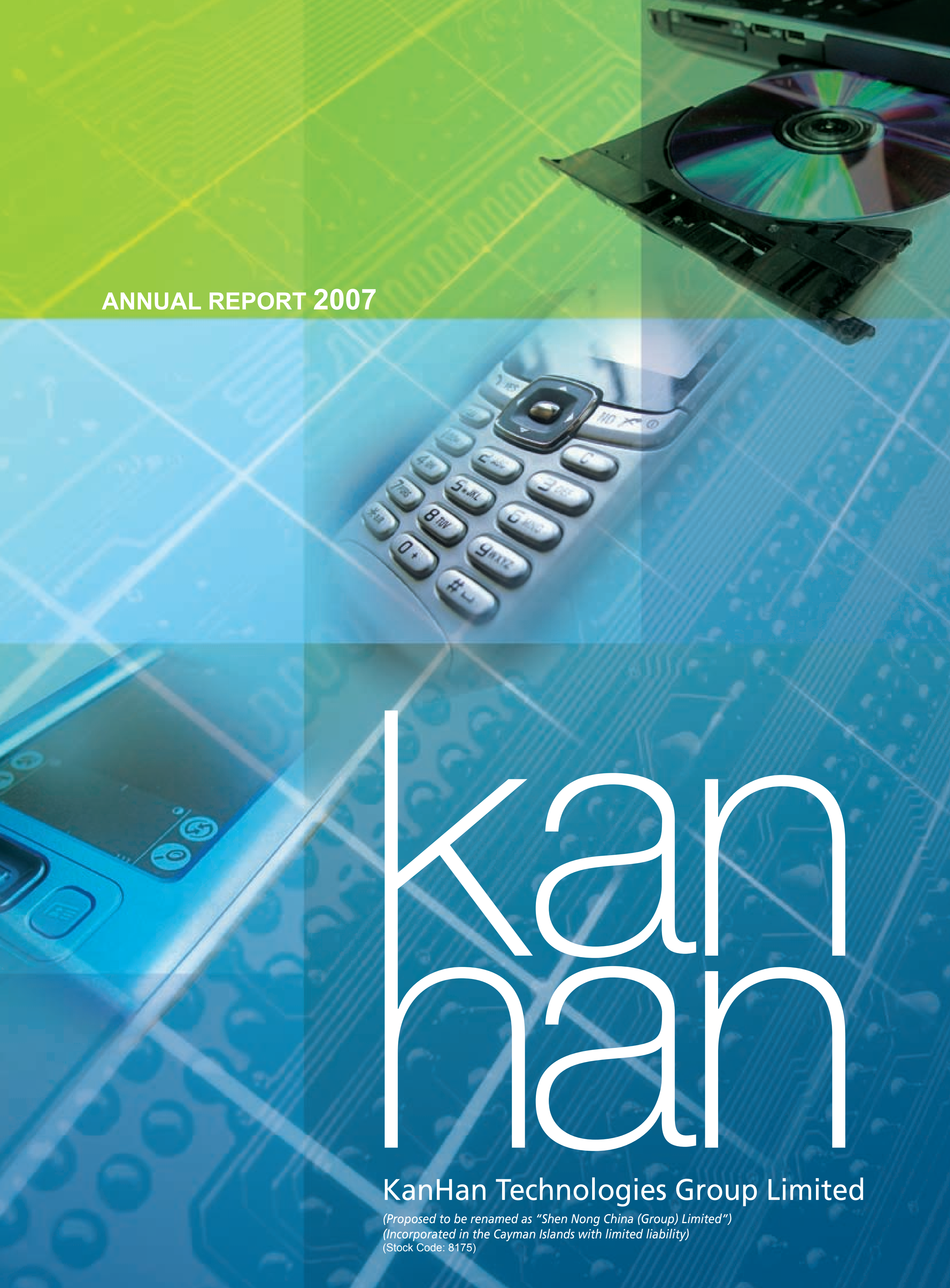

ANNUAL REPORT **2007**

kan han

KanHan Technologies Group Limited

(Proposed to be renamed as "Shen Nong China (Group) Limited")
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8175)

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

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

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Chairman & Executive Director

Pang Hong Tao

Executive Directors

Yang Pei Gen
Au Shui Ming, Anna
Mo Wai Ming, Lawrence

Non-executive Director

Ma She Shing, Albert

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

Vision A. S. Limited

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 BANKER

Standard Chartered Bank (Hong Kong) Limited

WEBSITE ADDRESS

www.kanhan.com

STOCK CODE

8175

FINANCIAL HIGHLIGHTS

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
RESULTS					
Turnover	2,984	4,320	4,472	6,622	**21,238**
Profit/(Loss) attributable to:					
Equity holders of the Company	(16,708)	(8,950)	(4,913)	(6,273)	**(2,470)**
Minority interests	–	–	–	–	**3,176**
	(16,708)	(8,950)	(4,913)	(6,273)	**706**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	7,858	6,179	4,394	27,565	**135,776**
Total liabilities	(4,819)	(3,630)	(3,643)	(5,284)	**(18,101)**
Minority interests	–	–	–	–	**(18,019)**
Net assets	3,039	2,549	751	22,281	**99,656**

Note:

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.

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), we hereby present the Annual Report of KanHan Technologies Group Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 31 December 2007.

OPERATION REVIEW

The Group is engaged in the information technology business, in particular, the development and marketing of patented server based technology and the provision of software related services.

The market condition of the software business remained challenging during the year. As a result, the results of software business for 2007 was still behind our expectation. However, the directors believe that with the continuing growth of economy, in particular, the information technology industry and the telecommunication industry, and the living standard of people in the PRC, the information technology business such as digital content remains a promising business to be developed in the Greater China Region. Hence, the Group will continue to engage in its information technology business and the directors will actively seek for investment opportunities, which will compliment the information technology business of the Group, so as to enhance the future growth of the Group.

During the year, the Company acquired Silky Sky Investments Limited and its subsidiaries ("Silky Sky Group"). Silky Sky Group is principally engaged in the development, production and distribution of organic fertilizer in the PRC.

In early 2008, the Company completed the acquisition of Proud Dragon Limited and its subsidiaries ("Proud Dragon Group"). Proud Dragon Group is engaged in the management of water plant and the provision of water supply in the rural areas of the PRC.

PROSPECTS

Looking ahead in the year 2008, whilst the market condition of the software business will remain challenging, one of the biggest snow in the past 50 years happened in the PRC in early 2008 has imposed challenges on its fertilizer business. The Group will continue to engage in these two streams of businesses. Resources will be deployed to the areas which will prove to generate higher return and profitability to the shareholders and the Group as a whole.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to express my gratitude to all members of the Board and staff for their dedication and contribution to the Group. I would also like to extend my warmest appreciation to our shareholders and business partners for their continuous support.

Pang Hong Tao
Chairman

Hong Kong, 27 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Software Business

Selling of software remained challenging in the market. Commercial customers still delay their investment into software related projects. As such, sales performance of software business is still behind our expectation. For the year ended 31 December 2007, the software business recorded a net loss attributable to shareholders of approximately HK$1,874,000.

However, the directors believe that with the continuing growth of economy in particular, the information technology industry and the telecommunication industry, and the living standard of people in the PRC, the information technology business remains a promising business to be developed in the Greater China Region.

Organic Fertilizer Business

In May 2007, the Company completed the acquisition of Silky Sky Group, which is principally engaged in the development, production and distribution of organic fertilizer in the PRC. The organic fertilizer business provides a stable income stream for the Group. For the year ended 31 December 2007, turnover generated from organic fertilizer business amounted to approximately HK$14,309,000 which accounted for 67.4% of the total sales of the Group.

Pursuant to the Formal Agreement, the Vendor, Mr. Yang Pei Gen ("Mr. Yang"), 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 ended 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. 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.

The Board announces that the audited consolidated net profit after taxation and extraordinary or exceptional items of the Target for the year ended 31 December 2007 was HK$2,436,100 and therefore the Guaranteed Profit of HK$5,000,000 has not been met. In accordance with the Regulation of Fertilizer Registration Management（肥料登記管理辦法）, Temporary Fertilizer Registration Certificate（肥料臨時登記証）is required to be obtained before commercial production of organic fertilizer can be conducted in the PRC. Due to unexpected delay in the application procedure, the Subsidiary was not able to obtain such certificate until November 2007. The production schedule of the Subsidiary was delayed. The turnover of the Subsidiary for the year ended 2007 was lower than expected and the Net Profit did not meet the Guaranteed Profit.

Accordingly, Mr. Yang is obliged to compensate for the shortfall of HK$2,563,900. As at 27 March 2008, the total outstanding sum of the Promissory Note payable to Mr. Yang is HK$1,048,832. In accordance with the terms stipulated in the Formal Agreement, such balance is set off against the shortfall of HK$2,563,900. On 27 March 2008, Mr. Yang has paid the balance of the shortfall of HK$1,515,068 to the Purchaser, a subsidiary of the Company, in cash. Accordingly, Mr. Yang has fulfilled his obligations in accordance with the Formal Agreement in relation to the Profit Guarantee.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Results

For the year ended 31 December 2007, the Group's turnover grew 3.2 times to approximately HK$21,238,000 compared with approximately HK$6,622,000 last year. Turnover from the software business recorded an increase of 4.6% to approximately HK$6,929,000 in the current year compared to the previous year. Turnover from the organic fertilizer business of approximately HK$14,309,000 was recorded as a result of the acquisition of Silky Sky Group in the current year.

The gross profit margin was 68.1% in 2007 as compared to 47.3% in 2006. The improvement in profit margin was primarily due to the increase in turnover in current year.

Administrative expenses for the year ended 31 December 2007 amounted to approximately HK$10,645,000 (2006: HK$7,707,000), representing an increase of 38.1%. The Company recognized the equity-settled share base payment of approximately HK$617,000 (2006: HK$2,314,000) in respect of the share options granted during the year. Adjusted for this non-cash expense item, the administrative expenses increased by 86% as a result of the consolidation of results of Silky Sky Group.

Net loss attributable to shareholders for 2007 amounted to approximately HK$2,470,000, representing a 60.6% decrease as compared to a loss of approximately HK$6,273,000 in previous year. Such improvement was mainly attributable to the contribution of Silky Sky Group.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had current assets of approximately HK$74,112,000 (2006: HK$27,407,000) and current liabilities of approximately HK$12,607,000 (2006:HK$4,225,000). The current assets were comprised of cash and bank balances of HK$48,287,000 (2006: HK$22,707,000) together with trade and other receivables of HK$24,772,000 (2006: HK$4,638,000). The Group's current liabilities were comprised mainly of trade and other payables of approximately HK$8,813,000 (2006: HK$3,989,000). The Group had no bank borrowings at 31 December 2007 (2006: Nil) but an outstanding loan granted by government of approximately HK$1,295,000 (2006: HK$1,295,000). As at 31 December 2007, the Group had a current ratio of approximately 5.88 as compared to that of 6.49 at 31 December 2006.

The Group principally finances its operations and investing activities with its operating revenue, internal resources and balance of proceeds from the issuance of unlisted warrants and open offer. The directors of the Company believe that the Group has a healthy financial position and has sufficient resources to satisfy its capital expenditure and working capital requirement.

Most of the trading transactions, assets and liabilities of the Group are denominated in Hong Kong dollars and Renminbi. The Group adopts a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 31 December 2007, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITIONS OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

(a) During the year, Rise Assets Limited ("Rise Assets"), a wholly-owned subsidiary of the Company acquired the entire issued share capital of Silky Sky Investments Limited ("Silky Sky") from Mr. Yang Pei Gen ("the Vendor") for a consideration of HK$61,000,000.

Sky Rich Limited, a wholly-owned subsidiary of Silky Sky, owns 51% equity interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited（濟南世紀江山再生資源技術開發有限公司）("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.

Details of the acquisition were disclosed in the circular of the Company dated 20 April 2007.

(b) On 29 October 2007, Rise Assets entered into the agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong ("the Vendor") in relation to the acquisition of the equity interest held by the Vendor in Proud Dragon with a consideration of HK$47,600,000.

Proud Dragon owns 70% equity interest in Dang Tu Xian Zhong Tian Water Supply Limited（當涂縣中天供水有限公司）which is principally engaged in the management of water plants and the provision of water supply in the rural areas of Anhui Province, PRC.

On 6 February 2008, Rise Assets completed the acquisition of Proud Dragon. Details of the acquisition were disclosed in the circular of the Company dated 18 January 2008.

CHANGE OF COMPANY NAME

The Company will be renamed as Shen Nong China (Group) Limited（神農中國（集團）有限公司）following the passing of a special resolution at the Company's extraordinary general meeting held on 16 January 2008. The registration of the change of the Company's name at the Companies Registry in Hong Kong is under processing.

DISTRIBUTABLE RESERVES

The Company had distributable reserves of approximately HK$29.81 million as at 31 December 2007. The share premium of the Company is available for distribution subject to the provisions of its Memorandum and Articles of Association and provided that immediately following the distribution the Company is able to pay its debts as they fall due in the ordinary course of business.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

Since almost all transactions of the Group are denominated either in Renminbi and Hong Kong dollars and most of the bank deposits are being kept in Hong Kong dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risk, the directors believe that there is no significant foreign exchange risk to the Group. Therefore, the Group has not implemented any formal hedging or other alternative policies to deal with such exposure.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31 December 2007, the Group had 40 (2006: 27) full-time employees. Employee costs for the year 2007, excluding directors' emoluments, amounted to approximately HK$5,866,000 (2006: HK$4,818,000). 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 are also provided. In addition, training and development courses are offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopts an employee share option scheme to provide eligible employees 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules by establishing formal and transparent procedures to protect and maximize the interests of shareholders 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 5.46 to 5.68 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 2007.

BOARD OF DIRECTORS AND BOARD MEETINGS

The board members for the year ended 31 December 2007 were:

Executive directors:

Mr. Pang Hong Tao *(Chairman)*	(Appointed on 11 July 2007)
Mr. Yang Pei Gen	(Appointed on 15 November 2007)
Mr. Ma She Shing, Albert	(Redesignated as a non-executive director on 15 November 2007)
Mr. Mo Wai Ming, Lawrence	
Ms. Au Shui Ming, Anna	(Appointed on 11 July 2007)

Non-executive director:

Mr. Ma She Shing, Albert	(Redesignated on 15 November 2007)

Independent non-executive directors:

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

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 to the management include the preparation of annual and interim accounts for board approval before public reporting, execution of business strategies and initiatives formulated by the Board, 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 is set out on pages 14 to 15 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.

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. Every director should be subject to retirement by rotation at least once every three years.

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.

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. Pang Hong Tao	3/4
Mr. Yang Pei Gen	0/4
Mr. Ma She Shing, Albert	3/4
Mr. Mo Wai Ming, Lawrence	4/4
Ms. Au Shui Ming, Anna	4/4
Mr. Hsu Shiu Foo, William	3/4
Mr. Kwok Chi Sun, Vincent	4/4
Mr. Lee Kun Hung	4/4

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.

Non-executive Director

Code provision A.4.1 provides that non-executive director should be appointed for a specific term and subject to re-election. The Company's non-executive director has been appointed for specific term and subject to re-election.

CORPORATE GOVERNANCE REPORT

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 2007. 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

The Board does not establish a nomination committee in consideration of the size of the Group. The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. Suitable candidates will be proposed to the Board for consideration, and 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 Vision A. S. Limited 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 performed the work of statutory audit for the year 2007 and involved non-audit assignment of the Group. The Auditors received approximately HK$301,000 and HK$219,687 for audit service and non-audit service respectively.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The 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, interim 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.

CORPORATE GOVERNANCE REPORT

The audit committee held four 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	3/4
Mr. Lee Kun Hung	4/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2007 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.

INTERNAL CONTROLS

The Board is responsible for maintaining the Group's internal controls and for reviewing the effectiveness of these controls. Internal control systems are designed to meet the particular needs of the Group and the risk to which it is exposed.

In consideration of the size of the Group, the Board does not consider to establish an internal audit team at present. However, the key control procedures established by the Group are day-to-day supervision of the business by the executive directors, supported by the managers responsible for the operation and the key division support functions of finance, information system and human resources. Key elements of internal controls described below have been in place throughout the year under review:

– procedures for the approval of capital expenditure and payments;

– regular financial information provided to management for reviewing the Group's performance;

– clearly defined management structure and lines of responsibility.

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. Pang Hong Tao, Chairman, aged 38, holds a bachelor's degree in economics from Nankai University, the People's Republic of China ("PRC") and a master degree in economics from the Renmin University of China. Mr. Pang is the chairman of Finance Committee of ShanDong-HongKong SME Association. He is a member of Chinese Institute of Certified Public Accountants, China Appraisal Society, Shan Dong Certified Consultant Expert Society and China Enterprise Risk Management Society. Mr. Pang has over ten years of experience in financial management, risk management, financial budgeting and corporate finance. He has worked as a chief accountant in an international five-star hotel, the deputy general manager in a management consultancy company and the partner in a Certified Public Accountants firm. Mr. Pang is currently the partner and deputy general manager of a Certified Public Accountants firm in the PRC. He is an independent non-executive director of a listed company.

Mr. Yang Pei Gen, aged 53, 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. Mr. Yang is involved in the supervision of the daily operation of and the formation of strategic direction of Jinan Shiji Jiangshan Resource Recycling Technology Limited（濟南世紀江山再生資源技術開發有限公司), an indirect non-wholly subsidiary of the Company.

Ms. Au Shui Ming, Anna, aged 43, holds a bachelor degree in commerce, majoring in accounting, from the University of Wollongong in Australia. She is a Certified Practising Accountant of CPA Australia and a fellow member of the Hong Kong Institute of Certified Public Accountants. Ms. Au has extensive experience in the finance and accounting fields. She is currently the Qualified Accountant and Company Secretary of the Company.

Mr. Mo Wai Ming, Lawrence, aged 48, prior to founding of KanHan Technologies Inc. in 1999, 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 the University of Toronto, Canada. Mr. Mo also serves as a member of the remuneration committee of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Ma She Shing, Albert, aged 47, 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.

DIRECTORS' PROFILE

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hsu Shiu Foo, William, aged 57, an audit committee member of the Company, has over 10 years of global business experience in tourism and service-oriented related fields in various international corporations. Mr. Hsu holds a Bachelor's degree in Arts from Brigham Young University, Hawaii and a Master's degree in Hotel Administration from Cornell University, New York. Mr. Hsu is currently an independent non-executive director of other listed companies.

Mr. Kwok Chi Sun, Vincent, aged 45, a member of the audit committee and remuneration committee of the Company, is a sole proprietor of Vincent Kwok & Co. and is a Certified Public Accountant. Mr. Kwok is an independent non-executive director of other listed companies.

Mr. Lee Kun Hung, aged 42, a member of the audit committee and remuneration committee of the Company, 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 31 December 2007.

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 Hong Kong 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 19 to the financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 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 2007 are out in the consolidated statement of changes in equity on page 27.

PROPERTY, PLANT AND EQUIPMENT

Details of significant changes in the property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS' REPORT

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive directors:

Mr. Pang Hong Tao	(Appointed on 11 July 2007)
Mr. Yang Pei Gen	(Appointed on 15 November 2007)
Mr. Mo Wai Ming, Lawrence	
Mr. Ma She Shing, Albert	(Redesignated as a non-executive director on 15 November 2007)
Ms. Au Shui Ming, Anna	(Appointed on 11 July 2007)

Non-executive director:

Mr. Ma She Shing, Albert	(Redesignated on 15 November 2007)

Independent non-executive directors:

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

In accordance with Articles 108 (a) and (b) of the Company's Articles of Association, Mr. Pang Hong Tao, Mr. Yang Pei Gen and Ms. Au Shui Ming, Anna shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Each of the executive directors, non-executive director 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 believes 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' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, the following Directors 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:

Long positions in the Shares

Name of Directors	Nature of interest	Number of shares held	Approximate percentage of issued share capital of the Company
Mr. Yang Pei Gen	Beneficial	214,125,000	16.10%
Mr. Pang Hong Tao	Beneficial	10,500,000	0.79%
Mr. Ma She Shing, Albert	Beneficial	870,000	0.07%
Mr. Mo Wai Ming, Lawrence	Beneficial	21,385,920	1.61%
Ms. Au Shui Ming, Anna	Beneficial	22,500,000	1.69%

Note:

Save as disclosed above, as at 31 December 2007, 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.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 24 January 2003 pursuant to a written resolution of the Company. Details of the movements in the number of share options during the year under the Scheme are as follows:

Categories of grantees	As at 1 January 2007	Options granted during the year	Options exercised during the year	Outstanding at 31 December 2007	Exercise price *HK$*	Grant date	Exercisable period
Directors							
Yang Pei Gen	–	7,000,000	(7,000,000)	–	0.205	14/8/2007	14/8/2007 - 13/8/2017
Mo Wai Ming,	4,400,000	–	(4,400,000)	–	0.210	5/6/2006	5/6/2006 - 4/6/2016
Lawrence	–	1,400,000	(1,400,000)	–	0.190	13/2/2007	13/2/2007 - 12/2/2017
Pang Hong Tao	–	7,000,000	(7,000,000)	–	0.205	14/8/2007	14/8/2007 - 13/8/2017
Ma She Shing,	4,400,000	–	(4,400,000)	–	0.210	5/6/2006	5/6/2006 - 4/6/2016
Albert	–	1,400,000	(1,400,000)	–	0.190	13/2/2007	13/2/2007 - 12/2/2017
Au Shui Ming,	4,600,000	–	(4,600,000)	–	0.210	5/6/2006	5/6/2006 - 4/6/2016
Anna	–	1,200,000	(1,200,000)	–	0.190	13/2/2007	13/2/2007 - 12/2/2017
	–	6,000,000	(6,000,000)	–	0.205	14/8/2007	14/8/2007 - 13/8/2017
Employees	6,000,000	–	(6,000,000)	–	0.210	5/6/2006	5/6/2006 - 4/6/2016
	19,400,000	24,000,000	(43,400,000)	–			

Particulars of the Company's share option scheme are set out in note 27 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

No director of the Company had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company or any of its subsidiaries was a party during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

So far as is known to the directors, as at 31 December 2007, 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 of Shareholders	Nature of interest	Number of shares held	Position	Approximate percentage of issued share capital of the Company
Mr. Lau Kim Hung, Jack ("Mr. Lau") *(Note 1)*	Through a corporation	299,478,238	Long	22.51%
Ms. Chan Yiu Kan Katie *(Note 1)*	Interest of spouse	299,478,238	Long	22.51%
Manciple Enterprises Limited ("Manciple") *(Note 1)*	Beneficial	299,478,238	Long	22.51%
Ms. Lu Jin Ming *(Note 2)*	Interest of spouse	214,125,000	Long	16.1%

Note:

1. Manciple is wholly and beneficially owned by Mr. Lau. Manciple beneficially owns 299,478,238 shares. Under the SFO, Mr. Lau is deemed to be interested in 299,478,238 shares. Ms. Chan Yiu Kan Katie, the wife of Mr. Lau, is also deemed to be interested in 299,478,238 shares.

2. Ms. Lu Jin Ming, the wife of Mr. Yang Pei Gen, is also deemed to be interested in 214,125,000 shares.

Save as disclosed above, 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.

DIRECTORS' REPORT

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 "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 2007:

(i) The Group's largest supplier and the five largest suppliers accounted for 20.4% and 49% respectively, of the Group's total cost of sales.

(ii) The Group's largest customer and the five largest customers accounted for 13.9% and 53.6% 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 suppliers or 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.

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 Vision A. S. Limited, Certified Public Accountants, as auditors of the Company.

On behalf of the Board

Pang Hong Tao
CHAIRMAN

27 March 2008

INDEPENDENT AUDITOR'S REPORT

Vision A. S. Limited *Certified Public Accountants*
泓信會計師行有限公司

Room A, 15th Floor,
Fortis Bank Tower,
77-79 Gloucester Road,
Wanchai, Hong Kong

To the members 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 consolidated financial statements of KanHan Technologies Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 76, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Vision A. S. Limited
Certified Public Accountants
Hong Kong
27 March 2008

Cheung Man Yau, Timothy
Practising Certificate No.: P01417

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	**2007 HK$'000**	2006 HK$'000
TURNOVER	*7*	**21,238**	6,622
Cost of sales		**(6,768)**	(3,489)
Gross profit		**14,470**	3,133
Other revenue and gains	*7*	**2,823**	656
Research and development expenses		**(1,101)**	(1,166)
Selling and distribution costs		**(1,171)**	(1,189)
Administrative expenses		**(10,645)**	(7,707)
Finance costs	*8*	**(236)**	–
PROFIT/(LOSS) BEFORE TAX	*9*	**4,140**	(6,273)
Tax	*12*	**(3,434)**	–
PROFIT/(LOSS) FOR THE YEAR		**706**	(6,273)
Attributable to:			
Equity holders of the Company	*13*	**(2,470)**	(6,273)
Minority interests		**3,176**	–
		706	(6,273)
			(Restated)
LOSS PER SHARE – Basic	*15*	**(0.27 cents)**	(0.88 cents)

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**9,070**	158
Goodwill	17	**51,207**	–
Other intangible assets	18	**1,387**	–
Total non-current assets		**61,664**	158
CURRENT ASSETS			
Inventories	20	**1,053**	62
Trade and other receivables	21	**24,772**	4,638
Cash and bank balances		**48,287**	22,707
Total current assets		**74,112**	27,407
CURRENT LIABILITIES			
Trade and other payables	22	**8,813**	3,989
Financial assistance from government	23	**268**	236
Tax payable		**3,526**	–
Total current liabilities		**12,607**	4,225
Net current assets		**61,505**	23,182
Total assets less current liabilities		**123,169**	23,340
NON-CURRENT LIABILITIES			
Financial assistance from government	23	**1,027**	1,059
Promissory note	24	**4,467**	–
Total non-current liabilities		**5,494**	1,059
		117,675	22,281

CONSOLIDATED BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
EQUITY			
Issued capital	*25*	**66,519**	29,498
Reserves		**33,137**	(7,217)
		99,656	22,281
Minority interests		**18,019**	–
		117,675	22,281

Mo Wai Ming, Lawrence
DIRECTOR

Pang Hong Tao
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Share capital HK$'000	Share premium HK$'000	Special reserve* HK$'000	Warrant subscription reserve HK$'000	Exchange reserve HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Subtotal HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	7,004	20,704	10,084	–	–	567	(37,608)	751	–	751
Issue of rights shares	22,124	3,097	–	–	–	–	–	25,221	–	25,221
Issue of warrants under the placing	–	–	–	1,767	–	–	–	1,767	–	1,767
Share/warrant issue expenses	–	(2,250)	–	(298)	–	–	–	(2,548)	–	(2,548)
Shares issued upon exercise of share options	370	1,270	–	–	–	(567)	–	1,073	–	1,073
Employee share-based compensation	–	–	–	–	–	2,314	–	2,314	–	2,314
Exchange realignment	–	–	–	–	(24)	–	–	(24)	–	(24)
Loss for the year	–	–	–	–	–	–	(6,273)	(6,273)	–	(6,273)
At 31 December 2006 and 1 January 2007	29,498	22,821	10,084	1,469	(24)	2,314	(43,881)	22,281	–	22,281
Issue of shares on open offer – *note 25*	22,173	13,304	–	–	–	–	–	35,477	–	35,477
Issue of consideration shares – *note 25*	6,788	10,181	–	–	–	–	–	16,969	–	16,969
Share/warrant issue expenses	–	(978)	–	–	–	–	–	(978)	–	(978)
Shares issued upon exercise of share options – *note 25*	2,170	9,695	–	–	–	(2,931)	–	8,934	–	8,934
Shares issued upon exercise of warrants – *note 25*	5,890	13,838	–	(1,469)	–	–	–	18,259	–	18,259
Employee share-based compensation – *note 27*	–	–	–	–	–	617	–	617	–	617
Acquisition of subsidiaries – *note 29*	–	–	–	–	40	–	–	40	14,093	14,133
Exchange realignment	–	–	–	–	527	–	–	527	750	1,277
Loss for the year	–	–	–	–	–	–	(2,470)	(2,470)	3,176	706
At 31 December 2007	66,519	68,861	10,084	–	543	–	(46,351)	99,656	18,019	117,675

* The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date 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

Year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	**4,140**	(6,273)
Adjustments for:		
Depreciation of property, plant and equipment	**212**	173
Loss on disposal of property, plant and equipment	**–**	53
Employee share-based compensation	**617**	2,314
Finance costs	**236**	–
Interest income	**(400)**	(585)
Operating cash flows before movements in working capital	**4,805**	(4,318)
Increase in inventories	**(926)**	(62)
Increase in trade and other receivables	**(12,938)**	(2,829)
Increase in trade and other payables	**4,674**	1,681
NET CASH USED IN OPERATING ACTIVITIES	**(4,385)**	(5,528)
INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(8,892)**	(49)
Purchases of intangible assets	**(1,387)**	–
Interest received	**400**	585
Acquisition of subsidiaries	**(19,444)**	–
NET CASH FROM/(USED IN) INVESTING ACTIVITIES	**(29,323)**	536
FINANCING ACTIVITIES		
Interest paid	**(181)**	–
Net proceeds from issue of shares	**62,670**	26,294
Proceeds from issue of warrants	**–**	1,767
Share/warrant issue expenses	**(978)**	(2,548)
Repayment of promissory note	**(17,000)**	–
Repayment of financial assistance from government	**–**	(43)
Capital injection from minority shareholders	**13,419**	–
NET CASH FROM FINANCING ACTIVITIES	**57,930**	25,470
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,222**	20,478
Cash and cash equivalents at beginning of year	**22,707**	2,253
Effect of foreign exchange rate changes, net	**1,358**	(24)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**48,287**	22,707
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**48,287**	22,707

BALANCE SHEET

31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	*19*	**67,971**	132
Total non-current assets		**67,971**	132
CURRENT ASSETS			
Trade and other receivables	*21*	**550**	2,804
Cash and bank balances		**31,675**	22,150
Total current assets		**32,225**	24,954
CURRENT LIABILITIES			
Trade and other payables	*22*	**818**	532
Total current liabilities		**818**	532
Net current assets		**31,407**	24,422
Net assets		**99,378**	24,554
EQUITY			
Issued capital	*25*	**66,519**	29,498
Reserves	*26*	**32,859**	(4,944)
Total equity		**99,378**	24,554

Mo Wai Ming, Lawrence
DIRECTOR

Pang Hong Tao
DIRECTOR

NOTES TO THE FINANCIAL STATEMENTS

31 December 2007

1. GENERAL INFORMATION

KanHan Technologies Group Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. The Company's shares have been listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office and principal place of business of the Company are located at Caledonian House, P.O. Box 1043, George Town, Grand Cayman, Cayman Islands and the 15th Floor, Sun House, 181 Des Voeux Road Central, Hong Kong, respectively.

The Company's principal activity has not changed during the year and consisted of investment holding. Details of the principal activities of its subsidiaries are set out in note 19 to the financial statements.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") 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. In addition, the financial statements comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

3. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial statements beginning on or after 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments : Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments have been required.

HKAS 1 (Amendment) – Capital Disclosures

In accordance with the HKAS 1 (Amendment) – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change are detailed in note 35.

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

HKFRS 7 – Financial Instruments : Disclosures

HKFRS 7 – Financial Instruments : Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 31 December 2007. All disclosures relating to financial instruments including in the comparative information have been updated to reflect the new requirements. In particular, the Group's consolidated financial statements now feature:

– a sensitive analysis explained the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet items.

HK(IFRIC)-Int 8 – Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to its employees in accordance with the Group's share option scheme, the interpretation has had no effect on these financial statements.

HK(IFRIC) – Int 9 – Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

HK(IFRIC) – Int 10 – Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

3.1 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 January 2008
4 Effective for annual periods beginning on or after 1 July 2008

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continues to be consolidated until the date that such control ceases. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets, goodwill and non-current assets), 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.

Related parties

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

(a) directly, or indirectly through one or more intermediaries, the party (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

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

(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);

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(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.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses, except that when an item of property, plant and equipment is classified as held for sale, it is not depreciated and is measured at the lower of carrying amount and fair value less costs to sell. 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. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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:

Leasehold improvements	10% to 33⅓%
Plant and machinery	9½%
Furniture, fixtures and office equipment	18% to 20%
Computer equipment	33⅓%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment and depreciation *(Continued)*

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the asset.

Construction in progress represents building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Production technology
The production technology has indefinite useful life and is stated at cost less any impairment losses.

Research and development costs
All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of recourses to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases.

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

Investment and other financial assets

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss
Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contracts that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sales financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other three categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of financial assets *(Continued)*

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial asset) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Derecognition of financial assets *(Continued)*

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existed liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contracts for services *(Continued)*

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

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 Group's cash management.

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

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, associates and interests in joint ventures, 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Income tax *(Continued)*

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 utilised 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 utilised.

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 utilised. 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 utilised.

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.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

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

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

(b) software maintenance service income, which is received or receivables 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 term of the maintenance service contract;

(c) 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;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(e) sales of licensed software are recognised on 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, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

Employee benefits

Equity-settled share-based payment transactions

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employee is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 27. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Employee benefits *(Continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

Pension scheme and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Company's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Group's functional and presentation currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the date of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Group at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of 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 overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

5. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, 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 Group 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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2007 was HK$51,207,000 (2006: Nil). More details are given in note 17.

Impairment of trade receivables

The Group performs ongoing credit evaluations of its customers and adjusts credit limits based on payment history and the customer's current credit-worthiness, as determined by a review of their current credit information. The Group continuously monitors collections and payments from its customers and maintain a provision for estimated credit losses based upon its historical experience and any specific customer collection issues that it has identified.

6. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating business are structured and managed separately according to the nature of their operations and the products and services they provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the server-based technology and related products segment provides language communication software and platforms;

(b) the organic fertilizers segment produces and distributes organic fertilizers.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

6. SEGMENT INFORMATION *(Continued)*

For the year ended 31 December 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 for the year ended 31 December 2006 is included in these financial statements.

(a) Business segments

The following table presents revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2007.

	Server-based technology and related products	**Production and distribution of organic fertilizer**	**Consolidated**
	HK$'000	HK$'000	HK$'000
Segment revenue:			
Sales to external customers	6,929	14,309	21,238
Segment results	(1,874)	9,916	8,042
Unallocated revenue			377
Unallocated expenses			(4,043)
Finance costs			(236)
Profit before tax			4,140
Tax			(3,434)
Profit for the year			706

6. SEGMENT INFORMATION *(Continued)*

(a) Business segments *(Continued)*

	Server-based technology and related products HK$'000	Production and distribution of organic fertilizer HK$'000	Consolidated HK$'000
Assets and liabilities			
Segment assets	2,037	95,132	97,169
Unallocated assets			38,607
Total assets			135,776
Segment liabilities	5,583	7,151	12,734
Unallocated liabilities			5,367
Total liabilities			18,101
Other segment information:			
Depreciation	104	108	212
Capital expenditure	42	10,237	10,279

6. SEGMENT INFORMATION *(Continued)*

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2007.

	Mainland China HK$'000	Hong Kong HK$'000	Consolidated HK$'000
Segment revenue:			
Sales to external customers	14,460	6,778	21,238
Other segment information:			
Segment assets	95,183	40,593	135,776
Capital expenditure	10,237	42	10,279

7. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
TURNOVER		
Sales of organic fertilizers	**14,309**	–
Sales of licensed software	**4,111**	4,979
Software maintenance service	**803**	741
Software rental and subscription income	**328**	306
Website development	**1,001**	308
Putonghua learning platform	**686**	288
	21,238	6,622

7. TURNOVER, OTHER REVENUE AND GAINS *(Continued)*

	Group	
	2007	2006
	HK$'000	HK$'000
OTHER REVENUE AND GAINS		
Bank interest income	**400**	585
Commission income	**–**	41
Exchange gain, net	**–**	30
Income from transfer of technologies	**2,364**	–
Sundry income	**59**	–
	2,823	656

8. FINANCE COSTS

	Group	
	2007	2006
	HK$'000	HK$'000
Interest on promissory note	**236**	–

9. PROFIT/(LOSS) BEFORE TAX

Profit/(loss) before tax is arrived at after charging:

	Group	
	2007	2006
	HK$'000	HK$'000
Employee benefits expenses		
(excluding directors' remuneration – note 10)		
Salaries and allowances	**5,493**	3,402
Pension scheme contributions	**373**	152
Employee share-based payment	**–**	1,264
	5,866	4,818
Auditor's remuneration		
– underprovided in prior year	**–**	20
– current year	**301**	260
Exchange loss, net	**53**	–
Minimum lease payments under operating leases		
on land and buildings	**1,198**	395
Cost of services rendered	**408**	413
Cost of inventories sold	**6,360**	3,076
Depreciation of property, plant and equipment	**212**	173

10. DIRECTORS' REMUNERATION

	Group 2007 HK$'000	Group 2006 HK$'000
Fees	**549**	420
Other emoluments:		
Salaries, allowances and benefits in kind	**1,601**	1,200
Employee share-based compensation	**617**	1,050
Pension scheme contributions	**30**	18
	2,797	2,688

(a) Independent non-executive directors

The directors' fees paid to independent non-executive directors during the year were as follows:

	Group 2007 HK$'000	Group 2006 HK$'000
Hsu Shiu Foo, William	**60**	60
Lee Kun Hung	**60**	60
Kwok Chi Sun, Vincent	**60**	60
	180	180

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

10. DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive director

Group

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Employee share-based compensation HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2007					
Executive directors:					
Mo Wai Ming, Lawrence	**120**	**920**	**47**	**12**	**1,099**
Pang Hong Tao	**57**	**–**	**169**	**–**	**226**
Au Shui Ming, Anna	**57**	**395**	**185**	**12**	**649**
Yang Pei Gen	**15**	**286**	**169**	**–**	**470**
	249	**1,601**	**570**	**24**	**2,444**
Non-executive director:					
Ma She Shing, Albert	**120**	**–**	**47**	**6**	**173**
	369	**1,601**	**617**	**30**	**2,617**
2006					
Executive directors:					
Mo Wai Ming, Lawrence	120	1,200	525	12	1,857
Ma She Shing, Albert	120	–	525	6	651
	240	1,200	1,050	18	2,508

During the year, no emoluments were paid by the Group to any of the directors 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 2007 and 2006.

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2006: one) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining two (2006: four) non-directors, highest paid employees for the year are as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**526**	1,268
Pension Scheme contributions	**21**	47
	547	1,315

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

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**2**	4

12. TAX

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not have any assessable income arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2007	2006
	HK$'000	HK$'000
Current year provision		
Hong Kong	**–**	–
PRC	**3,434**	–
Tax charge for the year	**3,434**	–

12. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Profit/(loss) before taxation	**4,140**	(6,273)
Income tax at applicable tax rate of 17.5% (2006: 17.5%)	**724**	(1,098)
Effect of different tax rates in other jurisdictions	**645**	–
Expenses not deductible for tax	**2,127**	705
Income not subject to tax	**(415)**	(23)
Deductible temporary differences not recognised	**8**	21
Tax losses not recognised	**345**	395
Tax charge at effective rate	**3,434**	–

13. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company for the year ended 31 December 2007 includes a loss of HK$4,454,000 (2006: loss HK$5,156,000) which has been dealt with in the financial statements of the Company.

14. DIVIDEND

The directors of the Company do not recommend the payment of a dividend for the year (2006: nil).

15. LOSS PER SHARE

The calculation of basic loss per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issuing during the year, as adjusted to reflect the shares issued under the open offer during the year.

The calculation of basic loss per share is based on:

	2007	2006
	HK$'000	HK$'000
Loss		
Loss attributable to ordinary equity holders of the Company	**(2,470)**	(6,273)

	Number of shares	
	2007	2006
		(Restated)
Shares		
Weighted average number of ordinary shares in issuing during the year	**907,881,918**	713,894,013

The weighted average number of ordinary shares for the purpose of calculating basic loss per share for the year ended 31 December 2006 has been retrospectively adjusted for the effect of the open offer completed during the current year.

Diluted loss per share is not presented as the share options had anti-dilutive effects on the basic loss per share.

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16. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Computer equipment HK$'000	Construction in progress HK$'000	Total HK$'000
Cost:						
At 1 January 2006	165	–	354	846	–	1,365
Additions	11	–	13	25	–	49
Disposals	–	–	(53)	–	–	(53)
Exchange difference	–	–	1	–	–	1
At 31 December 2006 and 1 January 2007	176	–	315	871	–	1,362
Acquisition of subsidiaries	–	–	–	–	221	221
Additions	236	8,323	295	38	–	8,892
Transfers	–	209	–	–	(209)	–
Exchange difference	–	–	1	–	10	11
At 31 December 2007	412	8,532	611	909	22	10,486
Accumulated depreciation:						
At 1 January 2006	67	–	241	723	–	1,031
Depreciation provided during the year	57	–	23	93	–	173
At 31 December 2006 and 1 January 2007	124	–	264	816	–	1,204
Depreciation provided during the year	52	70	53	37	–	212
At 31 December 2007	176	70	317	853	–	1,416
Net book value:						
At 31 December 2007	236	8,462	294	56	22	9,070
At 31 December 2006	52	–	51	55	–	158

17. GOODWILL

The amounts of the goodwill capitalised by the Group as an asset and recognised in the consolidated balance sheet, arising from the acquisition of a subsidiary, are as follows:

	Company HK$'000
At 1 January 2006, 31 December 2006 and 1 January 2007	–
Arising from acquisition of subsidiaries (note 29)	51,207
At 31 December 2007	51,207

Impairment test on goodwill

Goodwill acquired has been allocated to the cash generating unit ("CGU") of the organic fertilizers segment.

The recoverable amounts of the CGUs are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of five years. Cash flows beyond the five-year period are extrapolated using the estimated rates stated below. The growth rates do not exceed the respective long-term average growth rates for the business in which the CGUs operate.

Key assumptions used for value-in-use calculations:

	2007
Gross profit margin	25%
Growth rate per month	3%
Discount rate per annum	5.25%

Management determined the budgeted gross profit margin based on past performance and its expectation for market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGU.

The recoverable amounts of the CGU exceed their carrying amounts based on value-in-use calculations. Accordingly, the goodwill was not impaired during the year.

18. OTHER INTANGIBLE ASSETS

Group

	Production technology HK$'000
Cost at 1 January 2006, 31 December 2006 and 1 January 2007	–
Additions	1,387
At 31 December 2007	1,387
At 31 December 2007:	
Cost	1,387
Accumulated amortisation	–
Net carrying amount	1,387

19. INTERESTS IN SUBSIDIARIES

	Company	
	2007 **HK$'000**	2006 HK$'000
Unlisted shares, at cost	**3,162**	3,162
Impairment in value	**(3,162)**	(3,162)
	–	–
Due from subsidiaries	**90,575**	22,012
Impairment in value	**(22,604)**	(21,880)
	67,971	132

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 any time during the year. The carrying amounts of the amounts due from subsidiaries approximate to their fair values.

19. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries of the Company as at 31 December 2007 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct %	Indirect %	Principal activities	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 Investments 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
Silky Sky Investments Limited	British Virgin Islands	US$1	–	100	Investment holding	Hong Kong
Sky Rich Limited	Hong Kong	HK$1	–	100	Investment holding	Hong Kong
Jinan Shiji Jiangshan Resource Recycling Technology Limited *	The People's Republic of China	RMB30,000,000	–	51	Production and distribution of organic fertilizer	The People's Republic of China
Pharmanet Asia Limited	Hong Kong	HK$1	–	100	Dormant	Hong Kong

* Jinan Shiji Jiangshan Resource Recycling Technology Limited was formerly known as Beijing Shiji Jiangshan Resource Recycling Technology Limited.

During the year, the Group acquired Jinan Shiji Jiangshan Resource Recycling Technology Limited. Further details of this acquisition are included in note 29 to the financial statements.

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20. INVENTORIES

	Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**671**	–
Work in progress	**65**	–
Finished goods	**317**	62
	1,053	62

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables	**5,167**	775	**–**	–
Deposits, prepayment and other receivables	**13,405**	1,363	**550**	304
Deposits paid under a non-legally binding memorandum of understanding	**–**	2,500	**–**	2,500
Deposit paid for acquisition of subsidiaries	**6,200**	–	**–**	–
	24,772	4,638	**550**	2,804

An ageing analysis of the trade receivables at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**4,688**	175
31 – 60 days	**312**	559
61 – 90 days	**167**	10
Over 90 days	**–**	31
	5,167	775

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").

During the year ended 31 December 2006, a refundable amount of HK$2,500,000 was paid by the Company to Mr. Yang Shuxin as earnest money. No legally-binding formal agreement had been entered into on or before 31 March 2007 and the sum was refunded to the Company in full during the year.

22. TRADE AND OTHER PAYABLES

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade payables	**2,090**	269	**–**	–
Deferred income	**1,727**	636	**–**	–
Accrued liabilities and other payables	**4,996**	3,084	**818**	532
	8,813	3,989	**818**	532

An ageing analysis of the trade payables as at the balance sheet date is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
0 – 30 days	**1,667**	126
31 – 60 days	**46**	31
61 – 90 days	**316**	112
Over 90 days	**61**	–
	2,090	269

23. 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$268,000 (2006: HK$236,000) will be repayable to the ITF within the next twelve months from 31 December 2007 by reference to the forecast revenue generated to be from the specific product. Accordingly, HK$268,000 (2006: HK$236,000) has been classified as current liabilities and the remaining balance of HK$1,027,000 (2006: HK$1,059,000) is classified as non-current liabilities.

24. PROMISSORY NOTE

The promissory note was issued during the year to a director, Mr. Yang Pei Gen, as partial consideration for the acquisition of the entire issued share capital of Silky Sky Investments Limited, which holds indirectly a 51% interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited. The promissory note was interest bearing at 2% per annum and was repayable in two years from the date of issue.

The Group did not record a premium for the imputed interest on the note as the directors consider the impact on the result of the Group should be insignificant.

25. SHARE CAPITAL

	Notes	**Number of shares**	**HK$'000**
Authorised:			
At 1 January 2007 and 31 December 2007, ordinary shares of HK$0.05 each		2,000,000,000	100,000
Issued and fully paid:			
At 1 January 2007, ordinary shares of HK$0.05 each		589,966,720	29,498
Issue of consideration shares	*(a)*	135,750,000	6,788
Shares issued upon exercise of share options	*(b)*	43,400,000	2,170
Shares issued upon exercise of warrants	*(c)*	117,800,000	5,890
Open offer	*(d)*	443,458,360	22,173
At 31 December 2007, ordinary shares of HK$0.05 each		1,330,375,080	66,519

(a) On 15 May 2007, 135,750,000 ordinary shares of the Company were issued at an issue price of HK$0.125 per share to Mr. Yang Pei Gen as part of the consideration of HK$61 million for acquisition of 100% equity interest in Silky Sky Investments Limited.

(b) Details of the Company's share option scheme and the movements of share options under the scheme are included in note 27 to the financial statements.

(c) During the year, registered holders of 117,800,000 warrants exercise their rights to subscribe for 117,800,000 ordinary shares at a consideration of HK$18.26 million of which HK$5.89 million was credited to share capital and the balance of HK$12.37 million was credited to the Company's share premium account.

(d) On 14 December 2007, total number of 443,458,360 shares at HK$0.08 per share were issued via open offer on the basis of one offer share for every two shares held by existing shareholders. The Company raised proceeds of approximately HK$34.5 million, net of issuing expenses, to finance the acquisition of 100% equity interest in Proud Dragon Limited on 6 February 2008.

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

26. RESERVES

Company

	Share premium HK$'000	Contribution surplus HK$'000	Warrant subscription reserve HK$'000	Employee share-based compensation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2006	20,704	3,047	–	567	(29,439)	(5,121)
Issue of right shares	3,097	–	–	–	–	3,097
Issue of warrant under the placing	–	–	1,767	–	–	1,767
Shares/warrant 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
Loss for the year	–	–	–	–	(5,156)	(5,156)
At 31 December 2006 and 1 January 2007	22,821	3,047	1,469	2,314	(34,595)	(4,944)
Issue of shares on open offer	13,304	–	–	–	–	13,304
Issue of consideration shares	10,181	–	–	–	–	10,181
Share/warrant issue expenses	(978)	–	–	–	–	(978)
Shares issued upon exercise of share options	9,695	–	–	(2,931)	–	6,764
Shares issued upon exercise of warrants	13,838	–	(1,469)	–	–	12,369
Employee share-based compensation	–	–	–	617	–	617
Loss for the year	–	–	–	–	(4,454)	(4,454)
At 31 December 2007	68,861	3,047	–	–	(39,049)	32,859

(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 2007 (2006: Nil).

26. RESERVES *(Continued)*

(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 4 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.

During the year, all warrants were exercised for 117,800,000 new shares at a price of HK$0.155 per share, resulted in a credit of HK$5.89 million to share capital and HK$12.37 million was credited to the Company's share premium account.

27. 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 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 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 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.

27. SHARE OPTION SCHEME *(Continued)*

Movements in the number of share options outstanding during the year are as follows:

	Notes	Number of options 2007	2006
At 1 January		**19,400,000**	37,000,000
Granted during the year	*(a)*	**24,000,000**	19,400,000
Exercised during the year	*(b)*	**(43,400,000)**	(37,000,000)
At 31 December		**–**	19,400,000

Notes:

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

On 14 August 2007, the Company granted share options to certain of its directors and employees at a nominal consideration of HK$1 for each lot of share options to subscribe for an aggregate of 20,000,000 shares under the Scheme at an exercise price of HK$0.205 per share.

(b) On 11 May 2007, 3,000,000 share options granted on 5 June 2006 were exercised by the option holders at an exercise price of HK$0.21 each.

On 8 October 2007, 4,000,000 share options granted on 13 February 2007 were exercised by the option holders at an exercise price of HK$0.19 each.

On 10 October 2007, 16,400,000 share options granted on 5 June 2006 and 20,000,000 share options granted on 14 August 2007 were exercised by the option holders at an exercise price of HK$0.21 each and HK$0.205 each, respectively.

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27. SHARE OPTION SCHEME *(Continued)*

Details of share options granted:

Categories of grantees	Date of grant	Exercise period	Exercise price per share HK$	Number of options 2007	2006
Directors	5/6/2006	5/6/2006-4/6/2016	0.210	–	8,800,000
	13/2/2007	13/2/2007-12/2/2017	0.190	4,000,000	–
	14/8/2007	14/8/2007-13/8/2017	0.205	20,000,000	–
Employees	5/6/2006	5/6/2006-4/6/2016	0.210	–	10,600,000
				24,000,000	19,400,000

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	**2007**	2006
Fair value at measurement date	**HK$0.0257**	HK$0.1193
Share price at grant date	**HK$0.203**	HK$0.210
Exercise price	**HK$0.203**	HK$0.210
Expected option life	**1 year**	3 years
Expected volatility	**26.67%**	84.66%
Expected dividends	**–**	–
Risk-free interest rate (based on Exchange Fund Notes)	**4.6%**	4.6%

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.

28. 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.

29. ACQUISITION OF SUBSIDIARIES

On 21 May 2007, Rise Assets Limited ("Rise Assets"), a wholly-owned subsidiary of the Company, entered into a conditional sale and purchase agreement with Mr. Yang Pei Gen (the "Vendor") to acquire the entire issued capital of Silky Sky Investments Limited ("Silky Sky") and all obligations, indebtedness and liabilities due by Silky Sky to the Vendor for a total consideration of HK$61,000,000.

Sky Rich Limited, a wholly-owned subsidiary of Silky Sky, owned 51% equity interest in Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan") (formerly known as "Beijing Shiji Jiangshan Resource Recycling Technology Limited"). Shiji Jiangshan, a limited liabilitiy company incorporated in the PRC, is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic waste into organic fertilizer.

The net assets acquired, being the fair value, in the transaction, and goodwill on acquisition, are as follows:

	Fair value recognised on acquisition HK$'000
Property, plant and equipment	221
Inventories	65
Prepayments, deposits and other receivables	7,196
Amount due from minority shareholders	13,419
Cash and bank balances	556
Accrued liabilities and other payables	(95)
Exchange reserve	(40)
Minority interests	(14,093)
Net assets acquired	7,229
Goodwill on acquisition	51,207
	58,436
Satisfied by:	
Cash consideration	20,000
Consideration shares	16,969
Promissory note	21,467
	58,436

29. ACQUISITION OF SUBSIDIARIES *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	HK$'000
Cash consideration	20,000
Cash and bank balances acquired	(556)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	19,444

30. DEFERRED TAX

(a) The movements in the Group's deferred tax liabilities/(assets) during the year are as follows:

	Depreciation allowance HK$'000	**Tax losses** HK$'000	**Total** HK$'000
At 1 January 2006	12	(12)	–
Deferred tax charged/(credited) to income statement during the year	(12)	12	–
At 31 December 2006 and 1 January 2007	–	–	–
Deferred tax charged/(credited) to income statement during the year	–	–	–
At 31 December 2007	–	–	–

30. DEFERRED TAX *(Continued)*

(b) Unrecognised deferred tax assets arising from:

	2007	2006
	HK$'000	HK$'000
Deductible temporary differences	**92**	47
Tax losses	**33,326**	32,267
At the balance sheet date	**33,418**	32,314

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 due to the unpredictability of future profit streams.

31. OPERATING LEASE ARRANGEMENTS

The Group leases certain premises under operating lease arrangements. Leases for premises are negotiated for terms ranging from 1 to 10 years.

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

	Group	
	2007	2006
	HK$'000	HK$'000
Within one year	**1,364**	543
In the second to fifth years, inclusive	**1,808**	430
After five years	**1,915**	–
	5,087	973

32. COMMITMENTS

On 29 October 2007, Rise Assets Limited ("Rise Assets"), wholly-owned subsidiary of the Company, entered into an agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong (the "Vendor") in relation to the acquisition of the equity interest held by the Vendor in Proud Dragon with a consideration of HK$47,600,000.

As at the balance sheet date, the Group had the following commitment regarding this acquisition:

	HK$'000
Convertible bond to be issued	10,000
Promissory note to be issued	15,600
Subscription consideration to be settled by cash	15,800
	41,400

33. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Group had interest on promissory note amounted to approximately HK$236,000 payable to a director, Mr. Yang Pei Gen. As at 31 December 2007, HK$181,000 was paid with the remaining balance of HK$55,000 included in accured liabilities and other payables.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial liabilities comprise promissory note and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables as well as prepayments, deposits and other receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, liquidity risk and credit risk. The Board reviews and agrees policies for managing each of the risks which are summarized below.

Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amount with floating interest rates. A reasonable change in interest rate in the next twelve months is assessed to result in immaterial change in the Group's profits after tax and retained earnings. Changes in interest rates have no impact on the Group's other components of equity.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. Approximately 58% (2006: Nil) of the Group's purchases are denominated in currencies other than the functional currency of the operating units, whilst approximately 32% (2006: 98%) of sales are denominated in the units' functional currency. The management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in Renminbi ("RMB") exchange rate, with all other variables held constant, of the Group's profit before tax and the Group's equity .

	Increase/ (decrease) in foreign exchange rate	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity
	%	HK$'000	HK$'000
2007			
RMB	**10**	**970**	**1,776**
RMB	**(10)**	**(970)**	**(1,776)**
2006			
RMB	10	31	72
RMB	(10)	(31)	(72)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, finance leases and other interest-bearing loans.

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

31 December 2007	**On Demand HK$'000**	**Less than 3 months HK$'000**	**3 to 12 months HK$'000**	**1 to 5 years HK$'000**	**Over 5 years HK$'000**	**Total HK$'000**
Promissory note	**–**	**–**	**–**	**4,467**	**–**	**4,467**
Trade payables	**61**	**2,029**	**–**	**–**	**–**	**2,090**
Deferred income	**–**	**762**	**869**	**96**	**–**	**1,727**
Accrued liabilities and other payables	**4,941**	**–**	**–**	**55**	**–**	**4,996**
	5,002	**2,791**	**869**	**4,618**	**–**	**13,280**

31 December 2006	On Demand HK$'000	Less than 3 months HK$'000	3 to 12 months HK$'000	1 to 5 years HK$'000	Over 5 years HK$'000	Total HK$'000
Trade payables	–	269	–	–	–	269
Deferred income	–	12	567	57	–	636
Accrued liabilities and other payables	3,084	–	–	–	–	3,084
	3,084	281	567	57	–	3,989

34. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum credit exposure of the financial assets as at 31 December 2007 equals to their carrying amounts. The Group limits its exposure to credit risk by prudently selecting its customers. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. The Group also continually evaluates the credit risk of its customers to ensure appropriateness of the amount of credit granted. Credit is extended to customers based on the evaluation of individual customer's financial conditions. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider the Group's credit risk is significantly reduced. There is no requirement for collaterals by the Group.

The Group has deposited its cash with various banks. The credit risk on cash and bank balances is limited because most of the Group's bank deposits are deposited with major banks and financial institutions located in Hong Kong and the PRC.

35. CAPITAL MANAGEMENT

The primary objective of the Company's capital management is to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Company monitors capital using a gearing ratio, which is net debt divided by the capital plus net debt. The Company's gearing ratio as at 31 December 2007 was 4%.

36. POST BALANCE SHEET EVENTS

(a) The Company will be renamed as Shen Nong China (Group) Limited (神農中國(集團)有限公司) following the passing of a special resolution at the Company's extraordinary general meeting held on 16 January 2008. The registration of the change of the Company's name at the Companies Registry in Hong Kong is under processing.

The Company will make further announcements as and when appropriate for the change of the Company name, stock short name, trading arrangement and exchange of share certificates as soon as practicable.

(b) On 29 October 2007, Rise Assets Limited ("Rise Assets") entered into the agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong (the "Vendor") in relation to the acquisition of the equity interest held by the Vendor in Proud Dragon with a consideration of HK$47,600,000 which comprises the Sale Consideration and the Subscription Consideration. The Sale Consideration will be settled as to HK$6,200,000 by cash, HK$10,000,000 by convertible bond and balance of HK$15,600,000 by promissory note, whereas the Subscription Consideration of HK$15,800,000 will be settled by cash. As at 31 December 2007, HK$6,200,000 was paid as earnest money for the acquisition.

Upon reorganization, Proud Dragon will hold 70% equity interest in Dang Tu Xian Zhong Tian Water Supply Limited (當涂縣中天供水有限公司) which is principally engaged in the management of water plants and the provision of water supply in the rural areas of Anhui, the PRC.

On 6 February 2008, the Board announced that completion of the acquisition of the entire issued share capital of Pround Dragon took place on 6 February 2008. Upon Completion, in addition to the cash consideration which was paid, the Company has issued the Convertible Bonds in principal amount of HK$10,000,000 and the Promissory Note in a principal sum of HK$15,600,000 to the Vendor and forthwith upon Completion, the Bond Certificate has been deposited with the Purchaser in accordance with the terms of the Agreement.

(c) On 31 January 2008, Jinan Shiji Jiangshan Resource Recycling Technology Limited ("Shiji Jiangshan") entered into a legal binding agreement with 鍾國山 (the "Vendor") in relation to the acquisition of 75% equity interest held by the Vendor in 來安縣漢河供水有限公司, which was incorporated in the People's Republic of China and principally engaged in the provision of water supply in the rural areas of Anhui, the PRC, with a consideration of RMB2,250,000 (the "Sale Consideration"). The Sale Consideration was settled by cash in February 2008 upon completion.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2008.