allotted and issued	6,787,500
725,716,720	Shares	36,285,836

9. EXPERT

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

Name	**Qualification**
Cheung and Siu	Certified Public Accountants

As at the Latest Practicable Date, Cheung and Siu did not have any interests, 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 2006, the date to which the latest published audited consolidated financial statements of the Group were made up.

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

Cheung and Siu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its respective letter and/or report and/or reference to its name in the form and context in which it respectively appears.

10. MISCELLANEOUS

(a) The registered office of the Company is located at Caledonian Bank & Trust Limited, Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong.

(c) The branch share registrar and transfer office in Hong Kong of the Company is Standard Registrars Limited located at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The company secretary and qualified accountant of the Company is Ms. Au Shui Ming, Anna, who is a certified practicing accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants.

(e) The compliance officer of the Company is Mr. Mo Wai Ming, Lawrence who is also an executive Director.

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

Mr. Lee Kun Hung, aged 41, 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 company.

Mr. Hsu Shiu Foo, William, aged 56, 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 degree in Arts from Brigham Young University, Hawaii and a Master degree in Hotel Administration from Cornell University, New York. Mr. Hsu is currently an independent non-executive director or other listed companies.

Mr. Kwok Chi Sun, Vincent, aged 44, is an independent non-executive Director and audit committee member of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co., and is a Certified Public Accountant. He is an independent non-executive director of other listed companies.

11. DOCUMENTS FOR INSPECTION

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

(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 2006;

(c) the written consent from Cheung and Siu referred to under the paragraph headed "Expert" in this appendix;

(d) the accountants' report prepared by Cheung and Siu on the Target Group, the text of which is set out in appendix I of this circular;

(e) the unaudited pro forma financial information of the Enlarged Group as set out in appendix III of this circular;

(f) the material contracts referred to under the paragraph "Material contracts" in this appendix;

(g) the circular of the Company dated 13 February 2006 and the prospectus of the Company dated 10 March 2006 in relation to the rights issue of 442,475,040 rights Shares; and

(h) this circular.

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 on Friday, 11 May 2007 at 11:00a.m. at 15/F., Sun House, 181 Des Voeux Road Central, Hong Kong for the purpose of considering and, if thought fit, with or without amendments, the following resolution as an ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the sale and purchase agreement (the "**Agreement**") dated 21 March 2007 entered into between Rise Assets Limited, a wholly owned subsidiary of the Company, as the purchaser and Mr. Yang Pei Gen as the vendor (the "**Vendor**") in relation to, among other matters, the sale and purchase of the entire issued share capital of Silky Sky Investments Limited (a copy of which is marked "A" and produced to the EGM and signed by the chairman of the EGM for identification purpose) be and is hereby ratified, confirmed and approved and the directors (the "**Directors**") of the Company be and are hereby authorised to all such acts and things and execute all such documents which they consider necessary, desirable or expedient for the implementation of and giving effect to the Agreement and the transactions contemplated thereunder; and

(b) the allotment and issue of 135,750,000 ordinary shares (the "**Consideration Shares**" and each a "**Consideration Share**") of HK$0.05 each of the Company credited as fully paid at an issue price of HK$0.125 per Consideration Share to the Vendor pursuant to the Agreement be and is hereby approved and any Director be and are hereby authorised to allot and issue the Consideration Shares in accordance with the terms of the Agreement and to take all steps necessary, desirable or expedient in his opinion to implement or give effect to the allotment and issue of the Consideration Shares."

By order of the board of Directors
KanHan Technologies Group Limited
Ma She Shing, Albert
Director

Hong Kong, 20 April 2007

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

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

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/her stead. A proxy need not be a shareholder of the Company.

2. Where there are joint registered holders of any shares 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 this circular. 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 branch share registrar of the Company in Hong Kong, 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 and 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.