KanHan Technologies Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8175)

ANNUAL REPORT 2005

CHARACTERISTIC OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the directors of KanHan Technologies Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to KanHan Technologies Group Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Executive Director

Ma She Shing, Albert

Executive Director

Mo Wai Ming, Lawrence

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Kwok Chi Sun, Vincent
Mo Wai Ming, Lawrence
Lee Kun Hung

COMPANY SECRETARY

Au Shui Ming, Anna

QUALIFIED ACCOUNTANT

Au Shui Ming, Anna

COMPLIANCE OFFICER

Mo Wai Ming, Lawrence

AUTHORISED REPRESENTATIVES

Mo Wai Ming, Lawrence
Au Shui Ming, Anna

AUDITORS

Moores Rowland Mazars

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

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

SHARE REGISTRAR

Standard Registrars Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

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

WEBSITE ADDRESS

www.kanhan.com

STOCK CODE

8175

CORPORATE PROFILE

Established in 1999, **KanHan Technologies Group Limited** is a global leader in Asian language infrastructure development for Internet enabled devices such as PCs and 3G mobile phones and PCs.

"With our HanVOICE server and patented HanFont Technology, our Group endeavors to become the market leader in web-based Chinese, Japanese and Korean (CJK) text to text and text to speech communications business."

Awards

- 2005 China Nomination to United Nation's "World Summit Award"
- The Hong Kong Computer Society, Certificate of Merit in the Communications Applications Category of the Asia Pacific Information and Communications Technology Awards, 2004
- The Hong Kong Computer Society, 6th IT Excellence Award; Certificate of Merit in the Product Category, 2004
- 2003 Asia-Pacific Technology Fast 500 Programme of Deloitte Touche Tohmatsu – 7th position
- The Hong Kong Awards for Industry, the Hong Kong Science & Technology Park Certificate of Merit in Technological Achievement, 2002
- The Hong Kong Awards for Industry, Federation of Hong Kong Industries Consumer Product Design Award, 2002
- The Hong Kong Awards for Industry, the Hong Kong Science & Technology Park Technological Achievement Award, 2001
- The Hong Kong Computer Society, IT Excellence Product Silver Award, 2001

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
RESULTS					
Turnover	2,448	8,801	2,984	4,320	**4,472**
(Loss) profit from ordinary activities attributable to shareholders	(5,434)	3,721	(16,708)	(8,950)	**(4,913)**

ASSETS AND LIABILITIES

	As at 31 December				
	2001	2002	2003	2004	**2005**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	***HK$'000***
Total assets	3,057	11,713	7,858	6,179	**4,394**
Total liabilities	(4,244)	(8,551)	(4,819)	(3,630)	**(3,643)**
(Deficiency) balance of shareholders' funds	(1,187)	3,162	3,039	2,549	**751**

Notes:

1. The Company was incorporated in the Cayman Islands on 10 October 2002 and became the holding company of the Group on 15 January 2003 as a result of the Group Reorganisation.

2. The results for each of the two years ended 31 December 2001 and 2002 and the assets and liabilities as at 31 December 2001 and 2002 have been prepared using the merger method of accounting as if the group structure immediately after the Group reorganisation had been in existence throughout the years concerned.

CHAIRMAN'S STATEMENT

KanHan Technologies Group Limited (the "Company" or "KanHan") and its subsidiaries (together known as the "Group") continue its venerable tradition in winning accolade for technologies well developed. KanHan was honored in September 2005 with the China nomination to compete in the United Nations' "World Summit Award" (WSA), one of the most important global information and communication technology events. HanPhone, a flagship product of KanHan was selected together with seven other projects to represent China competing against 1,300 entries from 168 countries.

The WSA nomination punctuates the importance of HanPhone in furthering its business roadmap to address the replacement market for the traditional Interactive Voice Response (IVR) system market. During the year, HanPhone won a number of prominent IVR projects strategically important in advancing its business in Hong Kong. These projects include the enquiry hotline systems for Hong Kong Public Libraries and Leisure & Cultural Services Department, Secondary Five Graduates Enquiry Hotline Service for Secondary Six position vacancy for Education and ManPower Bureau, Employees Compensation Claims and Appointment Reservation Hotline for Labour Department and one of Hong Kong's largest IVR systems when fully deployed; the Hospital Authority's appointment booking hotline for territory wide out-patient service.

Another key milestone achieved during the year is Yahoo's adoption of HanPhone's accompanying HanVoice platform in bringing English and Putonghua text-to-speech function to its popular Hong Kong dictionary site. The reference in the Yahoo Dictionary page has significantly boosted traffics to Hong Kong's only online Putonghua learning platform produced by KanHan (www.putonghuaonline.com).

A successful new share placement in mid June 2005 provided an expanded capital base in further boosting our investment into the new service initiatives including the Putonghua learning platform (ePTH) and the online fax subscription services (EFAX). At time of the release of this annual report, the Group should have completed the proposed share consolidation and rights issue exercise. The new capital will not only provide the necessary funding in more aggressively pursuing the business expansion in Hong Kong but also open up new investment opportunities that will be beneficial to the Group and the shareholders as a whole.

RESULTS FOR THE YEAR

For the year ended 31 December 2005, the Group recorded a turnover of approximately HK$4,472,000 and the net loss attributable to shareholders was HK$4,913,000.

CHAIRMAN'S STATEMENT

DIVIDEND

The board of directors (the "Board"/the "Directors") do not recommend the payment of a final dividend for the year ended 31 December 2005.

OUTLOOK

The Group is confident that 2006 will be a year of substantial growth taking into consideration of the optimistic prospect of HanPhone projects and the maturing service business. A new Putonghua business (KidPTH) has been launched in January 2006 to cater for more than 600 primary schools' needs for an integrated web-based learning environment for Putonghua. This is Hong Kong's first and only integrated learning and teaching platform aims at fulfilling Education and Manpower Bureau's long term goal of teaching Chinese in Putonghua. There are already more than 10 primary schools signing up the new platform since launch. KanHan aims to capture at least 100 schools for the year and 400 in two years' time. The EFAX business has been growing steadily and a new SMS extension has been introduced in March 2006 to the EFAX platform giving subscribers both fax and SMS channels in reaching out to their friends and customers in China and Hong Kong. The business is already operating at a break-even level. It is envisaged more aggressive promotion activities will turn the business into a profit-making business in the coming year.

HanWEB will continue to bring in steady service income to KanHan in Hong Kong. To leverage on the install base of HanWEB consisting mostly big name customers who are now more conscious about the need of handling Chinese information better over their web based business services, KanHan has signed up to distribute China's most prominent search engine solution in Hong Kong. The package of HanWEB and search engine solution is expected to re-kindle the growth of selling Chinese web solutions to large corporations.

Another business contribution to the Group will come from the Hong Kong Jockey Club funding of HK$7m in assisting the visually impaired persons acquiring the screen reader Chinese JAWS from KanHan and Braille display in the coming years. KanHan anticipates more than 200 copies of the Chinese JAWS will be sold this year.

The Group continues to look for China opportunities in both business development and investment. A subsidiary of one of China's largest book store operators, Commercial Press has signed up to represent KanHan products in Northern China market. KanHan will release a HanPhone product to the China market aiming at recruiting present IVR solution providers to resell the software for a bigger sales number while HanPhone will continue to be sold on project basis for bigger profit margin in Hong Kong.

CHAIRMAN'S STATEMENT

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our shareholders and business partners for their continued support and all our staff members for their dedication, devotion and hard work.

Ma She Shing, Albert
Chairman
28 March 2006

BUSINESS REVIEW

SOFTWARE SALES BUSINESS

Despite increasing enquiries, the selling cycle has continued to be long for HanWEB software which translates in real-time traditional Chinese website into simplified Chinese. Sales efforts were shifted into calling on HanPhone prospective customers leading to a few significant wins in the past year. Chinese JAWS, the screen reader for visually impaired has attained its dominant position with more HKSAR Government purchases to benefit their employees and to provide community service through various community centers.

SERVICE BUSINESS

The Putonghua learning platform has introduced more industry specific contents including law, cosmetics and retail in the past year. Retail sales of the subscription have been slow due to lack of promotional activities. Countering that, ePTH began to offer private label program for educational institutes to blend the online platform into their class room training curriculum. There are now four training institutes selling ePTH subscription through their respective private label sites. The Institute of Professional Education and Knowledge of Vocational Training Council continued to be a key partner in reselling the ePTH to corporations. Substantial efforts were spent in later half of 2005 in transforming the adult version of the ePTH into an integrated Putonghua learning platform targeting over 600 primary schools. The new platform www.kids.putonghuaonline.com with contents customized for primary school students, was subsequently launched in January 2006. At the end of 2005, there were over 2000 users to the ePTH platform including secondary and primary students, individual and corporate subscribers vindicating the usefulness and robustness of the platform.

The EFAX service of sending and receiving of fax over Internet was launched in end June with the attraction of web based convenience plus the savings in IDD charges to China companies. Retail subscription has been growing steadily despite the number is still small in Hong Kong while the China subscribers have begun to surface when email marketing was started recently in China. In order to promote EFAX as an all encompassing personal and business communication service, web based SMS was added to EFAX platform such that personal and business users will have the flexibility in sending or broadcasting their messages via fax or SMS channel on personal and marketing purposes. Packaging the EFAX and the outbound call IVR services, KanHan also promotes to corporations database e-marketing service using fax, SMS, outbound call and email. The Group is optimistic that gradual build-up of the value added messaging and marketing service business will not only bring in steady income but also prospects for KanHan's other products and services.

The Group is disappointed at the DIY Ring-tone Service business that was launched in late 2004 by 21CN and TenCent in China. The service did not bring upon sufficient market awareness because of the lack of persistent marketing efforts and novelty in the offerings. Despite of the lacklustre business, 21CN and TenCent continued to offer the service in the hope of finding new ideas of packaging the technologies to attract usage.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

For the year ended 31 December 2005, the Group recorded a turnover amounted to HK$4,472,000 (2004: HK$4,320,000), representing a slightly increase of approximately 3.5% as compared to last year. Turnover generated from sales of licensed software, customarily the Group's principal source of revenue, was approximately HK$3,053,000 (2004: HK$2,956,000), accounting for 68.3% (2004: 68.4%) of the turnover for the year under review.

During the year, the Group committed to maximize operational efficiency and streamline operational expense. Loss attributable to shareholders was then decreased substantially by 45.10% to approximately HK$4,913,000.

Other operating income for the year ended 31 December 2005 amounted to approximately HK$204,000, mainly consists of the commission income derived from providing sales support services to customers.

Operating expenses (including research and development expenses, selling and distribution costs and administrative expenses) for the year ended 31 December 2005 decreased by 33.8% to approximately HK$7,701,000 as compared to HK$11,625,000 last year. The decrease in operating expenses largely results from the decrease in advertising and promotion expenses. As a result of adopting the new Hong Kong Financial Reporting Standards, the share option cost of HK$567,000 representing 7.4% of the total operating expenses was charged to the administrative expenses.

TAXATION

No provision for taxation has been made in the financial statements for the year ended 31 December 2005 as the Group incurred a tax loss for that year.

Details of the deferred taxation asset not recognised are set out in note 23.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2005, the Group had current assets of approximately HK$4,060,000 (2004: HK$5,712,000). The current assets comprised of cash and bank balances of HK$2,253,000 (2004: HK$4,216,000) together with trade and other receivables of HK$1,807,000 (2004: HK$1,296,000). The Group's current liabilities comprised mainly trade and other payables of approximately HK$2,305,000 (2004: HK$2,211,000). The Group had no bank borrowings at 31 December 2005 (2004: Nil) but an outstanding loan granted by government of approximately HK$1,338,000 at 31 December 2005 (2004: HK$1,419,000). As at 31 December 2005, the Group had a current ratio of approximately 1.64:1 as compared to that of 2.35:1 at 31 December 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year ended 31 December 2005, the Group's operation was mainly financed by its internal financial resources and the net proceeds from the placing of shares. On 27 June 2005, the Company placed 116,740,000 new shares to independent third parties at HK$0.023 per share and recorded net proceeds of approximately HK$2,548,000.

As at 31 December 2005, (i) the Group had no charges on its assets; and (ii) the Group did not make any material investments, acquisitions and disposals of subsidiaries and affiliated companies.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the accumulated losses of the Company exceeded the aggregate of share premium and contributed surplus, thus the Company did not have any reserves available for distribution (2004: HK$1,994,000).

FOREIGN EXCHANGE RISK

As at 31 December 2005, the Group had no significant exposure to fluctuation in foreign exchange rate.

CAPITAL STRUCTURE

As at 31 December 2005, the total issued share capital of the Company was HK$7,004,584 divided into 700,458,400 shares of HK$0.01 each.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2005, the Group had 24 (2004: 24) full-time employees. Employee costs, excluding Directors' emoluments, totaled HK$3,687,000 (2004: HK$ 3,777,000). All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programs including medical coverage and provident funds were also provided. In addition, training and development courses were offered throughout the Group to upgrade employee skills and knowledge.

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

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Subject to the deviation as disclosed on this report, the Company has complied with all the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Board members for the year ended 31 December 2005 were:

Executive directors:

Mr. Ma She Shing, Albert *(Chairman)*	(appointed on 1 June 2005)
Mr. Mo Wai Ming, Lawrence	
Ms. Wai Lai Yung	(resigned on 1 June 2005)

Non-executive director:

Mr. Yuen Ka Lok, Ernest	(resigned on 1 May 2005)

Independent non-executive directors:

Mr. Hsu Shiu Foo, William	(appointed on 10 June 2005)
Mr. Lee Kun Hung	(appointed on 1 June 2005)
Mr. Kwok Chi Sun, Vincent	
Ms. Li Mo Ching, Joyce	(resigned on 10 June 2005)
Ms. Tam Cheuk Ling, Jacqueline	(resigned on 1 June 2005)

The board of directors (the "Board") is responsible for the Group's corporate policy formulation, business strategies planning, business development, risk management, major acquisitions, disposals and capital transactions, and other significant operational and financial matters. Major corporate matters that are specifically delegated by the board of directors to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives adopted by the board of directors, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory requirements and rules and regulations.

CORPORATE GOVERNANCE REPORT

The directors' biographical information are set out on page 16 of this Annual Report. All executive directors have given sufficient time and attention to the affairs of the Group. Each executive director has sufficient experience to hold the position so as to carry out his duties effectively and efficiently. There is no relationship among the members of the board of directors.

The Company appointed three independent non-executive directors who have appropriate and sufficient experience and qualification to carry out their duties so as to protect the interests of shareholders. All of them have been appointed for a term of one year commencing from the date of appointment and will continue thereafter until terminated by either party giving each other not less than one month's notice.

Under the code provision A.4.2, every director should be subject to retirement by rotation at least once every three years. In order to comply with this code, the existing articles of association will be proposed at the forthcoming annual general meeting to make the necessary amendments.

Pursuant to the requirements of the GEM Listing Rules, the Company has received written confirmation from each independent non-executive director of his independence to the Company. Based on such confirmations of independence, the Company considers all of the independent non-executive directors to be independent.

With the appointment of Mr. Ma She Shing Albert as the chairman of the Company on 1 June 2005, the roles of the chairman and chief executive officer are segregated and are not exercised by the same individual, the chairman is responsible for leading the Board in formulating overall strategies of the Company, while the chief executive officer is to manage the operation of the Group's business.

The Board held a full board meeting for each quarter.

Details of the attendance of the meetings of the Board are as follows:

Directors	**Attendance**
Mr. Ma She Shing, Albert	3/4
Mr. Mo Wai Ming, Lawrence	4/4
Mr. Hsu Shiu Foo, William	3/4
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Lee Kun Hung	2/4
Ms. Wai Lai Yung	0/4
Mr. Yuen Ka Lok, Ernest	0/4
Ms. Li Mo Ching, Joyce	1/4
Ms. Tam Cheuk Ling, Jacqueline	1/4

CORPORATE GOVERNANCE REPORT

Apart from the above regular board meetings of the year, the Board will meet on other occasions when a board-level decision on a particular matter is required.

REMUNERATION OF DIRECTORS

The remuneration committee was established in June 2005 with written terms of reference in compliance with the code provision. The remuneration committee consists of three members, of which two are independent non-executive directors, namely Mr. Kwok Chi Sun Vincent and Mr. Lee Kun Hung, and one is executive director being Mr. Mo Wai Ming, Lawrence. The chairman of the committee is Mr. Kwok Chi Sun, Vincent.

The role and function of the remuneration committee include the determination of the specific remuneration packages of all executive directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors.

During the period under review, a meeting of the remuneration committee was held in November 2005. Details of the attendance of the meeting of the remuneration committee are as follows:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	1/1
Mr. Mo Wai Ming, Lawrence	1/1
Mr. Lee Kun Hung	1/1

NOMINATION OF DIRECTORS

No nomination committee was established by the Company.

The Board is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The Board will review the qualifications of the relevant candidate for determining the suitability to the Group on the basis of his qualifications, experience and background.

AUDITORS’ REMUNERATION

The Company has appointed Moores Rowland Mazars as the auditors of the Group (the “Auditors”). The Board is authorized in the annual general meeting to determine the remuneration of the Auditors. During the year, the Auditors only perform the work of statutory audit for the year 2005 and did not involve any non-audit assignment of the Group. The remuneration of the auditors for the year of 2005 is approximately HK$220,000.

CORPORATE GOVERNANCE REPORT

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, half year reports and quarterly reports to directors. The audit committee comprises three members, Mr. Kwok Chi Sun Vincent, Mr. Hsu Shiu Foo William and Mr. Lee Kun Hung, all of them are independent non-executive directors. The chairman of the audit committee is Mr. Kwok Chi Sun Vincent.

The audit committee held 4 meetings during the year under review. Details of the attendance of the audit committee meetings are as follows:

Members	**Attendance**
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Hsu Shiu Foo, William (appointed on 10 June 2005)	3/4
Mr. Lee Kun Hung (appointed on 1 June 2005)	2/4
Ms. Li Mo Ching, Joyce (resigned on 10 June 2005)	1/4
Ms. Tam Cheuk Ling, Jacqualine (resigned on 1 June 2005)	1/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2005 have been reviewed by the audit committee during the year, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements, which give a true and fair view. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the directors and report the opinion solely to the shareholders of the Company.

DIRECTORS' PROFILE

EXECUTIVE DIRECTORS

Mr. Mo Wai Ming, Lawrence, aged 46, is an executive director of the Company. Prior to founding of KanHan Technologies Inc. in 1999, Mr. Mo has over 10 years experience in the development and sales of solutions on local language computing for Asian languages and for electronic and Internet publishing. Being an expert in Chinese computing, he was appointed as a member of the HKSAR Government's Chinese Language Interface Advisory Committee in May 1999. Mr. Mo holds a degree in science from University of Toronto, Canada. As the chief executive, Mr. Mo has overall responsibility for the operations and performances of the Group. Mr. Mo also serves as a member of the remuneration committee of the Company.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu Shiu Foo, William, aged 55, is an independent non-executive director and audit committee member of the Company. Mr. Hsu has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor's degree in Arts from Brigham Young University, Hawaii and a Master's degree in Hotel Administration from Cornell University, New York.

Mr. Kwok Chi Sun Vincent, aged 43, is an independent non-executive director and member of the audit committee and remuneration committee of the Company. Mr. Kwok is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant.

Mr. Lee Kun Hung, aged 40, is an independent non-executive director and member of the audit committee and remuneration committee 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.

DIRECTORS' REPORT

The directors present the annual report and the audited financial statements of the Group for the year ended to 31 December 2005.

DATE OF INCORPORATION

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

The shares of the Company were listed on the GEM of the Stock Exchange on 25 February 2003.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company.

Details of the principal activities of its subsidiaries are set out in note 14 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 24.

The directors do not recommend the payment of a dividend.

RESERVES

Details of movements in the reserves of the Group during the year ended 31 December 2005 are set out in the consolidated statement of changes in equity on page 27.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Mo Wai Ming, Lawrence	
Mr. Ma She Shing, Albert	*(appointed on 1 June 2005)*
Ms. Wai Lai Yung	*(resigned on 1 June 2005)*
Mr. Lee Chi Ming	*(resigned on 1 January 2005)*

Non-executive director:

Mr. Yuen Ka Lok, Ernest	*(resigned on 1 May 2005)*

Independent non-executive directors:

Mr. Hsu Shiu Foo, William	*(appointed on 10 June 2005)*
Mr. Lee Kun Hung	*(appointed on 1 June 2005)*
Mr. Kwok Chi Sun, Vincent	
Ms. Li Mo Ching, Joyce	*(resigned on 10 June 2005)*
Ms. Tam Cheuk Ling, Jacqueline	*(resigned on 1 June 2005)*

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Mr. Ma She Shing, Albert, Mr. Hsu Shiu Foo, William and Mr. Lee Kun Hung shall retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

Each of the executive directors and independent non-executive directors of the Company has entered into a letter of appointment with the Company for a term of one year commencing from the date of appointment, which will continue thereafter until terminated by either party by giving to the other not less than one month's notice in writing.

The Board has obtained written confirmations from all independent non-executive directors of the Company concerning their independence in accordance with Rule 5.9 of the GEM Listing Rules. The Board of Directors believed that the existing independent non-executive directors are independent based on the guidelines set out in Rule 5.9 of the GEM Listing Rules.

Save as disclosed above, none of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2005, the interests of the directors of the Company and their associates in the shares of the Company and the underlying shares as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or which are required, pursuant to Rules 5.46 to 5.68 of the Rules Governing the Listing of Securities in the GEM of the Stock Exchange ("GEM Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Ordinary shares of HK$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Mo Wai Ming, Lawrence	Beneficial owner	169,508,000	24.2%

Save as disclosed above and the interests of certain directors of the Company in the share options of the Company as disclosed in the section headed "EMPLOYEE SHARE OPTION SCHEME" below, as at 31 December 2005, none of the directors and chief executives nor their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

EMPLOYEE SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 24 January 2003 pursuant to a written resolution of the Company. On 8 July 2005, options to subscribe for an aggregate 37,000,000 shares at HK$0.029 per share had been granted by the Company under the Scheme. As at 31 December 2005, no share options granted under the Scheme have been exercised. A summary of share options granted under the Scheme are as follows:

Categories of grantees	Date of grant	Exercisable period	Exercise price per share	Number of share options granted during the period and outstanding at 31/12/2005
			HK$	
Directors				
Mo Wai Ming, Lawrence	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000
Ma She Shing, Albert	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000
Employees	08/7/2005	08/7/2005 – 07/7/2015	0.029	23,000,000

Particulars of the Company's share option scheme are set out in note 21 to the financial statements.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2005, the Group entered into a tenancy agreement with Comeasy Communication Limited ("Comeasy") in which Mr. Mo Wai Ming, Lawrence has a beneficial interest. The rental expenses paid during the year to Comeasy amounted to HK$240,000.

Save as disclosed above:

(i) no contracts of significance subsisted at the end of the year or at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and

(ii) there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

Name	Capacity	Number of issued held	Percentage of the issued share capital
Mr. Lau Kim Hung, Jack	Interest of a controlled corporation*	151,686,400	21.66%
Manciple Enterprises Limited	Person having a security interest in shares*	151,686,400	21.66%
YesMobile Holdings Company Limited	Beneficial owner	103,786,400	14.82%
Alexandra Global Investment Fund I, Ltd.	Beneficial owner	75,010,000	10.71%
Alexandra Investment Manager, LLC	Investment manager	75,010,000	10.71%

* On 13 April 2005, 151,686,400 shares held by Mr. Mo Wai Ming, Lawrence was pledged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands and wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau"), who accordingly, had a security interest in these 151,686,400 shares. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 151,686,400 shares.

DIRECTORS' REPORT

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the agreement dated 1 June 2005 entered into between the Company and Hantec Capital Limited ("Hantec"), Hantec will receive a fee for acting as the Company's compliance adviser for the period from 1 June 2005 to 31 December 2005.

Neither the compliance adviser of the Company, Hantec, nor its directors, employees or associates had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) as at 31 December 2005.

COMPETING INTERESTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Employee Share Option Scheme" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

MAJOR CUSTOMERS AND SUPPLIERS

With reference to the Group's financial statements, in respect of the year ended 31 December 2005:

(i) The Group's product is computer software which is developed internally. Accordingly, information on the Group's major suppliers is not meaningful.

(ii) The Group's largest customer and the five largest customers accounted for 26.41% and 52.13%, respectively, of the Group's total turnover.

In the opinion of the directors, none of the directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interest in the Group's five largest customers.

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

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

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

CHAIRMAN
Ma She Shing, Albert
28 March 2006

AUDITORS' REPORT

Moores Rowland Mazars

摩斯倫・馬賽會計師事務所

TO THE SHAREHOLDERS OF KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 56 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong, 28 March 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	NOTE	**2005** **HK$'000**	2004 HK$'000
Turnover	*4*	**4,472**	4,320
Cost of sales		**(1,888)**	(1,645)
Gross profit		**2,584**	2,675
Other income	*6*	**204**	–
Research and development expenses		**(1,250)**	(2,460)
Selling and distribution expenses		**(1,062)**	(2,348)
Administrative expenses		**(5,389)**	(6,817)
Loss before taxation	*7*	**(4,913)**	(8,950)
Taxation	*9*	**–**	–
Loss for the year		**(4,913)**	(8,950)
Attributable to:			
Equity holders of the Company	*11*	**(4,913)**	(8,950)
Loss per share			(Restated)
– Basic	*12*	**(3.82 cents)**	(8.55 cents)

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	NOTE	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**334**	467
CURRENT ASSETS			
Inventories		**–**	200
Trade and other receivables	15	**1,807**	1,296
Bank balances and cash		**2,253**	4,216
		4,060	5,712
CURRENT LIABILITIES			
Trade and other payables	16	**2,305**	2,211
Financial assistance from government	17	**166**	223
		2,471	2,434
NET CURRENT ASSETS		**1,589**	3,278
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,923**	3,745
NON-CURRENT LIABILITIES			
Financial assistance from government	17	**1,172**	1,196
NET ASSETS		**751**	2,549
EQUITY AND RESERVES			
Share capital	18	**7,004**	5,837
Reserves	19	**(6,253)**	(3,288)
		751	2,549

The financial statements on pages 24 to 56 were approved and authorised for issue by the Board of Directors on 28 March 2006 and are signed on its behalf by:

Mo Wai Ming, Lawrence
DIRECTOR

Ma She Shing, Albert
DIRECTOR

BALANCE SHEET

At 31 December 2005

	NOTE	2005 HK$'000	2004 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	14	**2,041**	5,132
CURRENT ASSETS			
Other receivables		**181**	181
Bank balances		**30**	3,269
		211	3,450
CURRENT LIABILITIES			
Other payables		**369**	751
NET CURRENT (LIABILITIES) ASSETS		**(158)**	2,699
NET ASSETS		**1,883**	7,831
EQUITY AND RESERVES			
Share capital	18	**7,004**	5,837
Reserves	19	**(5,121)**	1,994
		1,883	7,831

Mo Wai Ming, Lawrence
DIRECTOR

Ma She Shing, Albert
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Share capital HK$'000	Share premium HK$'000	Special reserve HK$'000 (note a)	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	4,864	11,836	10,084	–	(23,745)	3,039
Issue of shares under the placing	973	8,027	–	–	–	9,000
Share issue expenses	–	(540)	–	–	–	(540)
Loss for the year	–	–	–	–	(8,950)	(8,950)
At 31 December 2004	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

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

For the year ended 31 December 2005

	NOTE	**2005** **HK$'000**	2004 HK$'000
NET CASH USED IN OPERATING ACTIVITIES	20	**(4,357)**	(8,804)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(73)**	(375)
Proceeds for sale of property, plant and equipment		**–**	4
CASH USED IN INVESTING ACTIVITIES		**(73)**	(371)
FINANCING ACTIVITIES			
Proceeds from issue of shares		**2,685**	9,000
Share issue expenses		**(137)**	(540)
Decrease in amounts due from shareholders		**–**	3,971
Repayment of financial assistance from government		**(81)**	(40)
NET CASH FROM FINANCING ACTIVITIES		**2,467**	12,391
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,963)**	3,216
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**4,216**	1,000
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**2,253**	4,216

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

1. CORPORATE INFORMATION

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

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

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 14.

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 ("FRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "HKFRS") 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. This year, the Group adopted the new/revised HKFRS pertinent to its operations. Major changes in accounting policies following the adoption of these HKFRS are summarised in note 3 to the financial statements.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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

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. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenses 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 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	$33^1/_3$%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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 Company 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 has 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 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 Company's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(g) Foreign currency translation *(Continued)*

(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 recognized 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) Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amounts of its tangible and intangible assets 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, except where the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(h) Impairment loss *(Continued)*

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, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

(i) 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.

(j) 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 scheme

The Group operates an employee share option plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in share-based payment reserve within equity.

(k) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(k) Taxation *(Continued)*

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 profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

(l) 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.

(m) 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.

(i) Allowance for bad and doubtful debts

The provisioning policy for bad and doubtful debts of the Group is based on the evaluation of collect ability and ageing analysis of the trade receivables and on management judgements. A considerable amount of judgement is required in assessing the ultimate realisation of receivables, including 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(m) Critical accounting estimates and judgements *(Continued)*

(ii) Recognition of deferred tax assets

Deferred tax assets are recognised for unused tax losses carried forward to the extent that it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. Recognition primarily involves judgement regarding the future performance of the particular legal subsidiary in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, tax planning strategies and the periods in which estimated tax loss can be utilised. The carrying amount of deferred tax assets and related financial models and budgets are reviewed at each balance sheet date and, to the extent that there is sufficient evidence that taxable profits will be available within the utilisation periods to allow utilisation of the carry forward tax losses, the asset balance will be increased and such increase will be charged to the income statement.

(n) Future changes in FRS

At the date of authorisation of these financial statements, HKICPA has issued a number of new/revised standards and interpretations that are not yet effective. The Group has not early adopted these new HKFRS and 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. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

This year, the Group adopted the following new/revised HKFRS issued by HKICPA which are generally effective for accounting periods beginning on or after 1 January 2005. The comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the changes in accounting policies are summarized below:

HKAS 24 Related party disclosures

HKAS 24 has affected the identification of related parties and some other related-party disclosures. The new definition of related parties is set out in note 2 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a new selection of accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is recognised as an expense with a corresponding increase in the employee share-based compensation reserve. Details of accounting polices in this respect are set out in note 2 to the financial statements. As at 1 January 2005, the Company had not issued any share options to its employees and, therefore, the adoption of HKFRS does not have any impact on the Group's prior year's financial statements.

4. TURNOVER

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

	2005	2004
	HK$'000	*HK$'000*
Sales of licensed software	**3,053**	2,956
Software maintenance service	**780**	681
Software rental and subscription income	**249**	507
Putonghua learning platform	**390**	176
	4,472	4,320

5. SEGMENT INFORMATION

For the years ended 31 December 2004 and 2005, 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 Regions of Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these financial statements.

6. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Bank interest income	**27**	–
Commission income	**177**	–
	204	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. LOSS BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
This is stated after charging:		
Employee salary and other benefits	**3,194**	3,624
Employee retirement benefit scheme contributions	**140**	153
Employee share-based payment	**353**	–
Total staff costs (excluding directors' emoluments)	**3,687**	3,777
Amortisation of development expenditure included in cost of sales	**–**	258
Auditors' remuneration	**220**	200
Cost of services and inventories	**1,888**	1,645
Depreciation	**206**	296
Operating lease payments		
– director quarter	**240**	480
– office premises	**355**	281
Impairment loss on development expenditure included in research and development expenses	**–**	81
Loss on disposal of property, plant and equipment	**–**	289

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. EMOLUMENTS OF THE DIRECTORS AND THE HIGHEST PAID INDIVIDUALS

(a) DIRECTORS' EMOLUMENTS

	Directors' fees	Salaries and other allowances	Retirement benefit	Employee share-based compensation	2005 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. EMOLUMENTS OF THE DIRECTORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(a) DIRECTORS' EMOLUMENTS *(Continued)*

	Directors' fees	Salaries and other allowances	Retirement benefit	2004 Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mo Wai Ming, Lawrence	–	940	10	950
Wai Lai Yung	50	–	–	50
Lee Chi Ming (resigned on 1 January 2005)	50	–	–	50
Sun Kam Fai, Zacky (resigned on 1 October 2004)	50	349	8	407
Non-executive directors				
Yuen Ka Lok, Ernest (resigned on 1 May 2005)	50	–	–	50
Independent non-executive directors				
Li Mo Ching, Joyce (resigned on 10 June 2005)	25	–	–	25
Tam Cheuk Ling, Jacqueline (resigned on 1 June 2005)	25	–	–	25
Kwok Chi Sun, Vincent (appointed on 1 October 2004)	13	–	–	13
Lai Chau Ming (resigned on 22 July 2004)	50	–	–	50
Ho Siu Kau (resigned on 22 July 2004)	50	–	–	50
	363	1,289	18	1,670

The above emoluments included operating lease rentals of HK$240,000 (2004: HK$480,000) paid for a director's quarter.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

8. EMOLUMENTS OF THE DIRECTORS AND THE HIGHEST PAID INDIVIDUALS *(Continued)*

(b) FIVE HIGHEST PAID INDIVIDUALS' EMOLUMENTS

The five highest paid individuals included one (2004: two) director of the Company, details of whose emoluments are set out above. The emoluments of the remaining four (2004: three) individuals, which fall within the band of nil to HK$1,000,000 for each of the years ended 31 December 2005 and 2004, are as follows:

	2005	2004
	HK$'000	*HK$'000*
Salaries and other benefits	**1,320**	1,018
Retirement benefit scheme contributions	**41**	30
	1,361	1,048

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 two years ended 31 December 2005 and 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

9. 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:

	2005		2004	
	HK$'000	***%***	*HK$'000*	*%*
Loss before taxation	**(4,913)**		(8,950)	
Income tax at applicable tax rate of 17.5% (2004: 17.5%)	**(860)**	**(17.5)**	(1,566)	(17.5)
Non-deductible expenses	**362**	**7.3**	496	5.5
Tax exempt revenue	**(32)**	**(0.7)**	(15)	–
Unrecognised tax losses	**530**	**10.9**	1,085	12.0
Taxation and effective tax rate for the year	**–**	**–**	–	–

10. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2005 and 2004.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders of the Company included a loss of HK$9,063,000 (2004: HK$11,521,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

12. LOSS PER SHARE

A share consolidation as described in note 27 to the financial statements took place subsequent to the balance sheet date but before the date of these financial statements. As a result, the calculation of the basic loss per share for the year ended 31 December 2005, together with the comparative figure for 2004 have been adjusted.

	2005	2004
	HK$'000	*HK$'000*
Net loss for the year	4,913	8,950
	Number of shares	Number of shares
Weighted average number of shares	643,847,495	523,645,377
Adjusted for share consolidation	(515,077,996)	(418,916,302)
Weighted average number of shares for the purpose of basic loss per share	128,769,499	104,729,075
Basic loss per share	3.82 cents	8.55 cents

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

In addition to the share consolidation, a rights issue of share as described in more details in note 27 to these financial statements also occurred after the balance sheet date. Had the rights issue of shares occurred before 31 December 2005, the number of ordinary share would be increased by 442,475,040 from 147,491,680 to 589,966,720.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
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
THE GROUP				
COST				
At 1 January 2004	444	255	684	1,383
Additions	157	97	121	375
Disposals	(444)	(13)	(9)	(466)
At 31 December 2004	157	339	796	1,292
ACCUMULATED DEPRECIATION				
At 1 January 2004	43	149	510	702
Charge for the year	135	56	105	296
Eliminated on disposals	(165)	(4)	(4)	(173)
At 31 December 2004	13	201	611	825
NET BOOK VALUES				
At 31 December 2004	144	138	185	467

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**3,162**	3,162
Impairment loss	**(3,162)**	–
	–	3,162
Due from subsidiaries	**22,236**	17,890
Provision for doubtful debts	**(20,195)**	(15,920)
	2,041	1,970
	2,041	5,132

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

14. INTERESTS IN SUBSIDIARIES *(Continued)*

Details of the subsidiaries at 31 December 2005 are as follows:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

15. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables	**1,019**	693
Deposits, prepayments and other receivables	**788**	603
	1,807	1,296

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	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**177**	157
31 – 60 days	**494**	242
61 – 90 days	**–**	66
Over 90 days	**348**	228
	1,019	693

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. TRADE AND OTHER PAYABLES

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Trade payables	**499**	233
Accrued charges and other creditors	**1,806**	1,978
	2,305	2,211

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
0 – 30 days	**499**	–
31 – 60 days	**–**	230
61 – 90 days	**–**	–
Over 90 days	**–**	3
	499	233

17. 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, HK166,000 (2004: HK$223,000) will be repayable to the ITF within the next twelve months from 31 December 2005 by reference to the forecast revenue generated from the specific product. Accordingly, HK$166,000 (2004: HK$223,000) is classified as current liability and the remaining balance of HK$1,172,000 (2004: HK$1,196,000) is classified as a non-current liability.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

18. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 31 December 2004 and 2005	2,000,000,000	20,000
Issued and fully paid:		
At 1 January 2004	486,432,000	4,864
Issue of shares under the placement on 14 August 2004	97,286,400	973
At 31 December 2004	583,718,400	5,837
Issue of shares under the placement on 27 June 2005	116,740,000	1,167
At 31 December 2005	700,458,400	7,004

On 27 June 2005, the Company completed the placement of 116,740,000 new shares to the independent third parties at HK$0.023 per share and recorded gross proceeds of approximately HK$2,685,000. These shares rank pari passu with the existing shares in all respects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. RESERVES

THE GROUP

	Share premium	Special reserve	Employee share-based compensation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	11,836	10,084	–	(23,745)	(1,825)
Issue of shares under the placing	8,027	–	–	–	8,027
Share issue expenses	(540)	–	–	–	(540)
Loss for the year	–	–	–	(8,950)	(8,950)
At 31 December 2004	19,323	10,084	–	(32,695)	(3,288)
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	–	–	–	(4,913)	(4,913)
At 31 December 2005	20,704	10,084	567	(37,608)	(6,253)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. RESERVES *(Continued)*

THE COMPANY

	Share premium	Contributed surplus	Employee share-based compensation reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	11,836	3,047	–	(8,855)	6,028
Issue of shares under the placing	8,027	–	–	–	8,027
Share issue expenses	(540)	–	–	–	(540)
Loss for the year	–	–	–	(11,521)	(11,521)
At 31 December 2004	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)

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).

The Company did not have reserves available for distribution to shareholders as at 31 December 2005. As at 31 December 2004, the Company's reserves available for distribution to shareholders represent the aggregate of share premium and contributed surplus less accumulated losses, amounting to approximately HK$1,994,000.

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 in note 2(j)(ii) to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

20. CASH GENERATED FROM OPERATIONS

	2005	2004
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before taxation	**(4,913)**	(8,950)
Adjustments for:		
Interest income	**27**	–
Amortisation of development expenditure	**–**	258
Depreciation	**206**	296
Employee share-based compensation	**567**	–
Impairment loss on development expenditure	**–**	81
Loss on disposal of property, plant and equipment	**–**	289
Interest income	**(27)**	–
Changes in working capital:		
(Increase) Decrease in trade and other receivables	**(511)**	571
Decrease (Increase) in inventories	**200**	(200)
Increase (Decrease) in trade and other payables	**94**	(1,149)
NET CASH USED IN OPERATING ACTIVITIES	**(4,357)**	(8,804)

21. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. EMPLOYEE SHARE OPTION SCHEME *(Continued)*

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 8 July 2005, the Company granted share options to certain of its directors and employees to subscribe for an aggregate 37,000,000 shares at a nominal consideration of HK$1 for each lot of share option under the Scheme at the exercise price of HK$0.029 per share. As at 31 December 2005, no share options granted under the Scheme has been exercised.

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

	Number of options	
	2005	2004
At 1 January	**–**	–
Granted	**37,000,000**	–
At 31 December	**37,000,000**	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. EMPLOYEE SHARE OPTION SCHEME *(Continued)*

(b) Details of share options granted

Categories of grantees	Date of grant	Exercise period	Exercise price per share *HK$*	2005 Number of shares	2004 Number of share
Directors	08/7/2005	08/7/2005 – 07/7/2015	0.029	14,000,000	–
Employees	08/7/2005	08/7/2005 – 07/7/2015	0.029	23,000,000	–
				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	**2005**
Fair value at measurement date	HK$0.015
Share price at grant date	HK$0.027
Exercise price	HK$0.029
Expected option life	5 years
Expected volatility	41.76%
Expected dividends	–
Risk-free interest rate (based on Exchange Fund Notes)	3.78%

The expected volatility is based on the historic volatility (calculated based on the weighted average 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.

22. 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 contributes the lower of 5% or HK$1,000 of the relevant payroll costs to the Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. DEFERRED TAX

Recognised deferred tax (assets) liabilities

	Depreciation allowances	Development expenditure	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	(7)	60	(53)	–
(Credit) charge to income	40	(60)	20	–
At 31 December 2004	33	–	(33)	–
Charge (Credit) to income	(21)	–	21	–
At 31 December 2005	12	–	(12)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset.

	2005	2004
	HK$'000	*HK$'000*
Deferred tax liabilities	**12**	33
Deferred tax assets	**(12)**	(33)
	–	–

At 31 December 2005, the Group has unused tax losses of approximately HK$29,956,000 (2004: HK$27,194,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$69,000 (2004: HK$190,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$29,887,000 (2004: HK$27,004,000) due to the unpredictability of future profit streams. The tax losses do not expire under the current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

24. OPERATING LEASE COMMITMENTS

The Group as lessee

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

	THE GROUP	
	2005	2004
	HK$'000	*HK$'000*
Within one year	**281**	835
In the second to fifth years inclusive	**–**	601
	281	1,436

25. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had the following transactions with related parties:

Name of related party	**Nature of transactions**	**2005**	2004
		HK$'000	*HK$'000*
Messrs. Yuen & Partners	Legal fees paid *(note a)*	**–**	181
Yorkshire Capital Limited	Consultancy fee paid *(note b)*	**–**	290
Comeasy	Rental expense paid *(note c)*	**240**	480
Key management personnel	Short-term employee benefits	**1,634**	1,652
	Post-employment benefits	**16**	18
	Share-based compensation	**214**	–
		1,864	1,670

Notes:

(a) Mr. Yuen Ka Lok, Ernest, a director of the Company who resigned on 1 May 2005, was a partner of Messrs. Yuen & Partners. These transactions were carried out in accordance with terms determined and agreed by both parties.

(b) Ms. Wai Lai Yung, a director of the Company who resigned on 1 June 2005, had beneficial interest in Yorkshire Capital Limited. These transactions were carried out in accordance with terms determined and agreed by both parties.

(c) Mr. Mo Wai Ming, Lawrence, a director of the Company, has beneficial interest in Comeasy. These transactions were carried out in accordance with terms determined and agreed by both parties.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

26. 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 minimize their exposure:

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

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

27. POST BALANCE SHEET EVENTS

On 2 February 2006, all the outstanding 37,000,000 share options were exercised by the holders, thereof creating an additional 37,000,000 shares in issue as at that date. The total issued shares therefore increased from 700,458,400 to 737,458,400.

On 28 February 2006, a special general meeting was convened and the shareholders approved the following:-

(a) consolidation of every five issued and unissued ordinary shares of HK$0.01 each into one ordinary share of HK$0.05 each (the "Consolidated Share").

(b) increase the authorised share capital of the Company form HK$20,000,000 divided into 400,000,000 Consolidated Shares of HK$0.05 each to HK$100,000,000 divided into 2,000,000,000 Consolidated Shares of HK$0.05 each by the creation of an additional 1,600,000,000 unissued Consolidated Shares of HK$0.05 each.

(c) issue of 442,475,040 new ordinary shares by way of a rights issue on the basis of three rights shares for every one Consolidated Shares of HK$0.05 each at a subscription price of HK$0.057.

28. COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with the current year's presentation as a result of the adoption of new/revised accounting standards as described in note 3.