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KanHan Technologies Group Limited

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



CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report, for which the directors of KanHan Technologies Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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.

INTERIM RESULTS (UNAUDITED)

The board of directors (the "Board") of KanHan Technologies Group Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the six months ended 30 June 2006 together with the comparative figures for the corresponding periods in 2005 as follows:-

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and six months ended 30 June 2006

	NOTES	Three months ended 30 June		Six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000 (Restated)	2006 HK\$'000	2005 HK\$'000 (Restated)
Turnover	3	1,651	1,203	3,066	2,487
Cost of sales		(768)	(537)	(1,539)	(1,020)
Gross profit		883	666	1,527	1,467
Other income	5	250	18	342	18
Research and development expenses		(287)	(284)	(567)	(570)
Selling and distribution expenses		(290)	(251)	(569)	(537)
Administrative expenses		(1,281)	(1,216)	(2,376)	(2,195)
Loss before taxation	6	(725)	(1,067)	(1,643)	(1,817)
Taxation	7	-	-	-	-
Loss for the period		(725)	(1,067)	(1,643)	(1,817)
Attributable to:					
Equity holders of the Company		(725)	(1,067)	(1,643)	(1,817)
Loss per share – Basic	9	(0.12 cents)	(0.26 cents)	(0.30 cents)	(0.44 cents)

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006

		(Audited)
	30 June 2006	31 December 2005
Notes	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	<u>249</u>	<u>334</u>
CURRENT ASSETS		
Inventories	10 51	–
Trade and other receivables	11 3,566	1,807
Bank balances, deposits and cash	<u>22,663</u>	<u>2,253</u>
	<u>26,280</u>	<u>4,060</u>
CURRENT LIABILITIES		
Trade and other payables	12 2,053	2,305
Financial assistance from government	<u>234</u>	<u>166</u>
	<u>2,287</u>	<u>2,471</u>
NET CURRENT ASSETS	<u>23,993</u>	<u>1,589</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>24,242</u>	<u>1,923</u>
NON-CURRENT LIABILITIES		
Financial assistance from government	<u>1,090</u>	<u>1,172</u>
NET ASSETS	<u>23,152</u>	<u>751</u>
EQUITY AND RESERVES		
Share capital	29,498	7,004
Reserves	<u>(6,346)</u>	<u>(6,253)</u>
	<u>23,152</u>	<u>751</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

	Share capital HK\$'000	Share premium HK\$'000	Special* reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2005						
At 1 January 2005	5,837	19,323	10,084	-	(32,695)	2,549
Issue of shares under the placing	1,167	1,518	-	-	-	2,685
Share issue expenses	-	(137)	-	-	-	(137)
Loss for the period	-	-	-	-	(1,817)	(1,817)
At 30 June 2005	<u>7,004</u>	<u>20,704</u>	<u>10,084</u>	<u>-</u>	<u>(34,512)</u>	<u>3,280</u>

	Share capital HK\$'000	Share premium HK\$'000	Special* reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2006						
At 1 January 2006	7,004	20,704	10,084	567	(37,608)	751
Exercise of share options	370	1,270	-	(567)	-	1,073
Issue of rights shares	22,124	3,097	-	-	-	25,221
Issue of shares expenses	-	(2,250)	-	-	-	(2,250)
Loss for the period	-	-	-	-	(1,643)	(1,643)
At 30 June 2006	<u>29,498</u>	<u>22,821</u>	<u>10,084</u>	<u>-</u>	<u>(39,251)</u>	<u>23,152</u>

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

UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

	Six months ended 30 June 2006 HK\$'000	Six months ended 30 June 2005 HK\$'000
Net cash used in operating activities	(3,595)	(2,439)
Net cash used in investing activities	(24)	(68)
Net cash outflow before financing activities	(3,619)	(2,507)
Net cash inflow from financing activities	24,029	2,485
Net increase/(decrease) in cash and cash equivalents	20,410	(22)
Cash and cash equivalents at beginning of the period	2,253	4,216
Cash and cash equivalents at end of the period	22,663	4,194

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**1. GENERAL**

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

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

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards ("FRS") and Hong Kong Accounting Standards (collectively referred to as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2005.

3. TURNOVER

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

	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Sales of licensed software	1,280	539	2,263	1,420
Software maintenance	191	220	375	414
Software rental and subscription income	60	25	124	133
Website development	–	318	148	368
Putonghua learning platform	120	101	156	152
	<u>1,651</u>	<u>1,203</u>	<u>3,066</u>	<u>2,487</u>

4. SEGMENT INFORMATION

More than 90% of the Group's turnover and operating assets were attributable to the development of server-based language technologies in the Special Administrative Regions of Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these financial statements.

5. OTHER INCOME

Other income represents mainly interest income generated from bank deposits.

6. LOSS BEFORE TAXATION

This is stated after charging:

	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	45	51	95	101

7. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the six months ended 30 June 2006 (2005: Nil).

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and six months ended 30 June 2006 respectively (2005: Nil).

9. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 30 June 2006 is based on the loss for the period of approximately HK\$725,000 (2005: HK\$1,067,000) and on the weighted average number of 589,966,720 shares (2005: 415,139,129 shares).

The computation of the basic loss per share for the six months ended 30 June 2006 is based on the loss for the period of approximately HK\$1,643,000 (2005: HK\$1,817,000) and on the weighted average number of 551,293,393 shares (2005: 413,340,294 shares).

The weighted average number of shares for the purpose of calculating the basic loss per share for the three months and six months ended 30 June 2005 have been retrospectively adjusted for the share consolidation and the effects of the rights issue approved by the shareholders of the Company on 28 February 2006.

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

10. INVENTORIES

Inventories comprise finished goods and are stated at cost.

11. TRADE AND OTHER RECEIVABLES

	The Group	
	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	432	1,019
Deposits, prepayments and other receivables	3,134	788
	<u>3,566</u>	<u>1,807</u>

The Group has a policy of allowing a credit period from 30 to 120 days to its trade customers. The ageing analysis of the trade receivables is as follows:

	The Group	
	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	25	177
31-60 days	225	494
61-90 days	38	-
Over 90 days	144	348
	<u>432</u>	<u>1,019</u>

12. TRADE AND OTHER PAYABLES

	The Group	
	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	232	499
Accrued charges and other creditors	1,821	1,806
	<u>2,053</u>	<u>2,305</u>

The Group has an average credit period ranging from 30 to 90 days from its trade creditors. The ageing analysis of the trade payables is as follows:

	The Group	
	30 June 2006	31 December 2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
0-30 days	15	499
31-60 days	47	–
61-90 days	–	–
Over 90 days	170	–
	<u>232</u>	<u>499</u>

13. COMPARATIVE FIGURES

Certain comparative figures for the corresponding period of last year have been re-classified to conform with the current period's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS**Results of Operation**

For the three months ended 30 June 2006, the Group's turnover increased by 37.2% to approximately HK\$1,651,000 when compared to the corresponding period in 2005. The increase was derived from the surge of revenue generated from sales of licensed software which achieved 137.5% growth to approximately HK\$1,280,000.

During the quarter, other income mainly consisted of interest income on bank deposits of approximately HK\$196,000 (2005: nil) and commission income of approximately HK\$54,000 (2005: HK\$18,000).

As result of the increase in turnover and interest income, net loss attributable to shareholders for the three months ended 30 June 2006 narrowed to HK\$725,000, a 32.1% improvement from the same period of last year.

For the six months ended 30 June 2006, the Group recorded a total turnover of approximately HK\$3,066,000, representing an increase of 23.3% over that of the same period of last year.

The gross profit margin was 49.8% for the six months period as compared to the gross profit margin of 59% for the corresponding period in 2005. The decrease was mainly attributable to the increase in direct costs associated with the provision of website development services.

Business review and outlook

Software Sales Business

KanHan has been actively pursuing Interactive Voice Response (IVR) business in the first half of 2006. The efforts have been paid off as of the time of this report with the awards to supply three major Interactive Voice Response (IVR) systems supporting a total of more than 400 telephone ports based on KanHan's awarding winning HanPhone technology in Hong Kong.

The successful pilot launch of the outpatient appointment booking system for Hong Kong Island in 2005 has prompted the Hospital Authority's decision to extend the booking system to cover the Kowloon clinics. The Kowloon extension will add a further 300 ports to the 100 ports HanPhone system that has been serving the pilot system since November 2005. Upon completion, the 400 ports system will become one of the largest IVR systems in Hong Kong.

The Housing Authority has been planning to introduce residents of public housing estates an IVR system to enquire on rental information since early 2006. HanPhone will deploy voice recognition technology to enable residents in identifying themselves just speaking to the system in order to access to their payment records.

A major utility company has contracted KanHan to develop a maintenance appointment booking IVR system with more than 100 ports. The contract requires HanPhone to be tightly integrated with its client database applications and to be programmed to fit-into its Microsoft development environment. The web-based nature of HanPhone succeeded in building the prototype in a short time to the users' utmost satisfaction.

In addition to the Hong Kong business, HanPhone has also made its inaugural penetration into Mainland China. Guangzhou Metro Corporation has chosen HanPhone IVR system to enhance its telephone enquiry system. The new system will be deployed in August 2006 to provide timely train service information and announcements to the Guangzhou train users.

These major project endorsements will further expedite HanPhone's sales expansion into large scale commercial IVR applications in many industries.

Application for the second phase of the Jockey Club IT funding scheme for the Visually Impaired Persons closed in June with results to be announced in August. We expect more Chinese JAWS screen reader software will be shipped in the third quarter this year to individual applicants. There are close to 100 copies of Chinese JAWS shipped in the first half of 2006.

Service Business

More than 20 primary schools have signed up to the kid's version of KanHan's e-Putonghua platform (KIDPTH) for the coming school year. The KIDPTH promotions have generated keen interest among primary schools since its inauguration in January 2006. Our sales team is confident to meet our target of capturing 100 schools towards end of the year as many schools have already invited KanHan for presentation when their teachers return from summer holiday in mid August.

A similar platform for secondary schools (TEENPTH) will be launched in end August. Like KIDPTH, TEENPTH will be an integrated platform with incessant update of learning materials and innovative learning tools to ease Putonghua teachers' workload in preparing electronic learning materials. It aims in the long run to provide a full Putonghua learning curriculum over the web, thus eliminating the need of paid text books of which contents cannot be updated to reflect current affairs in the local community and world-wide.

Hong Kong has around 1,200 primary and secondary schools of which KIDPTH and TEENPTH will target selling a school based annual subscription fee ranging from HK\$3,000 to HK\$8,000. There continues to be no close competitor to both platforms.

The EFAX business continues to grow at a satisfactory pace with July showing the most subscription income since its launch last year. The EFAX platform as a delivery vehicle for our e-marketing business has recently attracted fashion retailers such as pe:tite, United Color of Benetton and fast food chain KFC to take advantages of its cost-effective platform in promoting their products and services using SMS and IVR channels.

Both pe:tite and United Color of Benetton send discount message in form of a SMS to their VIP members for Summer sales promotion. The e-promotion has been proven to be effective in triggering VIP members' shopping appetite. At HK\$0.6 per SMS, the cost of SMS promotion is more economical than most other traditional advertising channels.

E-bidding for Canto-pop singers' memorabilia is employed by KFC recently to draw more crowds to its eatery outlets. However, the conventional web based bidding mechanism is proven to be a limiting factor to the effectiveness of such campaign as computers are not conveniently available when patrons' bidding desire is spurred by the promotion leaflet while eating at the premises. The HanPhone powered IVR e-marketing platform comes to bridging the inconvenience by offering an interactive telephone system allowing patrons to bid on the spot by just calling a telephone number. The rental based IVR platform provides KFC the convenience and flexibility in planning and deploying marketing campaigns on an event driven basis without having to invest into telephone infra-structure and allows synchronization with web-based campaigns.

Liquidity and financial resources

The Group had total bank balances, deposits and cash of approximately HK\$22,663,000 at 30 June 2006 (31 December 2005: HK\$2,253,000). The Group recorded net current assets of approximately HK\$23,993,000 at 30 June 2006 (31 December 2005: HK\$1,589,000). The Group had no bank borrowings at 30 June 2006 (31 December 2005: Nil) but an outstanding loan granted by government of approximately HK\$1,324,000 at 30 June 2006 (31 December 2005: HK\$1,338,000).

During the six months ended 30 June 2006, the Group financed its operations with its internal financial resources and the net proceeds from the share placement and the rights issue.

Capital structure

As at 30 June 2005, the total issued share capital of the Company was HK\$7,004,584 divided into 700,458,400 ordinary shares of HK\$0.01 each. On 2 February 2006, 37,000,000 share options were exercised and 37,000,000 shares were issued and allotted.

On 1 March 2006, every five shares of HK\$0.01 each in the issued and un-issued share capital of the Company were consolidated into one consolidated share of HK\$0.05 each. The total issued share capital was consolidated into 147,491,680 shares.

On 3 April 2006, the Company completed to issue 442,475,040 new ordinary shares by way of a rights issue on the basis of three rights shares for every one consolidated share of HK\$0.05 each at a subscription price of HK\$0.057.

As at 30 June 2006, the total issued share capital of the Company was HK\$29,498,336 divided into 589,966,720 ordinary shares of HK\$0.05 each.

Proposed acquisition

On 15 May 2006, the Company entered into the non-legally binding memorandum of understanding 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 the Mr. Yang in Excel State, which holds 51% interests in Shantou Jinshui Technology ("Jinshui").

Jinshui is a company established in the PRC and is principally engaged in the design, provision and distribution of software and hardware for tax control purpose and the provision of other related services in the PRC.

A refundable amount of HK\$2,500,000 was paid by the Company to Mr. Yang as earnest money. If no legally-binding formal agreement has been entered into on or before 31 August 2006, the sum will be refunded to the Company in full within three business days.

Details of this proposed acquisition were set out in the announcement of the Company dated 15 May 2006.

Foreign exchange risk

The Group had no foreign currency borrowings and is principally operating in Hong Kong and PRC. Therefore, the Group had no significant exposure to fluctuation in foreign exchange rate and had not taken out any related hedges.

Contingent liabilities

As at 30 June 2006, the group had no material contingent liabilities.

Employee information

As at 30 June 2006, the Group had 24 (31 December 2005: 24) full-time employees. 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.

The Group also adopted employee share option scheme to provide the 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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short position of the directors and chief executives of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

(a) Directors' long positions in shares of the Company

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Mo Wai Ming, Lawrence (Note 1)	Beneficial owner	148,424,172	25.16%
Mr. Ma She Shing, Albert (Note 2)	Beneficial owner	10,000,000	1.70%

(b) Directors' short positions in shares of the Company

Name	Capacity	Number of shares held	Percentage of
			the issued share capital
Mr. Mo Wai Ming, Lawrence (<i>Note 1</i>)	Beneficial owner	129,766,892	22.00%

Notes:

1. Mr. Mo is interested in 144,024,172 shares and was granted options on 5 June 2006 to subscribe for 4,400,000 shares at a subscription price of HK\$0.21 per share.
2. Mr. Ma is interested in 5,600,000 shares and was granted options on 5 June 2006 to subscribe for 4,400,000 shares at a subscription price of HK\$0.21 per share.

Save as disclosed above, as at 30 June 2006, none of the directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SHARE OPTION SCHEME

On 24 January 2003, a Share Option Scheme (the "Scheme") was approved by a written resolution of the Company. Details of the movements in the number of share options during the period under the Scheme are as follows:

Categories of grantees	Outstanding at 1 January 2006	Options granted during the period (<i>Note 1</i>)	Options exercised during the period (<i>Note 2</i>)	Outstanding at 30 June 2006	Exercise price	Grant date	Exercisable period
					HK\$		
Directors							
Mo Wai Ming, Lawrence	1,400,000	-	(1,400,000)	-	0.145	8 July 2005	8 July 2005 – 7 July 2015
	-	4,400,000	-	4,400,000	0.210	5 June 2006	5 June 2006 – 5 June 2016
Ma She Shing, Albert	1,400,000	-	(1,400,000)	-	0.145	8 July 2005	8 July 2005 – 7 July 2015
	-	4,400,000	-	4,400,000	0.210	5 June 2006	5 June 2006 – 5 June 2016
Employees	4,600,000	-	(4,600,000)	-	0.145	8 July 2005	8 July 2005 – 7 July 2015
	-	10,600,000	-	10,600,000	0.210	5 June 2006	5 June 2006 – 5 June 2016
	<u>7,400,000</u>	<u>19,400,000</u>	<u>(7,400,000)</u>	<u>19,400,000</u>			

The directors consider that it is inappropriate to state the value of the options granted under the Scheme on the ground that certain crucial factors for such valuation are variables such as the expected volatility and interest rate, which cannot be reasonably determined at this state. Any valuation of the share options based on speculation assumptions in respect of these variables would not be meaningful and would be misleading to the shareholders of the Company.

Notes:

- (1) During the period, options were granted on 5 June 2006. The closing price of the shares immediately before the date on which the options were granted was HK\$0.20 on 2 June 2006.
- (2) During the period, 7,400,000 share options were exercised and the weighted average closing price of the shares immediately before the date on which the options were exercised was HK\$0.351.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2006, other than the interests of a director or chief executive of the Company as disclosed under the heading "Directors' and chief executive's interests in shares, underlying shares and debentures" above, the interests and short positions of persons in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Lau Kim Hung, Jack	Interest of a controlled corporation*	129,766,892	22.00%
Manciple Enterprises Limited	Person having a security interest in shares*	129,766,892	22.00%

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

Save as disclosed above, as at 30 June 2006, the directors of the Company were not aware of any other person (other than the directors and chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO.

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 business of the Group.

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

During the period ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions throughout the period ended 30 June 2006.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

During the six months ended 30 June 2006, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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.

AUDIT COMMITTEE

The Company established an audit committee on 24 January 2003 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The audit committee comprises Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent, who are the independent non-executive directors of the Company.

The Group's unaudited consolidated financial statements for the six months ended 30 June 2006 have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and other legal requirements and that adequate disclosure has been made.

As at the date of this report, Mr. Mo Wai Ming, Lawrence and Mr. Ma She Shing, Albert are executive directors, and Mr. Hsu Shiu Foo, William, Mr. Lee Kun Hung and Mr. Kwok Chi Sun, Vincent are independent non-executive directors.

By Order of the Board
Ma She Shing, Albert
Chairman

Hong Kong, 11 August 2006