看漢科技集團有限公司

KanHan Technologies Group Limited

(Incorporated in the Cayman Islands with limited liability)

Placing

Sponsor

South China Capital Limited

IMPORTANT

If you are in any doubt about this prospectus, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

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

(incorporated in the Cayman Islands with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

BY WAY OF PLACING

Number of Placing Shares:	**120,000,000 Shares comprising 60,000,000 New Shares and 60,000,000 Sale Shares (subject to Over-allotment Option)**
Issue Price:	**not more than HK$0.45 per Share and not less than HK$0.33 per Share**
Nominal Value:	**HK$0.01 each**
Stock Code:	**8175**

Sponsor

South China Capital Limited

Lead Manager

South China Securities Limited

Co-lead Managers

KGI Capital Asia Limited

Whole Win Securities Limited

Co-managers

First Shanghai Capital Ltd.

Toyo Securities Asia Ltd.

First Asia Finance Group Limited

OpenOffering Capital Limited

Sinomax Securities Limited

Horwath Capital Asia Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance (Chapter 32, Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other document referred to above.

The Issue Price is expected to be fixed on or before 5.00 p.m. on the Price Determination Date, which is expected to be on or about 5:00 p.m. of 14th February, 2003, by agreement between the Sponsor and the Company with reference to the market demand for the Shares. The Issue Price will be not more than HK$0.45 per Share and is expected to be not less than HK$0.33 per Share. The Sponsor may with the consent of the Company, reduce the Issue Price to a price below the range stated in this prospectus on or before 21st February, 2003. In such case, notice of reduction in the Issue Price will be published on the GEM Website (in English and Chinese) not later than the morning of 21st February, 2003. If the Sponsor and the Company are unable to reach an agreement on the Issue Price on or before 21st February, 2003, the Placing will not become unconditional and will not proceed. In such case, an announcement will be issued and published on the GEM Website (in English and Chinese) not later than the morning of 21st February, 2003.

It should be noted that the Sponsor (on behalf of the Underwriters) may terminate the Underwriting Agreement by notice in writing to the Company upon the occurrence of any of the events set forth under "Grounds for termination" in the section headed "Underwriting" in this prospectus at any time prior to 6:00 p.m. (Hong Kong time) on the day immediately preceding the Listing Date. Such events include, but without limitation to, any acts of government, riots, public disorder, strikes, lock-outs, fire, explosion, flooding, epidemic, civil commotion, acts of war, acts of God, terrorism, escalation of hostilities involving Hong Kong, the PRC or any other jurisdiction relevant to the Company and its subsidiaries, accident or interruption or delay in transportation.

Prior to making an investment decision, prospective investors should carefully consider all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk factors" of this prospectus.

13th February, 2003

CHARACTERISTICS OF GEM

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

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

The principal means of information dissemination on GEM is publication on the Internet Website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM Website in order to obtain up-to-date information on GEM-listed companies.

(Note 1)

Price Determination Date on or before *(Note 2)* . . . . 14th February, 2003

Announcement of the Issue Price and the level of indications of interests in the Placing to be published on the GEM Website at *www.hkgem.com* on or about . . . . 21st February, 2003

Allotment of the Shares to placees on or before . . . . 21st February, 2003

Despatch of share certificates under the Placing on or before *(Note 3)* . . . . . . 21st February, 2003

Dealings in the Shares on GEM to commence on . . . . 25th February, 2003

Notes:

1. All dates and times refer to Hong Kong local time.

2. The Price Determination Date is expected to be on or about 14th February, 2003. If, for any reason, the Issue Price is not agreed on or before 21st February, 2003 the Placing will not become unconditional and will not proceed.

3. Placees of the Shares will receive the share certificates for the Placing Shares via CCASS. Share certificates for Placing Shares to be distributed via CCASS will be deposited directly into CCASS on or about 21st February, 2003 for credit to the respective CCASS participants' stock accounts or investor participant stock accounts designated by the Underwriters, the placees or their agents, as the case may be. No temporary documents of title will be issued.

4. If there is any change to the above expected timetable, the Company will make an announcement via the GEM Website.

For details of the structure of the Placing, including conditions of the Placing, please refer to the section headed "Structure and conditions of the Placing" to this prospectus.

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You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Vendors, the Sponsor, the Lead Manager, the Co-Lead Managers, Co-managers, the Underwriters, their respective directors, officers, employees and/or representatives of any of them, or any other persons involved in the Placing.

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This summary aims to give you an overview of the information contained in this prospectus. As it is only a summary, it does not contain all the information that may be important to you. You should read the entire prospectus before you decide to invest in the Placing Shares.

There are risks associated with investment in companies listed on GEM. You are advised to consider carefully all information set out in this prospectus. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read that section carefully and evaluate the risks set out therein before you decide to invest in the Placing Shares.

BUSINESS

The Group is principally engaged in developing and marketing a patented server based font technology for its real time on-line communications software platform for the Chinese language. The software serves users of web-browser residing on PCs, wireless PDAs, 2G and 3G mobile phones, TV set-top box and users of conventional telephones. The technology enables real time translation of Chinese characters and characters of other languages into graphic display for viewing on a wide variety of Internet devices.

Currently the HanWeb Publishing Server applies on real time on-line translation from Simplified Chinese characters to Traditional Chinese characters, and vice versa. The level of accuracy is believed to be higher than the accuracy of existing translation software commonly found in PCs. Users benefit from not having to acquire Traditional and Simplied Chinese enabling software for their browser software and from being able to view Chinese content anywhere, anytime with any Web-enabled devices.

The Group's technology has been extended to a server based voice product. Using the text to speech technology, the voice product allows the generation of audible speech from websites in either Chinese or English.

The voice platform benefits enterprises by allowing business website information to be transmitted in audible speech to users of mobile telephones and conventional telephones. It helps them promote good corporate citizenship by assisting the visually impaired to access the Web.

The Hong Kong SAR Government awarded the Group an about four million dollar contract through a systems integrator contract in September 2002 for the provision to about 220 web domains of government websites of a Simplified Chinese interface, that uses the Group's HanWeb Publishing Server. The Directors believe that this contract shows the usefulness of the Group's software platform in providing its users with a robust and time-cost effective solution for communicating with global Chinese communities over the Web without requiring users to install special Chinese enabling software in their PCs and other browser-based devices.

HISTORY

The Group was founded in 1999 by Mr. Mo, the inventor of HanWeb Font Technology. The Group has grown steadily since founding.

A unique and patented communications software platform

HanWeb Font Technology was invented by Mr. Mo, the chief executive officer of the Company and a certificate of grant of patent in respect of the technology was granted to Mr. Mo in August, 2000. Prior to the issue of the said certificate, by an assignment dated 30th March, 2000, Mr. Mo had assigned, inter alia, all his right in the invention and in the application for patent in USA to KanHan (BVI) free of any consideration. To streamline the ownership of the patent and rights under application for patents in various countries, in October 2002, KanHan (BVI) re-assigned the invention and his rights in the patent applications to Mr. Mo free of any consideration. On the same day, Mr. Mo assigned the Patent and his rights in patent application in various countries to KanHan (HK) without consideration. As a result, both the patent and rights under applications for patent in various countries were streamlined under KanHan (HK), without the need to license the use of the patent from Mr. Mo or KanHan (BVI), a corporate vehicle of the Group at the material time. Patent applications in the US, Japan, the PRC and Korea are in process.

The Directors believe that HanWeb Publishing Server performs four main tasks as follows:

- The real time translation of Chinese characters into graphic display for viewing on a wide variety of Internet devices.
- The software allows real time translation from Simplified Chinese characters to Traditional Chinese characters, and vice versa, in the HTML, WML and XML formats, in e-mails, Microsoft documents.
- The software performs real time translation from written Web content in Cantonese, Putonghua and English to audible speech.
- The software enables in the provision of voice access services to mobile and conventional phone users.

1) *The real time translation of Chinese characters into graphic display for viewing on a wide variety of Internet devices.*

An Internet based font server that is now used for browsing Web pages in Chinese. The font server may be used for browsing other languages of ideographic character such as Japanese and Korean in future. In a conventional Internet application the operating system of a computer incorporates a font rendering system. In this system the font files are held in the computer and must be compatible with the particular font rendering system of the browser, which then generates a bitmap of a character. The conventional application system uses an Internet browser to access Web information and this browser uses of a font rendering system that supports a limited number of different sizes and styles of characters.

Different font files are required for the font rendering system to work in different languages and if the required file is not installed, the browser cannot display the required letter or character and will instead display a "□". The Directors believe that of the 50,000 Chinese characters commonly used only about 8,000 to 20,000 are stored in a computer.

The font server translates the characters into graphics, which can be displayed by any browser. The Directors believe that the font server will work with other languages, including those with Roman and Cyrillic alphabets.

2. *The real time translation of Traditional Chinese into Simplified Chinese and from Simplified Chinese into Traditional Chinese.*

Enhanced by sophisticated combination of a database of characters and vocabulary rules, the software of HanWeb translation server is a real-time translation engine operating between Simplified Chinese and Traditional Chinese.

3. *The real time translation from written Web content to audible speech in Cantonese, Putonghua and English languages.*

The server of HanVoice Server is a real-time text to speech engine available in Cantonese, Putonghua and English. A vocabulary database is used to generate intonation of a word pertaining to its context. The server helps the visually impaired to navigate a website by converting the text information into voice files.

4. *Access by mobile and conventional phone users to the Internet and the World Wide Web using audible speech.*

Working in parallel with the voice translation software, this server transforms a website and the resulting audible speech into a voice format accessible by mobile and conventional phones. The navigation map uses a numeric keypad that can be automatically generated.

A winner of four awards

The Group was accredited the following awards in 2001 and 2002:

- Hong Kong Awards for Industry: Hong Kong Science & Technology Park Certificate of Merit in Technological Achievement, 2002

- Hong Kong Awards for Industry: Federation of Hong Kong Industries Consumer Product Design Award, 2002

- Hong Kong Awards for Industry: Hong Kong Science & Technology Park Technological Achievement Award, 2001

- The Hong Kong Computer Society: IT Excellence Product Silver Award, 2001

A user list of well known companies, institutions and government organizations

The users of the Group's products include, among many others:

- The Government of the Hong Kong SAR
- The Ministry of Foreign Affairs, Taiwan
- The Beijing City Government
- The Hongkong and Shanghai Banking Corporation Limited
- City University of Hong Kong
- KGI Hong Kong Limited
- CP1897.Com
- The Andy Lau Official website
- China Southern Airlines
- Hong Kong Productivity Council

THE POTENTIAL OF THE MARKET FOR TRANSLATION AND TEXT TO SPEECH SERVICES

The Group's current markets of the PRC, Taiwan and Hong Kong and future target markets of Japan and Korea had a total population of approximately 1,489 million in July 2002. Of this number, 23% (or approximately 348 million) was estimated to be under 15 years of age. As in 2001 there were estimated to be approximately 111.34 million Internet users in these countries. The Directors believe that as use of the Internet becomes more widespread and as this age segment of the population matures and joins the labour force, so the number of Internet users will increase significantly. The Directors believe that the potential market for the Company's products in these countries will increase as a result of the increase in Internet users. The Company's target market is the companies, institutions and government organizations that interact with internet users in each of these countries.

The market in the PRC

The PRC had an estimated population of approximately 1,284 million in July 2002, of which about 24% (or approximately 313 million) was estimated to be under 15 years of age. There are at least 11 major ethnic groups in the PRC. Han Chinese comprises 91.9% of the population and Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Korean, and other ethnic groups comprise 8.1% of the population. The main languages spoken in the PRC are Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects and some minority languages. Literacy in the PRC, defined as the percentage of the population aged 15 and over which can read and write, is estimated to be 81.5%. The PRC uses the simplified form of Chinese script, namely Simplified Chinese. There were 26.5 million Internet users in 2001.

The market in Taiwan

Taiwan had an estimated population of approximately 22.5 million in July 2002, of which 21% (or approximately 4.7 million) was estimated to be under 15 years of age. There are 3 major ethnic groups. Taiwanese (including Hakka) comprises approximately 84% of the population, mainland Chinese and aborigine comprise 14% and 2% respectively. The main languages spoken in Taiwan are Mandarin Chinese, Taiwanese, and Hakka dialects. In 2000 there were 8 Internet service providers and there were 11.6 million Internet users in 2001. Taiwan uses the traditional form of Chinese script, namely Traditional Chinese.

The market in Hong Kong

Hong Kong had an estimated population of approximately 7.3 million in July 2002, of which 17.5% (or approximately 1.3 million) was estimated to be under 15 years of age. Hong Kong has a free market economy highly dependent on international trade. Per capita GDP in Hong Kong was estimated to be US$25,000 in 2001. The number of Internet users in 2001 was 3.93 million. Hong Kong also uses the Traditional Chinese.

The market in Japan

Japan had an estimated population of approximately 126.9 million in July 2002 of which 14.5% (or approximately 18 million) was estimated to be under 15 years of age. In 2000 there were 73 Internet service providers and 47.08 million Internet users in 2001.

The market in South Korea

South Korea had an estimated population of approximately 48.3 million in July 2002 of which 21.4% (approximately 10 million) was estimated to be under 15 years of age. In 2000 there were 11 Internet service providers and 22.23 million Internet users in 2001.

SOURCES OF REVENUE

In Hong Kong, the Group sells its products directly to customers or through major system integration houses. The Group also operates the ASP service directly and also via partners whose subscribers are using HanWeb Publishing Server in their servers. In the PRC and Taiwan the Group relies on resellers to distribute the software in both the methods described above, that is the resellers sell the software license or operate an ASP model with their own servers.

At present, the majority of income is earned by selling software licences to enterprises, the basis of charging these customers is per server and per domain name provided. There is a recurring yearly maintenance fee for the software provided. The customer will have the software running in their premises and own a non-transferable licence for its use. Smaller customers that cannot afford a one-time licence can use the Group's ASP to access the Group's services through a real time connection to the server.

The Company expects recurring income from software license fees and subscription fees of HanWeb products sold and rented to enterprises and web appliance enterprises, telecom companies, mobile phone operators, ISPs, ICPs, web designers and system integrators.

PRINCIPAL STRENGTHS OF THE GROUP

The Directors consider the following factors to be the principal strengths of the Group:

- Possession of a patented communications software platform technology — HanWeb Font Technology;
- Access to a large and fast growing potential market among the approximately 111.34 million Internet users of the PRC, Taiwan, Hong Kong, Japan and South Korea in 2001;
- An established user base, including both government organisations and large corporations in the PRC, Hong Kong and Taiwan;
- Characteristic of the international software technology industry;
- Established business relationships with reputable IT business partners;
- An experienced management team consisting of the founder, Mr. Mo and other Directors and senior staff who have been with the Group from an early stage; and
- A strong research and development team of five software engineers.

BUSINESS OBJECTIVE

The Group's business objective is to be one of the leaders in the Chinese and Asian language communications business in the PRC, Hong Kong, Taiwan, Japan and Korea; to consolidate its position as a provider of Internet based publishing server software in Greater China; to establish the de facto standard of its patented HanWeb Font Technology in the web appliance industry; to become a well known distributor of Internet based voiced enabled telephony gateway software in Greater China; to become an information service gateway operator for mobile phone users in China whose languages use character script; and to apply this business model to other countries.

To achieve these business objectives, the Group intends to implement the following key strategic initiatives:

- Increase the market awareness of inherent problems of Asian character languages among users of browser-based devices such as PCs and the benefits of accessing the Web information in voice formats through the use of mobile and conventional phones
- Development of its product to include other languages besides Chinese
- The use of a prudent pricing model to gain market share rapidly
- Focussing on software based service industries and applications, in which the Group's technology excels
- Protection of the Group's intellectual property rights of HanWeb Font Technology (which has been registered in Hong Kong) world wide by applying for registration of patents in the US, the PRC, Japan and Korea
- To exploit business opportunities in text to speech processing around the globe
- The Company will endeavor to develop a subscription based HanVoice server business based on the "ASP" business model

The Group intends to implement the following key initiatives in accordance with its business plans:

1. Product development, with emphasis on its key features, as follows:
    - Ease of use of the software and related applications for non-technical users
    - Support of diverse technology platforms to give the Group's products mass market appeal
    - Alliance and compatibility with top language technology vendor to consolidate the Group's position in the market
2. Development and marketing of the Group's voice platform for fixed line and wireless applications
3. Promoting HanWeb Publishing Server in respect of the need among Chinese users for two Chinese interfaces with the accuracy of potentially no missing characters in any Web based applications

4. Promoting the font server technology to developers of new Web applications and devices

5. Exploiting business opportunities in Web to phone applications using text to speech technology around the globe, particularly in the PRC, Korea and Japan

6. The Group will endeavor to develop a subscription based service business targeting mobile phone users accessing real-time information such as stock quotes and financial news from the Web in voice format

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Group's profile and the Placing will expand the Group's capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$14.7 million based on an issue price of HK$0.33 per Share, being the low point of the stated price range of the Issue Price. The Directors presently intend to use such net proceeds in the following manner:

- Approximately HK$2 million for development and upgrading the design of the Group's products
- Approximately HK$2 million for marketing and development of HanVoice Server
- Approximately HK$6.0 million for promotion and marketing of the Group's business in Hong Kong, Japan, Korea and especially including opening new offices in the PRC
- Approximately HK$1.7 million for repayment of loans from Metrolink of HK$0.7 million and Timeless Strategy of HK$1.0 million
- Approximately HK$3.0 million for general working capital and to support ongoing operations and expansion

Set out below is a table summarising the approximate timing of the use of the net proceeds of the Placing based on HK$0.33 per Share:

	Latest Practicable Date to 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004	For the six months ending 30th June, 2005	For the six months ending 31st December, 2005	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Upgrading Group's product	500	500	500	500	0	0	2,000
Marketing and development of HanVoice Server	125	800	575	500	0	0	2,000
General promotion and marketing	500	1,500	1,000	1,500	750	750	6,000
Repayment of loans *(Note)*	1,000	659	0	0	0	0	1,659
General working capital uses	1,500	522	522	522	0	0	3,066
	3,625	3,981	2,597	3,022	750	750	14,725

Note: Being HK$1.0 million to Timeless Strategy and HK$0.7 million to Metrolink.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors to place such net proceeds on short term deposits with financial institutions in Hong Kong. In the event there is any material modification to the use of proceeds as described above, the Company will issue an announcement regarding the change.

If the Issue Price is not set at HK$0.33, the net proceeds will be increased accordingly and the amount allocated for the respective uses described above will be increased proportionally.

Should the Issue Price be set at a maximum stated price of HK$0.45, the Company will receive additional net proceeds of HK$7.2 million.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$3.7 million based on the minimum stated price of HK$0.33 per Share. Should the Issue Price be set at the maximum stated price of HK$0.45 and the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$5.1 million. The Directors will allocate the additional amount proportionally to the respective uses described above to facilitate the implementation of the Business Plan.

Since the cost of implementation of the Business Plan up to 31st December, 2005 is estimated to be approximately HK$14.7 million, the Directors believe that the net proceeds of the Placing are sufficient to finance the Business Plan.

The Business Plan may be scaled up or down depending on factors such as market conditions, technology trends and financial resources available to the Group. In the event that there is any material modification to the use of proceeds from the Placing as stated above, the Company will issue an announcement via the GEM Website and comply with other relevant requirements of the GEM Listing Rules.

TRADING RECORD

The following is a summary of the combined results of the Group for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002, prepared on the basis that the current structure of the Group had been in place throughout the period under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

Combined income statements

	Year ended 31st December,		Seven months ended 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Turnover *(Note 1)*	415,620	2,447,692	689,705
Direct costs	(122,714)	(197,721)	(392,613)
Gross profit	292,906	2,249,971	297,092
Other operating income	199,971	44,291	42
Research and development expenses	(2,685,000)	(2,067,413)	(100,440)
Administrative expenses	(2,952,478)	(5,011,568)	(2,224,967)
Selling and distribution expenses	(164,095)	(626,605)	(51,703)
Loss from operations	(5,308,696)	(5,411,324)	(2,079,976)
Interest on borrowings wholly repayable within five years	(15,782)	(22,515)	(86,750)
Loss before taxation	(5,324,478)	(5,433,839)	(2,166,726)
Taxation	—	—	—
Loss for the year/period	(5,324,478)	(5,433,839)	(2,166,726)
Accumulated losses brought forward	—	(5,324,478)	(10,758,317)
Accumulated losses carried forward	(5,324,478)	(10,758,317)	(12,925,043)
Loss per share — Basic *(Note 2)*	1.41 cents	1.38 cents	0.52 cents

Note 1: Turnover for the seven months ended 31st July, 2002 included an amount of approximately HK$236,000 representing sales of licensed software to Timeless Software Limited. This amount was not yet settled as at the Latest Practicable Date but is expected to be set off against the 8% Note.

Note 2: The calculation of loss per Share is based on the loss attributable to shareholders for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002 and the portion of the 420,000,000 Shares issued under the Reorganisation and the Capitalisation Issue attributable to the share capital raised during the two years ended 31st December, 2001 and the seven months ended 31st July, 2002.

The turnover dropped significantly during the seven months period ended 31st July, 2002 due to the seasonal fluctuation factor. As the Group's major end-users are the Hong Kong SAR Government or quasi-government organisations, most of the Group's sales contract or project negotiations are started after April each year which is the beginning of the Hong Kong SAR Government's financial year. It usually takes a few months for the project requirements definition, tenders and contracts preparation. It may take the Group a few more months for the project completion. This explains why most of the Group turnover is recognized from September to December each year.

Rule 7.03(1) of the GEM Listing Rules requires that in the case of a new applicant the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants' report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

As the financial year of the Group ends on 31st December and this prospectus includes the combined results of the Group covering the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002, the Directors consider full compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in respect of the financial year immediately preceding the date of this prospectus ended 31st December, 2002, to be unduly burdensome. The Company has therefore applied for a waiver from strict compliance with such GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted such waiver to the effect that the accountants' report set out in Appendix I to this prospectus covers only the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st July, 2002, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of companies and prospectus from compliance with provision notice) (L.N.76 of 2001), all references to "3 preceding years", "3 financial years" and "3 years" in paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance are substituted by a reference to "2 preceding years", "2 financial years" and "2 years" respectively for a prospectus issued in relation to an application for listing of securities on GEM.

In the circumstances, an application has been made to the Securities and Futures Commission of Hong Kong for a Certificate of Exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2002 in the prospectus and a Certificate of Exemption has been granted by the Securities and Futures Commission of Hong Kong.

Pursuant to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of the listing document. As the latest financial period currently reported in the accountants' report set out in Appendix I to this prospectus is for the seven months ended 31st July, 2002, the prospectus must be dated on or before 31st January, 2003 in order to comply with the six-month period as set out in Rule 11.11 of the GEM Listing Rules. Given that the date of this prospectus is 13th February, 2003, it is 13 days beyond the six-month period as set out in Rule 11.11 of the GEM Listing Rules.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules. The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31st July, 2002 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

PLACING STATISTICS

	HK$	**HK$**
Issue Price (per Share)	0.33	0.45
Market capitalisation *(Note 1)*	160,522,560	218,894,400
Adjusted net tangible asset value per Share *(Note 2)*	0.03	0.04
Profit estimate for the year ended 31st December, 2002	not less than HK$3.6 million	

Notes:

1. The calculation of market capitalisation of the Shares is based on the maximum and minimum points of the stated price range of the Issue Price of HK$0.33 and HK$0.45 per Share respectively and 486,432,000 Shares in issue immediately after completion of the Placing and the Capitalisation Issue and the conversion of the 3% Note but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Special General Meeting of the Company held on 24th January, 2003" in Appendix V to this prospectus.

2. The adjusted net tangible asset value per Share has been arrived at after making the adjustments referred to in the paragraph headed "Adjusted net tangible assets" under the section headed "Financial information" in this prospectus and on the basis of an aggregate of 486,432,000 Shares in issue and to be issued as mentioned herein but takes no account of any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option or of any options granted or which may be granted under the Share Option Scheme or of any Shares which may be allotted or issued or repurchased by the Company pursuant to the mandates referred to in the paragraph headed "Special General Meeting of the Company held on 24th January, 2003" in Appendix V to this prospectus. If the Over-allotment Option is exercised in full or in part, the adjusted net asset value per Share will increase accordingly.

PROFIT ESTIMATE

The Directors estimate that, in the absence of unforeseen circumstances and on the bases set out in Appendix II to this prospectus, the combined profit after tax but before extraordinary items of the Group for the year ended 31st December, 2002 will not be less than HK$3.6 million. The Directors are not aware of any extraordinary items which have arisen or are likely to arise for the year ended 31st December, 2002.

On the basis of such profit estimate and the weighted average number of 420,000,000 Shares expected to be in issue for the year ended 31st December, 2002, the estimated earnings per Share will amount to approximately 0.9 cents, representing a weighted average prospective price/earnings multiple of approximately 38.5 times based on the Issue Price.

The texts of the letters from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu, and from the Sponsor in respect of the profit estimate are set out in Appendix II to this prospectus.

INITIAL MANAGEMENT SHAREHOLDERS AND OTHER SHAREHOLDERS OF THE COMPANY

Set out below are the respective shareholdings in the Company of the Initial Management Shareholders and other individual and corporate shareholders in the share capital of the Company immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised), the Capitalisation Issue and the issue of Conversion Shares.

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
1. Initial Management Shareholders								
(a) Directors (including companies controlled by Director(s))	Mr. Mo Wai Ming, Lawrence *(Chief Executive Officer, Executive Director)* *(Note 1)*	12th November, 1999	8th October, 1999	180,008	37.01%	0.0022	388,546	12 months
	ZMGI Corporation ("ZMGI") *(Note 1)*	29th January, 2000	N/A	40,432	8.31%	0.0022	87,297	12 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
	Golden Nugget Resources Limited ("Golden Nugget") *(Note 1)*	29th January, 2000	N/A	40,024	8.23%	0.0022	86,349	12 months
	Metrolink Holdings Limited ("Metrolink") *(Note 2)*	12th November, 1999	N/A	3,616	0.74%	0.0740	267,582	12 months
	Ms. Wai Lai Yung *(Executive Director)* *(Note 3)*	31st December, 2000	7th November, 2000	2,512	0.52%	0.0022	5,436	12 months
	Mr. Lee Chi Ming *(Executive Director)* *(Note 4a)*	25th September, 2002	10th October, 2002	1,432	0.29%	0.0022	3,120	12 months
	Mr. Yuen Ka Lok, Ernest *(Non-executive Director of KanHan (BVI))*	25th September, 2002	1st August, 2002	1,432	0.29%	0.0022	3,120	12 months
(b) Senior Management (including companies controlled by Senior Management)	Mr. Sze To Wai	31st December, 2000	2nd May, 2002	1,384	0.28%	0.0022	2,964	12 months
	Mr. Tso Yuk	31st December, 2000	19th July, 2000	672	0.14%	0.0022	1,482	12 months
	Mr. Tsang Yiu Kwan, Odie	28th February, 2001	15th November, 2000	1,048	0.22%	0.0022	2,262	12 months
	Ms. Lau Shui Ying	31st December, 2000	17th January, 2000	1,384	0.28%	0.0022	2,964	12 months
	Mr. Lee Jih Kang, Michael	31st December, 2000	28th March, 2002	1,384	0.28%	0.0022	2,964	12 months
	Mr. Alexander Reid Hamilton *(Note 11)*	31st December, 2000	7th November, 2000 (resigned)	2,896	0.60%	0.0022	6,240	12 months
	Mr. Young Antonio Chun Kwan (the successor of Top Asia Management Limited ("Top Asia")) *(Notes 8 and 11)*	31st December, 2000	7th November, 2000 (resigned)	3,072	0.63%	0.0022	6,630	12 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
	Mr. Shen Yu-Hsueh *(Note 11)*	8th June, 2002	1st April, 2001 (resigned)	1,432	0.29%	0.0022	3,120	12 months
(c) Others	Sino Asia Properties Limited ("Sino Asia") *(Note 1)*	12th November, 1999	N/A	6,680	1.37%	0.0022	14,395	12 months
	Mr. Hung Kwok Wing *(Note 5)*	28th February, 2001	N/A	4,328	0.89%	0.0022	9,360	12 months
				293,736	60.37%			
2. Significant Shareholder								
	Timeless Strategy Limited ("Timeless Strategy") *(Note 4)*	28th February, 2000	N/A	33,520	6.89%	0.2879	7,798,050	6 months
3. Pre-IPO Shareholders								
(a) Employees other than Directors and Senior Management *(Note 5)*								
	Mr. Lam Sau Fung	31st December, 2000	14th February, 2000 (resigned)	5,792	1.19%	0.0022	12,480	12 months
	Mr. Tsang Hing Keung	31st December, 2000	21st August, 2000 (resigned)	1,088	0.22%	0.0022	2,340	12 months
	Ms. Choy Kwun Kei, Kay	31st December, 2000	1st April, 2000	760	0.16%	0.0022	1,638	12 months
	Mr. Ho Hing Yuen	31st December, 2000	5th July, 2000	920	0.19%	0.0021	1,950	12 months
	Ms. Wong Yu, Helen	31st December, 2000	18th February, 2000	336	0.07%	0.0021	702	12 months
	Ms. Wong Kim Yim Kimmy	25th September, 2002	2nd April, 2001	376	0.08%	0.0021	780	12 months
	Mr. Lau Ching Yung	25th September, 2002	21st May, 2001	296	0.06%	0.0021	624	12 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
	Mr. Wu Chun Wing	25th September, 2002	16th July, 2001	376	0.08%	0.0021	780	12 months
	Mr. Cheung Hong Hoi	25th September, 2002	18th June, 2001	376	0.08%	0.0021	780	12 months
	Delta Pacific Resources Limited ("Delta Pacific") *(Note 10)*	21st February, 2002	N/A	5,416	1.12%	0.1037	561,600	12 months
				15,736	3.25%			
(b) Pre-IPO Shareholders classified as Public Shareholders								
(i) Consultants *(Note 5)*	Ms. Lai Ying, Queenie	25th September, 2002	N/A	4,328	0.89%	0.0022	9,360	12 months
	Ms. Li Oi Heung, Candy	25th September, 2002	N/A	4,328	0.89%	0.0022	9,360	12 months
	Mr. Wong Ka Ming	25th September, 2001	N/A	4,328	0.89%	0.0022	9,360	12 months
(ii) Individual and Corporate Shareholders	Kapabla, Inc. ("Kapabla") *(Note 6)*	25th February, 2000	N/A	8,312	1.71%	0.0604	502,320	12 months
	Dragon Yield Investments Limited ("Dragon Yield") *(Note 7)*	24th November, 2000	N/A	1,432	0.29%	0.1460	209,040	12 months
	Naturally Open Inc. ("Naturally Open") *(Note 9)*	31st May, 2001	N/A	712	0.15%	0.0876	62,400	12 months
				23,440	4.82%			
4. Public Shareholders pursuant to the Placing								
	Public Shareholders pursuant to the Placing	Listing Date	N/A	120,000	24.67%	Issue Price	N/A	N/A
Total:				486,432	100%			

Notes:

1. The issued share capital of Cyber Systems Limited ("Cyber Systems") is beneficially owned as follows:

Name of shareholder	**Percentage of shareholdings in Cyber Systems**	**Ultimate beneficial owner of the shareholders in Cyber Systems**
Mr. Mo	67.5%	Mr. Mo
ZMGI (principally engaged in investment holding)	15%	Mr. Lee Chi Kong, an independent third party to the Group (save as his interest in ZMGI) (42.5%) Metrolink (owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung) (42.5%) Mr. Chan Chun Hung, Vincent (1%), an independent third party to the Group (save as his interest in ZMGI) Golden Nugget (owned solely by Ms. Wai Lai Yung) (6%) Crystal Bright Investments Ltd. ("Crystal Bright") (owned solely by Chan Hoi Kwong, Paul, an independent third party to the Group (save as his interest in ZMGI through Crystal Bright) (2%) Mr. Hung Kwok Wing (3%), a consultant of the Group Mr. Young Antonio Chun Kwan (3%)
Golden Nugget (principally engaged in investment holding)	15%	Ms. Wai Lai Yung (100%)
Sino Asia (principally engaged in investment holding), the successor of Genius Group Investment Limited ("Genius Investment")	2.5%	Mr. Cheung Wing Woo, the father of Mr. Kane Cheung, an independent third party to the Group (save as his interest in Sino Asia) (50%) Mr. Kwok Chi Ho, an independent third party to the Group (save as his interest in Sino Asia) (50%)
Total	100%	

Cyber Systems was incorporated as a corporate vehicle for the sole purpose of holding the respective interests of Mr. Mo, ZMGI, Genius Investment and Golden Nugget. Genius Investment is owned as to 50% by Mr. Cheung Wing Woo and as to 50% by Mr. Kwok Chi Ho. On 18th September, 2001, Genius Investment disposed of its entire interests in Cyber Systems to Sino Asia at a consideration of US$4,500, being the cost of investment.

Neither Sino Asia nor its ultimate beneficial owner has board representation or management function in the Group.

Taking into consideration of the contributions made to the Group by Mr. Mo, ZMGI, Golden Nugget and Genius Investment (the predecessor of Sino Asia), the cost of investment of Cyber Systems in the Group was nominal.

Examples of contributions made by the founders:

Mr. Mo assigned the patent of HanWeb Font Technology to the Group without economic consideration.

ZMGI rendered financial and management consultancy services to the Group. As regards financial consultancy service, ZMGI introduced potential investors and customers to the Group. For instance, Timeless Strategy, who has become an investor in the Group, was introduced by ZMGI. As regards management consultancy services, ZMGI developed the accounting system for the Group.

Ms. Wai Lai Yung (who is the sole shareholder of Golden Nugget) devoted her effort in giving financial advice to the Group. Furthermore, on 7th November, 2000, she become a director of KanHan (BVI) as a recognition of her contribution to the Group.

Genius Investment was previously wholly owned by Mr. Kane Cheung who had devoted his effort in advising the design of the software of the Group during the founding stage of the Group.

Shareholding changes of Cyber Systems are as follows:

Shareholders of Cyber Systems:	**%**	**5th January, 2000**	**29th February, 2000**	**25th March, 2000**	**6th April, 2001**	**18th September, 2001**	**9th November, 2001**	**Total**
Metrolink	0	1,000,000	350,000	(1,350,000)				0
Mr. Mo	67.5		5,850,000		9,000,000		(2,700,000)	12,150,000
Mr. Lee Chi Kong	0		1,350,000	(1,350,000)				0
Genius Investment	0		450,000			(450,000)		0
ZMGI	15			2,700,000				2,700,000
Sino Asia	2.5					450,000		450,000
Golden Nugget	15						2,700,000	2,700,000
	100	1,000,000	8,000,000	—	9,000,000	—	—	18,000,000

As part of the Reorganisation, in consideration of and in exchange for Cyber Systems selling to the Company all its interest in KanHan (BVI), the Company (a) allotted and issued and credited as fully paid an aggregate of 8,900,000 Shares to the above shareholders of Cyber Systems, (as to 5,975,000 Shares to Mr. Mo, 1,350,000 Shares to ZMGI, 225,000 Shares to Sino Asia and 1,350,000 Shares to Golden Nugget); and (b) credited as fully paid 100,000 nil-paid Shares issued to Mr. Mo on incorporation of the Company. Further particulars of the Reorganisation are set out in the paragraph headed "Group Reorganisation" in Appendix V to this prospectus.

2. Metrolink is principally engaged in investment holding. The issued share capital of Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung.

   Mr. Lai Kui Shing, Andy, being one of the beneficial owners of Metrolink, is a director of each of KanHan (BVI) and KanHan (HK).

   Ms. Wai Lai Yung, being one of the beneficial owners of Metrolink, is an executive Director of the Company.

3. Ms. Wai Lai Yung, an executive Director of the Company, has 100% beneficial interest in Golden Nugget and 50% beneficial interest in Metrolink, which holds 42.5% in ZMGI.

4. Timeless Strategy is principally engaged in investment holding and is a wholly owned subsidiary of Timeless Software Limited. The shares of Timeless Software Limited are listed on GEM. Timeless Software Limited develops computer software and sells computer software and hardware. Timeless Software Limited does not compete with the Group.

   Neither Timeless Strategy nor its beneficial owner has board representation or management function in the Group. Both Timeless Strategy and its beneficial owner are independent third party of the Group.

4a. KanHan (BVI) issued and allotted shares to Mr. Lee on 25th September, 2002 on the understanding that Mr. Lee will be the executive Director of the Company after the Company has been duly incorporated. After the Company had been duly incorporated in October 2002, Mr. Lee started rendering service to the Company.

5. The interests of employees and consultants in the Group represent the swap of their respective interests in KanHan (BVI), which was allotted at par value of US$0.01 as the performance bonus in respect of their respective contributions to the Group, pursuant to the Reorganisation.

All the employees are independent third parties of the Group (save as their employment by the Group).

Ms. Lai Ying, Queenie, being a consultant of the Group, is a daughter of Mr. Lai Kui Shing, Andy, a shareholder of Metrolink and a director of both KanHan (HK) and KanHan (BVI). Mr. Hung Kwok Wing, being a consultant of the Group, holds 3% shareholdings in ZMGI, a shareholder of the Company. Save as disclosed herein, all the consultants are independent third parties of the Group.

6. Kapabla is principally engaged in investment holding. The issued share capital of Kapabla is beneficially owned as to 50% by Mr. Richard S. Myers and as to 50% by Mr. John B. Possman.

Neither Kapabla nor its ultimate beneficial owners has board representation or management function in the Group. Both Kapabla and its ultimate beneficial owners are independent third party of the Group.

7. Dragon Yield is principally engaged in investment holding. The issued share capital of Dragon Yield is beneficially owned as to 100% by Ms. Tang Wai Fun.

Neither Dragon Yield nor its ultimate beneficial owners has board representation or management function in the Group. Both Dragon Yield and its ultimate beneficial owners are independent third party of the Group.

8. The issued share capital of Top Asia is beneficially owned as to 100% by Mr. Young Antonio Chun Kwan. Top Asia is an investment holding company. Pursuant to the Reorganisation, in consideration and in exchange for Top Asia selling all its interest in KanHan (BVI), the Company issued, allotted and credited as fully paid an aggregate of 45,000 Shares (before Capitalisation Issue) to Mr. Young Antonio Chun Kwan.

Mr. Young, Antonio Chun Kwan was an ex-director of KanHan (BVI) and resigned in October 2002.

9. Naturally Open is principally engaged in investment holding. The issued share capital of Naturally Open is beneficially owned as to 100% by Mr. Robert T. Myers.

Neither Naturally Open nor its ultimate beneficial owners has board representation or management function in the Group. Both Naturally Open and its ultimate beneficial owners are independent third party of the Group.

10. Delta Pacific is principally engaged in investment holding. The issued share capital of Delta Pacific is beneficially owned as to 100% by Mr. Tsang Hing Keung.

Neither Delta Pacific nor its ultimate beneficial owners has board representation or management function in the Group. Mr. Tsang Hing Keung was an employee of the Group and resigned on 31st December, 2001.

11. Mr. Alexander Reid Hamilton was an ex-non-executive director of KanHan (BVI) and resigned in October 2002. Both Mr. Shen Yu-Hsueh and Mr. Young Antonio Chun-Kwan were ex-directors of KanHan (BVI) and resigned in November 2002 and October 2002 respectively as they do not have enough time to carry out the duty as directors.

Except as disclosed in this prospectus, each of the Initial Management Shareholders has confirmed with the Company, the Sponsor and the Stock Exchange that he, she or it or his, her or its respective associates, has not entered into, and will not enter into prior to listing, any arrangements or agreements in relation to the Shares of the Company or any member of the Group issued and allotted to each of them or to be placed pursuant to the Placing and price of the Shares.

Except as disclosed above, each of the Pre-IPO Shareholders has declared that he, she, or it is independent of and not connected with the Directors, chief executives, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates or existing shareholders of the Company. The relevant Shares are subscribed by the Pre-IPO Shareholders of their own funds and/or are settled by assets owned by the respective Pre-IPO Shareholders. The acquisition of the relevant Shares is not financed directly or indirectly by any connected person of the Company, the Directors, chief executives, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates.

Each of the Pre-IPO Shareholders is not accustomed to taking instructions from a connected person of the Company in relation to the acquisition, disposal, voting or other disposition of the relevant Shares registered in his/her/its name or otherwise held by him/her/it.

No arrangement nor proposal has been made by each of the Pre-IPO Shareholders with any other party connected with the Company, the Directors, chief executive, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates in respect of the manner of the voting rights of the Shares.

The Directors consider the discounts given to all investors for the shares as compared to the Issue Price to be fair and reasonable, after taking into account the risk of investment involved. The Directors also consider the benefits received by the Group to be commensurate with the value of the shares allotted to all investors.

SALE SHARES

The Vendors are offering 60,000,000 Sale Shares for purchase by way of placing. The Vendors are Mr. Mo, Ms. Wai Lai Yung and companies controlled by Ms. Wai Lai Yung, Mr. Lai Kui Shing, Andy, Mr. Lee Chi Kong, Mr. Cheung Wing Woo (the father of Mr. Kane Cheung, an independent third party to the Group save as his directorship in Sino Asia) and Mr. Kwok Chi Ho, (the "Sale Shareholders"). Mr. Kane Cheung was a director of KanHan (BVI) until resigning in October 2002. The Vendors will receive net proceeds of approximately HK$14.7 million from the Placing of the Sale Shares after deducting the relevant expenses to be borne by them. Since the establishment of the Group the Sale Shareholders have provided financial support to the Group by way of equity investment and by loans and guarantees of HK$2.3 million. Details of these loans and guarantees are set out in the paragraph headed "Exempted continuing connected transactions" under the section headed "Business" in this prospectus. The Sale Shareholders consider they have contributed significant support to the Group and have given up certain of their personal entitlements so as to facilitate the listing of the Company. In addition the offering of the Sale Shares will not affect the Group's achievement of its objectives as set out in the section headed "Statement of business objectives" in this prospectus. Furthermore, the Directors wish the shareholding structure to be more evenly distributed after the Placing. The potential investors wish the Sale Shareholders of the Company to be adequately financially compensated.

RISK FACTORS

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" of this prospectus. You should read this section carefully and evaluate the risks set out herein before you decide to invest in the Placing Shares.

The Directors consider that the operation of the Group is subject to a number of risk factors which can be categorised into (i) risks relating to the Group; (ii) risks factors relating to the industry; and (iii) risks relating to political and economic considerations, which are summarised as follows:

Risks relating to the Group

- Reliance on a limited number of customers
- Limited operating history
- Ability to attain profitability
- Credit risks
- Reliance on Shareholders Loans and Government Loans
- Implementation of the Business Plan may not be successful
- Reliance on key management
- Changes in market trends
- Risk of infringement of intellectual property by third parties
- Reliance on a limited number of products
- Limited insurance coverage of the Group
- Ability to manage growth
- Ability to expand into new markets
- Foreign exchange exposure
- Seasonality of receipts

Risks relating to the industry

- Technological change and evolving industry standards
- Demand for technical and marketing personnel
- Potential competition

Risks relating to political and economic considerations

- Political and economic risks in Hong Kong
- Political and economic risks in the PRC
- Political and economic risks in Taiwan

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

"associate(s)"	has the meaning ascribed to it under the GEM Listing Rules
"Board"	the board of Directors
"Business Plan"	the business plan of the Group as formulated by the Directors and set out in the section headed "Statement of business objectives and strategies" in this prospectus
"BVI"	British Virgin Islands
"Capitalisation Issue"	the issue of Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of the Company as referred to in the paragraph headed "Special general meeting of the Company held on 24th January, 2003" in Appendix V to this prospectus
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"Companies Law"	the Companies Law (2002 Revision) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
"Company"	KanHan Technologies Group Limited (看漢科技集團有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 10th October, 2002
"Conversion Shares"	6,432,000 new Shares to be issued at HK$0.28 per Share (based on 85% of the Issue Price at HK$0.33) consequent to the exercise of the conversion rights in full (without taking into consideration of the conversion of the accrued interest on the principal amounts of the 3% Note which has yet to be determined until the Issue Price and the conversion date are fixed in due course) by Timeless Strategy pursuant to the 3% Note and do not form part of the Placing Shares
"Convertible Notes"	(a) a 3% convertible note dated 3rd August, 2001 with a face amount of HK$1.8 million (the "3% Note") by a deed dated 9th October, 2002 issued by KanHan (BVI) to Timeless Strategy as varied by a deed dated 9th October, 2002, which will be converted into the Conversion Shares before listing, which is referred to in note 19 to the accountants' report in Appendix I to this prospectus; and

	(b) a 8% convertible note dated 22nd April, 2002 with a face amount of HK$1.0 million (the "8% Note") issued by KanHan (BVI) to Timeless Strategy as varied, which is referred to in note 18 to the accountants' report in Appendix I to this prospectus and for which the conversion rights have been abandoned by Timeless Strategy and the loan will be fully repaid on 31st March, 2003
"Directors"	the director(s) of the Company
"GEM"	The Growth Enterprise Market of the Stock Exchange
"GEM Listing Committee"	the listing sub-committee of the board of the Stock Exchange with responsibility for GEM
"GEM Listing Rules"	the Rules Governing the Listing of Securities on GEM
"GEM Website"	the Internet Website *www.hkgem.com* operated by the Stock Exchange for the purpose of GEM
"Golden Nugget"	Golden Nugget Resources Ltd., a company incorporated in BVI with limited liability on 29th February, 1996 and an Initial Management Shareholder
"Greater China"	the PRC, Taiwan, Hong Kong and Macau
"Group"	the Company together with its subsidiaries or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, the present subsidiaries of the Company or the business operated by such subsidiaries or (as the case may be) their predecessors
"HanVoice Server"	one of the Group's products in respect of a real-time text to speech platform available in Cantonese, Putonghua and English, details of which are described in the paragraph headed "HanVoice Server" in the section headed "Research, Products and Technology Development" in this prospectus
"HanWeb Font Technology"	the Group's patented server based font technology in respect of real-time on-line communications software platform for Asian languages, such as the Chinese, Japanese and Korean, details of the registration of which are summarised in the section headed "Intellectual Property Rights of the Group" in Appendix V to this prospectus

"HanWeb Publishing Server"	one of the Group's product in respect of software that ensures text in Asian Characters is displayed accurately on Web pages, details of which are described in the paragraph headed "HanWeb Publishing Server" in the section headed "Research, Products and Technology Development" in this prospectus
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Initial Management Shareholders"	the initial management shareholders of the Company as described in the section headed "Substantial Shareholders, Significant Shareholder and Initial Management Shareholders" in this prospectus
"Issue Price"	the price per Share (exclusive of brokerage, transaction levy and the Stock Exchange trading fee) at which the Shares are to be subscribed or to be offered for sale under the Placing, to be determined on the Price Determination Date
"KanHan (BVI)"	KanHan Technologies Inc. (formerly known as kanhan.com inc.), a company incorporated in BVI with limited liability on 21st September, 1999 and a wholly owned subsidiary of the Company
"KanHan (HK)"	KanHan Technologies Limited, a company incorporated in Hong Kong with limited liability on 8th October, 1999 and an indirect wholly owned subsidiary of the Company
"Latest Practicable Date"	31st December, 2002, being the latest practicable date for the purpose of ascertaining certain information included in this prospectus
"Listing Date"	the date on which dealings in the Shares first commence on GEM
"Macau"	Macau Special Administrative Region of the PRC
"Main Board"	the stock market operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which continues to be operated by the Stock Exchange in parallel with GEM and which, for the avoidance of doubt, excludes GEM

"Metrolink"	Metrolink Holdings Limited, a company incorporated in BVI with limited liability on 5th February, 1993 and an Initial Management Shareholder
"Mr. Mo"	Mr. Mo Wai Ming, Lawrence, the Chief Executive Officer of the Company and the controlling shareholder of the Company
"New Shares"	the 60,000,000 new Shares initially available for subscription under the Placing
"Over-allotment Option"	the option granted by the Company to South China Securities, for and on behalf of the Underwriters, and exercisable by South China Securities, for and on behalf of the Underwriters, to require the Company to allot and issue at the Issue Price the Over-allotment Shares, representing 10% of the number of the Placing Shares initially being offered under the Placing, solely to facilitate over-allocation in the Placing
"Over-allotment Shares"	up to an aggregate of 12,000,000 Shares which may be allotted pursuant to the exercise of the Over-allotment Option
"Placing"	the conditional placing of the Placing Shares for cash at the Issue Price subject to the terms and conditions stated herein
"Placing Shares"	the New Shares and the Sale Shares
"PRC" or "China"	the People's Republic of China which, for the purposes of this prospectus, excludes Hong Kong, Macau and Taiwan
"Price Determination Agreement"	the agreement to be entered into between the Company and the Sponsor (for itself and on behalf of the Underwriters) for determining the Issue Price
"Price Determination Date"	the date, expected to be on or around 14th February, 2003 on which the Issue Price will be fixed for the purpose of the Placing
"Reorganisation"	the reorganisation of the Group in preparation for the listing of the Shares on GEM, particulars of which are set out in the paragraph headed "Group reorganisation" in Appendix V to this prospectus
"Sale Shares"	the 60,000,000 Shares being offered for sale by the Vendors under the Placing
"SDI Ordinance"	the Securities (Disclosure of Interests) Ordinance (Chapter 396 of the Laws of Hong Kong)

"Share(s)"	share(s) of HK$0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 24th January, 2003, the principal terms of which are summarised in the section headed "Share Option Scheme" in Appendix V to this prospectus
"Shareholder(s)"	holder(s) of the Share(s)
"Sino Asia"	Sino Asia Properties Limited, a company incorporated in BVI with limited liability on 20th August, 2001 and an Initial Management Shareholder
"South China" or "Sponsor"	South China Capital Limited, an investment adviser registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), a GEM approved sponsor and the sponsor to the listing of the Company on GEM
"South China Securities" or "Lead Manager"	South China Securities Limited, a dealer in securities registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong) and the lead manager to the Placing
"Stock Exchange"	The Stock Exchange of Hong Kong Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
"Timeless Strategy"	Timeless Strategy Limited, a company incorporated in Hong Kong with limited liability on 28th November, 1997 and a Significant Shareholder
"Underwriters"	South China Securities Limited, KGI Capital Asia Limited, Whole Win Securities Limited, First Shanghai Capital Ltd., Toyo Securities Asia Ltd., First Asia Finance Group Limited, OpenOffering Capital Limited, Sinomax Securities Limited and Horwath Capital Asia Limited
"Underwriting Agreement"	the placing and underwriting agreement relating to the Placing dated 13th February, 2003 and entered into among the Company, the executive Directors, the Vendors and the Underwriters, particulars of which are set out in the section headed "Underwriting" in this prospectus
"United States" or "US"	The United States of America
"Vendors"	the vendors of the Sale Shares, of which 39,520,000 Shares to be offered by Mr. Mo, 8,880,000 Shares by ZMGI, 8,784,000 Shares by Golden Nugget, 1,464,000 Shares by Sino Asia, 800,000 Shares by Metrolink, 552,000 Shares by Ms. Wai Lai Yung

"ZMGI"	ZMGI Corporation, a company incorporated in BVI with limited liability on 14th March, 2000 and an Initial Management Shareholder
"HK$" and "cents"	Hong Kong dollars and cents, respectively, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US$" or "US dollars"	United States dollars, the lawful currency of the United States
"%"	per cent.

Unless otherwise specified in this prospectus, amounts denominated in US$ and RMB have been translated, for the purpose of illustration only, into Hong Kong dollars at a rate of HK$7.80 = US$1.00 and HK$1.00 = RMB 1.07 respectively. No representation is made that any amounts in US$ or Hong Kong dollars or Renminbi could have been or could be converted at the above rate or at any other rates or at all.

"2G"	"Second Generation" — a type of wireless communications technology, based on digital technology, including GSM, CDMA (code division multiple access) and D-AMPS (digital advanced mobile phone service) technology, which was developed primarily for voice applications
"3G"	a specification for the third generation of mobile communication technology, which emphasises increased bandwidth and wireless air interfaces
"ASP"	application service provider
"Attributes"	the particular qualities of KanHan's technologies and products
"Browser"	a software application used to locate and display Web pages
"Cantonese Braille"	characters for the visually impaired who speak Cantonese
"Contextual rules"	language rules relating to a particular context
"CRM"	customer relationship management
"end to end"	describing a complete system that does not require secondary development by users and is ready to function
"Extranet"	an intranet that is partially accessible to authorised persons outside an organisation
"HanWeb"	the name of the Company's product
"HTML"	Hypertext Markup Language
"ICP"	Internet Content Provider
"IDC"	International Data Corporation, a private company that is an independent market research firm specialising in information technology and is independent of the Group
"Information Technology" or "IT"	the technology used in the storage, processing and transmission of large quantities of information
"Internet"	a decentralised global network connecting millions of computers world wide
"Internet based font server"	a font server accessible via the Internet
"Intranet"	a network based on protocols developed for the Internet and belonging to an organisation

"ISPS"	Internet Service Providers
"Legacy documents"	files stored in various existing document formats
"Lexemic rules"	language rules relating to words
"OEM"	acronym for "Original Equipment Manufacturing", manufacture of products using its own equipment, in accordance with customers' design and requirements, and sold in customers' brandname
"Orthographic rules"	language rules relating to the spelling of words
"Parser"	a software device that analyses the content of the client's Web site
"PC"	personal computer
"PDA"	personal digital assistant, a handheld computer with functionality intended for replacing a variety of paper-based systems such as personal organisers, address books and diaries
"PDF"	portable document format, a popular software package
"platform"	a computing environment which allows the development and execution of computer applications
"Scalable"	referring to how well a hardware or software system can adapt to increased demands
"Simplified Chinese"	Chinese script used in the PRC and Singapore, a simplified version of traditional Chinese
"Systems integrator"	a person that specialises in building complete computer systems by putting together components from different vendors
"tags"	a command inserted in a document that specifies how the document, or a portion of it, should be formatted
"thin client web based technologies"	technology relieving the client of the requirement to install software and font systems into his computer
"Traditional Chinese"	Chinese script used in Hong Kong, Taiwan and most overseas Chinese people

"Unicode"	a sixteen bit character set standard designed and maintained by the non-profit making consortium Unicode Inc.
"URL"	Uniform resource locator
"Voice XML"	extensible markup language for voice applications
"WAP"	wireless application protocol
"Web designer"	a person that designs pages for display on the World Wide Web
"WML"	wireless markup language
"World Wide Web" or "Web"	the system of Internet Servers that delivers documents written in HTML
"XML"	Extensible Markup Language

This prospectus contains forward-looking statements that include, among other things, statements of business objectives relating to the Group's business, statements as to the revenue and profitability of the Company and other statements of expectation, belief, business plans and strategies, anticipated developments and other matters that are not historical facts. The Directors caution potential investors that there are risks and uncertainties associated with investment in the Company and actual events or results may differ materially from those expressed or implied by the statements contained in this prospectus. Potential investors should carefully consider all the information set out in this prospectus and in particular should evaluate the following risks before deciding to invest in the Company.

Risks relating to the Group

Reliance on a limited number of customers

For the year ended 31st December, 2001, the Group's single largest customer and the 5 largest customers accounted for approximately 36.8% and 76.4% respectively of the Group's total sales. For the seven months ended 31st July, 2002, the Group's largest customer and the 5 largest customers accounted for approximately 34.2% and 76.4% respectively of the Group's total sales. The termination of any business relationship with any of these major customers without finding a replacement customer in the same sector could adversely affect the income and business of the Group.

Limited operating history

The Group solicited its first contract in September 2000. As such prospective investors can only evaluate the Group's business and prospects based on its limited operating history. Since July 2000 the Group has been principally engaged in the development of HanWeb Publishing Server in respect of the translation of Traditional Chinese to Simplified Chinese, and vice versa, and the development of TTS applications.

Ability to attain profitability

The Group has sustained losses since its inception. It is expected that the Group will incur further marketing and promotion expenses and other operating expenditures when compared to the historical expenses in such areas in the course of the implementation of the Business Plan. Despite the Directors' intention to implement the Business Plan with an aim to generate profit, there is no assurance that the Group will be able to attain profitability in the future.

Credit risks

As at 31st July, 2002, the Group's trade receivables amounted to approximately HK$251,000, representing approximately 46% of the Group's total current assets. Based on its policy of provision for doubtful debts, full provision has been made for the outstanding accounts over one year. The Group wrote off a bad debt of HK$92,880 for the year ended 31st December, 2001 which represented approximately 4% of gross profit during that period. Although the Directors are of the view that adequate provision has been made for bad and doubtful debts as at 31st July, 2002, there is no assurance that if there is any deterioration in the credit-worthiness of any of its customers, the performance and profitability of the Group will not be adversely affected.

Reliance on Shareholders Loans and Government Loans

The Group had non-current liabilities of HK$4 million to the Hong Kong Government and its Shareholders as at 31st July, 2002. There is a risk that when these liabilities fall due the Group may not have the resources or credit facilities to repay them.

Implementation of the Business Plan may not be successful

The Directors expect that there will be a period of rapid growth in the future as a result of the implementation of the Business Plan. This could place significant strain on the Group's managerial, operational and financial resources. To accommodate this growth, the Group must implement new or upgrade its existing operating and financial systems, procedures and controls. Failure of the Group to manage its expansion or to obtain adequate financing in a timely manner may result in increased expenses or affect the implementation of the Business Plan and in turn slow down the pace of growth and affect the financial position and profitability of the Group.

Reliance on key management

The Group's success is, to a substantial extent, attributable to the strategy and vision of its founder and the efforts of certain key members of its management team, in particular Mr. Mo, the founder, and Mr. Tso Yuk, Mr. Szeto Wai and Mr. Lee Jih Kang, Michael. The details of the management team are set out in the section headed "Directors, senior management and staff" of this prospectus. In view of their experience and knowledge of the business of the Group, their continued involvement is important to the future prospects of the Group. Should these personnel cease to be involved in the Group's business operations, the profitability of the Group may be adversely affected.

Changes in market trends

Market trends and customer preferences change from time to time. Sales of the products of the Group may be affected by the prevailing market trends and customer preferences. Should there be any change in market trends and customer preferences and the Group is not able to launch new products in a timely manner to meet such changes, the business of the Group may be adversely affected.

Risk of infringement of intellectual property by third parties

Mr. Mo has applied for registration of its patent HanWeb Font Technology (which has been registered in Hong Kong) in the US, the PRC, Japan and Korea. These patent applications are still being processed. This patent was then assigned by him to the Group in October 2002. At this stage, the Group cannot guarantee whether these patent applications will be approved. To the extent that any of these patent applications is not approved, there may be a material adverse effect on the Group's business, financial condition and results of operation. Further details of the intellectual property rights of the Group are set out in the paragraph headed "Intellectual property rights of the Group" in Appendix V to this prospectus.

The Group's success depends heavily on its ability to protect its proprietary technologies and processes. The Group relies upon patents, copyrights, and trade secret laws and will also rely upon confidentiality and non-disclosure agreements and other measures to establish and protect its proprietary rights to its technologies, products and services. Such protection may not be able to preclude competitors from infringing the Group's intellectual property rights in its technologies, products and services. Despite such precaution, it may be possible for a third party to copy or otherwise obtain and use such contents and technology without the Group's authorisation, or to develop similar technology independently. There can also be no assurance that other companies will not obtain patents similar to or challenge the patents obtained by the Group. In addition, policing unauthorised use of the Group's proprietary contents and technology is difficult and there can be no assurance that the steps taken by the Group will prevent misappropriation or infringement of its rights. In addition, legal proceedings may be necessary in the future to enforce the Group's intellectual property rights, to protect its trade secrets and confidential information or to determine the validity and scope of the proprietary rights of others. This could result in substantial costs and diversion of the Group's resources and could have a material adverse effect on its business, financial condition and results of operations. If a significant portion of the Group's intellectual property is copied, reproduced or used without the Group's authorisation, the Group's business may be adversely affected.

In developing the Group's technologies, products and services, the Group has used various technologies or know-how which it believes are in the public domain, licensed to the Group or it otherwise has the right to use. There can be no assurance, however, that third parties will not institute patent or other intellectual property infringement claims against the Group with respect to such technologies, products and services.

The Directors are not aware of any alleged claims of infringement of patents, copyrights or other intellectual property rights held by third parties in respect of the products manufactured by the Group. Thus, the Directors are not able to ascertain whether the Group will be subject to any legal proceedings and claims relating to the intellectual property of others. Intellectual property litigation is expensive and time consuming, and successful infringement claims against the Group may result in substantial monetary liability or disruption to the business of the Group.

Reliance on a limited number of products

To date, the Group's turnover has been generated principally from sales of the HanWeb Publishing Server which accounted for 100% of total turnover for the years ended 31st December, 2000 and 31st December, 2001 and the seven months to 31st July, 2002 respectively. If the market for this major product weakens for any reason, the potential loss in sales would affect adversely the Group's profitability. The HanVoice Server is a subsidiary product of the HanWeb Publishing Server.

Limited insurance coverage of the Group

The insurance market may not be able to keep pace with the speed of change of the industry in which the Group operates and the Group may not be able to obtain adequate insurance to cover a wide range of risks to which it may be exposed on reasonable commercial terms. Any successful claim made against the Group which is not covered by the Group's insurance or is in excess of its insurance coverage could have a material adverse affect on the Group's business, operations and financial position. The Group has not yet taken out any insurance for product liability apart from its public liability insurance. The Group has public liability insurance of HK$5,000,000, employees compensation and medical insurance.

Ability to manage growth

The Directors anticipate a rapid expansion of business and believe that the Group's future growth and success will depend to a large extent on the management's ability to maintain effective control over a larger enterprise and also to depend on the Group's ability to retain or recruit qualified individuals to strengthen management and its operational and research capability. As the Group's business grows, it also faces risks relating to the need to expand and enhance its sales, operating, administrative and financial procedures and controls. If the Group cannot manage growth successfully its business will suffer.

Ability to expand into new markets

The Directors intend to expand the business of the Group into Greater China as described in the section headed "Statement of business objectives and strategies" in this prospectus. As a result the growth of the Group will be dependent upon, among other things, the Group's ability to analyse accurately the market conditions of these countries, successfully develop its product and services for new languages, adapt to the business environment of these untested markets and conclude successful negotiations with potential business partners. The Group may be exposed to withholding tax or other taxation imposed by the relevant authorities in these countries. If the Group fails to adapt to the business environment of these markets, or the economies of the principal markets in which the Group operates suffer any downturn, or there is any political instability or fluctuation in currency rates or unexpected changes in regulatory requirements, or any of the business arrangements to which the Group is a party are not successful, the planned expansion of the Group's operations and the business, profitability, and growth will be adversely affected.

Foreign exchange exposure

Expansion into new markets may increase the foreign exchange exposure of the Group, for example, against the Japanese Yen and the Korean Won. Any depreciation of these foreign currencies against the Hong Kong dollars could have an adverse impact on the performance and profitability of the Group.

Seasonality of receipts

A significant proportion of the Group's annual revenue is based on the second half of the financial year than in the first half of the year. This effect is caused by the tendency of large corporations and government organisations in Hong Kong to decide on spending budgets at the start of the year and to make payments for the IT systems purchased at the end of the year. There is a risk that the Group may have insufficient working capital in the first half of the year to sustain operations until revenues are received in the second half.

Risks relating to the industry

Technological change and evolving industry standards

The information technology industry is a fast developing industry and is characterized by rapidly changing technology, evolving industry standards, emerging competition and frequent introductions of new products and services. If companies in the information technology services industry do not keep up with the most up-to-date technologies, they may find it difficult to compete with others who are able to keep abreast of the changes. There is no assurance that the Group will continue to be able to do so in the future. The Group's business will be adversely affected if it is unable to successfully introduce new technology and enhancements and respond to rapid technological changes.

The Directors believe that the Group's ability to compete successfully is also dependent upon the continued compatibility of its services with products and architectures offered by other companies. The introduction of new products or services by the Group or its competitors and any change in industry standards could cause customers to defer or cancel purchases of existing products or services, which may have a material adverse effect on the Group's business, financial condition and results of operation. The failure of the Group to anticipate the prevailing standards or the lack of common standards in the information technology industry, can have a material adverse effect on the Group's business and results of operation. In addition, services or technologies developed by others could render the Group's services or technology uncompetitive or obsolete. While attention is paid to perceived changes in major trends in the market, the Group is still vulnerable to significant loss due to misinterpretation of market conditions.

The Chinese language software market is characterised by rapidly changing technology and evolving industry standards. Other companies may introduce similar or competing products using a more effective technology or new operating software systems that may reduce future sales of the Group's software.

Demand for technical and marketing personnel

The success of the Group's operations lies in its ability to attract and retain employees with the appropriate technical expertise or business experience. A shortage of key staff may reduce the Group's ability to expand.

Potential competition

The Directors consider that the Group faces potential competition from other manufacturers or distributors of software which has the same objective as the Group's software. Should competitors become more successful in meeting the needs of customers, the Group's future growth and profitability may be adversely affected.

Risks relating to political and economic considerations

Political and economic risks in Hong Kong

Almost all of the Group's operations are currently located in Hong Kong, which is a Special Administrative Region of the PRC, with its own government and legislature. The Joint Declaration between the PRC and the British Government together with the Basic Law provide that Hong Kong will have a continuing high degree of legislative, judicial and economic autonomy. There can be no assurance that the present political and economic environment of Hong Kong will remain unchanged. Future changes in the political and economic environment of Hong Kong may have adverse effects on the operation, business and financial condition of the Group.

Political and economic risks in the PRC

The PRC has been a socialist country since 1949 when its economic activities were centrally planned. Since 1978, the PRC government has been reforming the country's economy. The economy of the PRC is at present in a transitional period from a centrally planned one to a more market-oriented economy. The reform has resulted in significant economic growth and social progress in the past decade; however, many of the reform measures are unprecedented and experimental in nature and may be subject to modification and refinement by the government of the PRC. Such potential modification and refinement may have an adverse effect on the PRC's political, economic and social environments if they lead to, among others, higher unemployment rate, inflation rate and greater income discrepancies between the rural and urban population. Hence the Group's performance and financial positions may be adversely affected. Although the Directors believe that the PRC will continue its reform programme and that the potential modification to the existing measures may be positive, there is no guarantee that the Group can benefit from such measures and modification.

The interpretation and planning of existing laws and regulations in the PRC and possible new laws or regulations have created substantial uncertainties regarding the legality of existing and future foreign investments in, and the business activities of PRC software businesses, including the Group's business.

The Group expects to derive a substantial percentage of its revenues from the PRC market. Changes in political and economic conditions in the PRC are difficult to predict and could adversely affect the Group's operations or cause the PRC market to become less attractive to users, which could reduce its revenues.

Political and economic risks in Taiwan

The Group expects to derive future operating revenues from customers in Taiwan. Therefore the Group's business, results of operations and financial condition may be affected by changes in government policies, political and social instability of Taiwan. Taiwan has a unique international political status. The PRC government asserts sovereignty over Mainland China and Taiwan and does not recognise the legitimacy of the Taiwan government. The PRC government has indicated that it may use military force to gain control over Taiwan if Taiwan declares independence or if a foreign power interferes in Taiwan's domestic affairs. As a result of the economic downturn in Asia, the New Taiwan dollar has experienced price volatility since late 1997. Continued price volatility of the New Taiwan dollar may have a material effect on the business and profitability of the Group in the future.

Rule 7.03(1) of the GEM Listing Rules requires that in the case of a new applicant the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants' report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

As the financial year of the Group ends on 31st December and this prospectus includes the combined results of the Group covering the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002, the Directors consider full compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in respect of the financial year immediately preceding the date of this prospectus ended 31st December, 2002, to be unduly burdensome. The Company has therefore applied for a waiver from strict compliance with such GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted such waiver to the effect that the accountants' report set out in Appendix I to this prospectus covers only the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st July, 2002, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of companies and prospectus from compliance with provision notice) (L.N.76 of 2001), all references to "3 preceding years", "3 financial years" and "3 years" in paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance are substituted by a reference to "2 preceding years", "2 financial years" and "2 years" respectively for a prospectus issued in relation to an application for listing of securities on GEM.

In the circumstances, an application has been made to the Securities and Futures Commission of Hong Kong for a Certificate of Exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2002 in the prospectus and a Certificate of Exemption has been granted by the Securities and Futures Commission of Hong Kong.

Pursuant to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of the listing document. As the latest financial period currently reported in the accountants' report set out in Appendix I to this prospectus is for the seven months ended 31st July, 2002, the prospectus must be dated on or before 31st January, 2003 in order to comply with the six-month period as set out in Rule 11.11 of the GEM Listing Rules. Given that the date of this prospectus is 13th February, 2003, it is 13 days beyond the six-month period as set out in Rule 11.11 of the GEM Listing Rules.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules. The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31st July, 2002 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance, the Securities (Stock Exchange Listing) Rule 1989 of Hong Kong and the GEM Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable inquiries, confirm that, to the best of their knowledge and belief:

(a) the information contained in this prospectus is accurate and complete in all material respects and is not misleading;

(b) there are no other matters the omission of which would make any statement in this prospectus misleading; and

(c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FULLY UNDERWRITTEN

The Placing initially comprises 60,000,000 New Shares being offered for subscription by the Company (assuming the Over-allotment Option is not exercised) and 60,000,000 Sale Shares being offered for sale by the Vendors at the Issue Price. The Placing is sponsored by the Sponsor and is fully underwritten by the Underwriters pursuant to the Underwriting Agreement. Please refer to the section headed "Underwriting" of this prospectus for more details.

PLACING SHARES TO BE OFFERED TO HONG KONG INVESTORS ONLY

The Placing Shares are offered to Hong Kong investors for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the Placing to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by the Company, the Sponsor, the Underwriters, any of their respective directors, officers, employees and/or representatives or any other person involved in the Placing.

Each person acquiring the Placing Shares will be required to, or is deemed by his acquisition of the Placing Shares to, confirm that he is aware of the restrictions on offers of the Placing Shares described in this prospectus and is not under any restrictions to apply for or to be allotted any Placing Shares, and that the Company and other parties involved in the Placing are not subject to laws and regulations (whether or not having the force of laws) of any place outside Hong Kong that impose a restriction against or a requirement on them in connection with such person's application for any Placing Shares or the allotment of any Placing Shares to him.

No action has been taken in any jurisdiction other than Hong Kong to permit the offering of the Placing Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. This prospectus is not an offer or invitation in any jurisdiction in which it is not authorised, and is not an offer or invitation to any person to whom it is unlawful to make an unauthorised offer or invitation.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for listing of and permission to deal in its existing issued Shares and the Shares to be issued pursuant to the Capitalisation Issue, the Convertible Notes and the Placing (including any Shares to be issued pursuant to the exercise of the Over-allotment Option) and the Shares that may be issued upon the exercise of options granted or to be granted under the Share Option Scheme. Pursuant to Rule 11.23(l) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the "minimum prescribed percentage" of 25% of the issued share capital of the Company in the hands of the public.

No part of the Company's share or loan capital is listed or dealt with on the Main Board or any other stock exchange. At present, the Company is not seeking or proposing to seek listing of or permission to deal in any part of its share or loan capital on any other stock exchange.

Under section 44B(1) of the Companies Ordinance, if the permission for the Shares offered under this prospectus to be listed on GEM has been refused before the expiration of three weeks from the date of the closing of the subscription lists under the Placing or such longer period not exceeding six weeks as may, within the said three weeks, be notified to the Company for permission by or on behalf of the Stock Exchange, then any allotment made on an application in pursuance of this prospectus shall, whenever made, be void.

PROFESSIONAL TAX ADVICE RECOMMENDED

If you are unsure about the taxation implications of subscribing for, purchasing, holding or dealing in the Shares, you should consult an expert.

The Company, the Sponsor, the Underwriters, all of their respective directors, agents or advisers or any other parties involved in the Placing do not accept responsibility for any tax effects on, or liability of, any person resulting from subscribing for, purchasing, holding or dealing in the Shares.

STAMP DUTY

All the Shares will be registered on the Hong Kong branch register of members of the Company in Hong Kong in order to enable them to be traded on GEM. Only Shares registered on the Company's branch register of members maintained in Hong Kong may be traded on GEM. Dealings in Shares registered on the Company's branch register of members in Hong Kong will be subject to Hong Kong stamp duty.

STRUCTURE OF THE PLACING

Details of the structure of the Placing, including conditions of the Placing, are set out in the section headed "Structure and conditions of the Placing" of this prospectus.

Name	Address	Nationality
Executive Directors		
Mr. Mo Wai Ming, Lawrence *(Chief executive officer)*	Unit 7A Belmont Court, 10 Kotewall Road, Hong Kong	British
Mr. Sun Kam Fai, Zacky	28C Yanville, 8 Tai Yuen Street, Hong Kong	Australian
Mr. Lee Chi Ming	H2 5/F Beverly Hill, 6 Broadwood Road, Hong Kong	Canadian
Ms. Wai Lai Yung	Room 1315, Block L, Kornhill, Quarry Bay, Hong Kong	British
Non-executive Director		
Mr. Yuen Ka Lok, Ernest	Flat A, 5/F, Block 44, Savanna Garden, Tai Po, New Territories, Hong Kong	British
Independent non-executive Directors		
Mr. Lai Chau Ming	24C, Pak Hoi Mansion, Tai Koo Shing, Hong Kong	Chinese
Mr. Ho Siu Kau	14B, Bauhinia Court, Worldwide Garden, Shatin, New Territories, Hong Kong	Chinese

PARTIES INVOLVED IN THE PLACING

Sponsor	South China Capital Limited 28th Floor, Bank of China Tower, No.1 Garden Road, Central, Hong Kong
Lead Manager	South China Securities Limited 28th Floor, Bank of China Tower, No. 1 Garden Road, Central, Hong Kong
Co-Lead Managers	KGI Capital Asia Limited Asia Pacific Finance Tower, 27/F., Citibank Plaza, 3 Garden Road, Central, Hong Kong
	Whole Win Securities Limited 23/F., Pearl Oriental House, 60 Stanley Street, Central, Hong Kong
Co-Managers	First Shanghai Capital Ltd. 19/F., Wing On House, 71 Des Voeux Road, Central, Hong Kong
	Toyo Securities Asia Ltd. Room 3002-3, Sino Plaza, 256-257 Gloucester Road, Causeway Bay, Hong Kong
	First Asia Finance Group Limited Unit 1502, 15/F. World Wide House, 19 Des Voeux Road, Central, Hong Kong
	OpenOffering Capital Limited 20/F., Henley Building, 5 Queen's Road, Central, Hong Kong
	Sinomax Securities Limited Room 1601, Far East Finance Centre, 16 Harcourt Road, Hong Kong

	Horwath Capital Asia Limited 601 Dah Sing Financial Centre, 108 Gloucester Road, Wanchai, Hong Kong
Legal advisers to the Company	*As to Hong Kong Law:* D.S. Cheung & Co. 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong *As to Cayman Islands Law:* Appleby Spurling & Kempe 5511, The Center, 99 Queen's Road Central, Central, Hong Kong
Legal adviser to the Sponsor and the Underwriters	Loong & Yeung Rooms 907-907A, Wing On Centre, 111 Connaught Road Central, Hong Kong
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Property valuer	BMI Appraisals Limited Suite 05-06, 14th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong

CORPORATE INFORMATION

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	Unit 006, Ground Floor, Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong
Qualified accountant and Company secretary	Mr. Sun Kam Fai, Zacky, CPA, ASA, FCCA, AHKSA
Compliance officer	Mr. Mo Wai Ming, Lawrence
Audit committee	Mr. Ho Siu Kau Mr. Lai Chau Ming
Authorised representatives	Mr. Mo Wai Ming, Lawrence Mr. Sun Kam Fai, Zacky, CPA, ASA, FCCA, AHKSA
Principal banker	The Hongkong and Shanghai Banking Corporation 1 Queen's Road Central, Hong Kong
Principal share registrar and transfer office	Bank of Butterfield International (Cayman) Ltd. Butterfield House, 68 Fort Street, P.O. Box 705, George Town, Grand Cayman, Cayman Islands
Hong Kong branch share registrar and transfer office	Standard Registrars Limited G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong

BACKGROUND

The Group develops and markets software systems and enabling services to users of mobile devices, wireless applications and PCs in Chinese. These applications are all based on the Group's HanWeb Publishing Server that was acquired and further developed by the Group as a method of translating Traditional Chinese characters to Simplified Chinese characters and vice versa. The information in this section is mainly obtained from the CIA World Factbook.

The software HanWeb Publishing Server is of a type generally known as middleware, which operates between an application in the website and the end user and facilitates the use of the application.

IDC forecasts that China's entry to the World Trade Organisation will herald the start of an extended progress to the broader use of e-commerce within the country. It believes that many companies in China will see the Internet as a means to take advantage of the opportunities provided by entry to the WTO. IDC expects e-commerce in China to be worth US$60 billion by 2004 and it believes that some of the changes required to bring about this development include favourable government policies, the increased use of security and better financial infrastructure, more websites and the integration of Web activities with business operations.

IDC estimates that Internet users in Greater China will grow from about 22 million in 2000 to 50 million in 2002 and significantly to 120 million in 2005.

ACCESS TO THE WEB IN CHINESE

Access to the Web may be in Simplified Chinese or Traditional Chinese. To address global Chinese audience as co-workers, customers or partners, Chinese information is preferably developed and maintained in both Simplified Chinese and Traditional Chinese. The conventional way of maintaining Web pages in these two Chinese languages is both costly and compromises information integrity.

Barriers to accessing information on the World Wide Web in Chinese

In the opinion of the Directors, there are significant technological barriers to accessing information on the World Wide Web in Chinese. For example, most browsers rely on local system fonts for Chinese language display. A browser requires an operating system platform installed with Chinese fonts to access Chinese Websites. The Directors believe that the same is true to Japanese and Korean languages and that it is the reason why Microsoft has different versions of Windows and Nokia produces various language models for different Asian countries. The Directors further believe that as a result, most Web based messaging applications cannot guarantee accurate transmission of information in Asian language characters because of the language dependency of the browser.

There are differences between static system font sets and dynamic languages. Unlike most syllabic languages, such as English, in which words are created from a finite set of alphabets, Asian language characters are symbolic (ideographic). Characters, including newly created ones, are drawn distinctly in shape. The Directors believe that there are effectively more than 50,000 distinct Han characters in Chinese languages and that in one most elaborated Chinese dictionary, there are up to 100,000 characters. However, according to the Directors' experience in the industry, most western invented systems use a static system font approach for Asian languages. The Directors believe that traditional Chinese Windows from Microsoft has a system font of approximately 20,000 characters and that such a static system font approach cannot guarantee accurate publishing of information in Asian language characters.

Another barrier is caused by there being diverse encoding schemes for non-standard Asian characters. There are some commonly used characters in Hong Kong not defined in the system font in Traditional Chinese version of Microsoft Windows. These characters are conspicuously missing when used in a Website, even when the user is using a Chinese enabled browser. Note that the Hong Kong Government has defined a set of 4,800 characters, called the Hong Kong supplementary character set, which are used in Hong Kong but not contained in Traditional Chinese computer systems. Most websites in present use are coded in different encoding schemes such as "GB" and "GBK" for Simplified Chinese and "Big5" for Traditional Chinese. One possible solution, migrating to Unicode for future web based applications, is costly. Similar non-standard character problems also exist in the Japanese and Korean languages.

Legacy documents

There are diverse document formats in common usage, e.g. MS Office and PDF. In order to reap all benefits bestowed by the Internet, enterprises face a costly decision of whether to convert these legacy documents into formats accessible by browsers from diverse Web enabled devices.

Voice access to the Web

Enterprises are discouraged by the high-cost and early stage of the new VoiceXML technology standard from refitting their existing Web infrastructure for voice access by mobile and conventional phones, PCs and other wireless devices. Access to the Web by the visually impaired, old people and those with reduced reading skills can be problematic. These less fortunate groups in the community may prefer content to be delivered in audible speech in either Cantonese or Putonghua through the use of mobile and conventional phones, and PCs.

POTENTIAL MARKETS OF THE GROUP

PRC

- *The size of the market in the PRC*

The PRC had an estimated population of 1,284,303,705 in July 2002. The age structure of which was:

0-14 years: 24.3% (male 163,821,081; female 148,855,387)
15-64 years: 68.4% (male 452,354,428; female 426,055,713)
65 years and over: 7.3% (male 43,834,528; female 49,382,568) (2002 est.)

The population growth rate was estimated at 0.87% in 2002.

There are at least 11 major ethnic groups. Han Chinese comprises approximately 91.9% of the population and Zhuang, Uygur, Hui, Yi, Tibetan, Miao, Manchu, Mongol, Korean, and other ethnic groups comprise approximately 8.1%. The main languages spoken in the PRC are Mandarin (Putonghua, based on the Beijing dialect), Yue (Cantonese), Wu (Shanghainese), Minbei (Fuzhou), Minnan (Hokkien-Taiwanese), Xiang, Gan, Hakka dialects and some minority languages. Literacy in the PRC, defined as the percentage of the population aged 15 and over which can read and write, was estimated in 1995 to be 81.5%, comprising 89.9% of males and 72.7% of females. The use of simplified Chinese script is wide spread. There were 26.5 million Internet users in the PRC in 2001. There are numerous Internet service providers in the PRC.

- *The economy of the PRC*

In 2001, with its 1.27 billion people but a GDP of just $4,300 per capita, China stood as the second largest economy in the world after US (measured on a purchasing power parity basis). Beijing is expected to intensify efforts to stimulate growth through spending on infrastructure — such as water control and power grids — and poverty relief and through rural tax reform aimed at eliminating arbitrary local levies on farmers.

GDP: purchasing power parity - $5.56 trillion (2001 est.)
GDP — real growth rate: 7.3% (2001 est.)
GDP — per capita: purchasing power parity - $4,300 (2001 est.)
GDP — composition by sector: agriculture: 17.7%; industry: 49.3%; and, services: 33% (2001 est.)

- *Telecommunications in the PRC*

Domestic and international telephone services are increasingly available for private use, however the system is unevenly distributed and the domestic network primarily serves principal cities, industrial centers, and many towns. In 2000, the number of main lines in use was estimated to be 135 million. In January 2001 the number of mobile cellular telephones in use was estimated to be 65 million. The domestic system is based around interprovincial fiber-optic trunk lines, cellular telephone systems and a domestic satellite system with 55 earth stations in place. The international system in

2000 comprised 7 satellite earth stations — 5 Intelsat (4 Pacific Ocean and 1 Indian Ocean), 1 Intersputnik (Indian Ocean region) and 1 Inmarsat (Pacific and Indian Ocean regions), and several international fiber-optic links to Japan, Korea, Hong Kong, Russia, and Germany. In 1998 there were 673 radio broadcast stations, and in 1997 there were 417 million radios. In 1997 the number of television broadcast stations was estimated at 3,240 (of which 209 were operated by China Central Television, 31 were provincial TV stations and nearly 3,000 were local city stations). There were 400 million televisions in use in 1997. In 2000 there were 3 Internet service providers and there were 26.5 million Internet users in 2001. The Internet country code is '.cn'.

Hong Kong

- *The size of the market in Hong Kong*

Hong Kong had an estimated population of 7,303,334 in July 2002 the age structure of which was:

0-14 years: 17.5% (male 679,311; female 599,811)
15-64 years: 71.6% (male 2,587,509; female 2,641,418)
65 years and over: 10.9% (male 364,864; female 430,421) (2002 est.)

The population growth rate was estimated at 1.26% in 2002. Life expectancy at birth was estimated in 2002 to be 79.8 years, for the total population and 77.1 years for men and 82.69 years for women.

The ethnic composition of the population is 95% Chinese and 5% other groups. The languages spoken are Chinese (Cantonese) and English, both of which are official. Literacy in Hong Kong, defined as the percentage of the population aged 15 and over that has ever attended school was estimated in 1996 at 92.2%, comprising 96% of men and 88.2% of women. Traditional Chinese is used in Hong Kong.

- *The economy of Hong Kong*

Hong Kong has a free market economy highly dependent on international trade. Even before Hong Kong reverted to Chinese administration on 1st July, 1997, it had extensive trade and investment ties with China. Per capita GDP compares with the level in the four big countries of Western Europe. GDP growth averaged a strong 5% in 1989-97. The widespread Asian economic difficulties in 1998 depressed Hong Kong's trade-dependent economy.

GDP: purchasing power parity - $180 billion (2001 est.)
GDP — real growth rate: 0% (2001 est.)
GDP — per capita: purchasing power parity - $25,000 (2001 est.)
GDP — composition by sector: agriculture: 0.1%; industry: 14.3%; services: 85.6% (1999 est.)

Labour force: 3.44 million (2001 est.)

- *Telecommunications in Hong Kong*

The telephone system has modern facilities and provides excellent domestic and international services. In 1999 there were 3.839 million main telephone lines in use and 3.7 million mobile cellular telephones. The domestic system is based on microwave radio relay links and an extensive fiber-optic network. The international system has 3 Intelsat satellite earth stations (1 Pacific Ocean and 2 Indian Ocean); coaxial cable to Guangzhou, China and access to 5 international submarine cables providing connections to ASEAN member nations, Japan, Taiwan, Australia, Middle East, and Western Europe.

Radio broadcast stations: AM 7, FM 13, shortwave 0 (1998)
Radios: 4.45 million (1997)
Television broadcast stations: 4 (plus two repeaters) (1997)
Televisions: 1.84 million (1997)
Internet country code: .hk
Internet Service Providers (ISPs): 17 (2000)
Internet users: 3.93 million (2001)

Taiwan

- *The size of the market in Taiwan*

Taiwan had an estimated population of 22,548,009 in July 2002. The age structure of which was:

0-14 years: 21% (male 2,464,290; female 2,268,627)
15-64 years: 70% (male 8,010,014; female 7,774,296)
65 years and over: 9% (male 1,053,975; female 976,807) (2002 est.)

The population growth rate was estimated at 0.78% per annum in 2002. Life expectancy at birth was estimated in 2002 to be 76.74 years, for the total population and 73.99 for men and 79.71 for women.

There are 3 major ethnic groups. Taiwanese (including Hakka) comprises approximately 84% of the population, mainland Chinese and aborigine comprise 14% and 2% respectively. The main languages spoken in Taiwan are Mandarin Chinese (official), Taiwanese (Min), and Hakka dialects. Literacy in Taiwan, defined as the percentage of the population aged 15 and over which can read and write, was estimated in 1980 to be 86%, comprising 93% of males and 79% of females.

- *The economy of Taiwan*

Taiwan has a dynamic capitalist economy with gradually decreasing guidance of investment and foreign trade by government authorities. Real growth in GDP has averaged about 8% during the past three decades. Exports have provided the primary impetus for industrialization. The trade surplus is substantial, and foreign reserves are the world's third largest. Taiwan suffered little compared with many of its neighbors from the Asian financial crisis in 1998-99 because of its conservative financial approach and its entrepreneurial strengths. Growth in 2001 will depend largely on conditions in

Taiwan's export markets and may be about 5%. The global economic downturn, however, combined with poor policy coordination by the new administration and increasing bad debts in the banking system, pushed Taiwan into recession in 2001, the first whole year of negative growth since 1947. Unemployment also reached a level not seen since the 1970s oil crisis.

GDP: purchasing power parity - $386 billion (2001 est.)
GDP — real growth rate: -2.2% (2001 est.)
GDP — per capita: purchasing power parity - $17,200 (2001 est.)
GDP — composition by sector: agriculture: 2%; industry: 32%; and, services: 66% (2000 est.)

Labour force: 9.8 million (2001 est.)

- *Telecommunications in Taiwan*

Domestic and international telephone services are available for business and private use. In September 2000 the number of main lines in use and the mobile cellular telephones in use were estimated to be 12.49 million and 16 million, respectively. The domestic system is based on thoroughly modern and it is completely digitalized. The international system in 1999 comprised 2 satellite earth stations - 2 Intelsat (1 Pacific Ocean and 1 Indian Ocean) and several submarine cables to Japan (Okinawa), Philippines, Guam, Singapore, Hong Kong, Indonesia, Australia, Middle East, and Western Europe. In 1999 there were 601 radio broadcast stations, and in 1994 there were 16 million radios. In 1997 the number of television broadcast stations was estimated at 29 (plus two repeaters). There were 8.8 million televisions in use in 1998. In 2000 there were 8 Internet service providers. In 2001, there were 11.6 million Internet users. The Internet country code is '.tw'. Traditional Chinese is used in Taiwan.

Japan

- *The size of the market in Japan*

Japan had an estimated population of 126,974,628 in July 2002 the age structure of which was:

0-14 years: 14.5% (male 9,465,282; female 8,999,888)
15-64 years: 67.5% (male 43,027,320; female 42,586,112)
65 years and over: 18% (male 9,664,112; female 13,231,914)

The population growth rate was estimated at 0.15% in 2002. Life expectancy at birth was estimated in 2002 to be 80.91 years, for the total population and 77.73 years for men and 84.25 years for women.

The ethnic composition of the population is overwhelmingly: Japanese comprises approximately at 99% of the population, with others 1% (Korean 51,126, Chinese 24,424, Brazilian 18,223, Filipino 8,995, other 23,792). The language spoken is Japanese. Literacy in Japan, defined as the percentage or the population aged 15 and over which can read and write, was estimated in 1970 to be 99%.

- *The economy of Japan*

Cooperation between Government and industry, a strong work ethic, mastery of high technology, and a comparatively small defense allocation (1% of GDP) have helped Japan advance with extraordinary rapidity to the rank of second most technologically powerful economy in the world after the US and third largest economy in the world after the US and China.

GDP: purchasing power parity - $3.45 trillion (2001 est.)
GDP — real growth rate: -0.3% (2001 est.)
GDP — per capita: purchasing power parity - $27,200 (2001 est.)
GDP — composition by sector: agriculture: 2%, industry: 36%, and services: 62% (2000 est.)

Household income, or consumption, by percentage share:
lowest 10% of households: 4.8%
highest 10% of households: 21.7% (1993)

Labour force: 67.7 million (December 2000)

- *Telecommunications in Japan*

There are excellent domestic and international telecommunications services using a high level of modern technology. In 1997 there were 60.381 million main lines in use. In 2000 there were 63.88 million mobile cellular telephones. The international system in 1999 comprised of 7 satellite earth stations - 5 Intelsat (4 Pacific Ocean and 1 Indian Ocean), 1 Intersputnik (Indian Ocean region), and 1 Inmarsat (Pacific and Indian Ocean regions); submarine cables to China, Philippines, Russia, and US (via Guam). In 2001 there were 325 radio broadcast stations and 855 repeaters. In 1997 there were 120.5 million radios and 86.5 million televisions. In 1999 there were 211 television broadcast stations and 7,341 repeaters, in addition, US Forces are served by 3 TV stations and 2 TV cable services. In 2000 there were 73 Internet Service Providers. In 2001 there were 47.08 million Internet users. The Internet country code 'jp'.

South Korea

- *The size of the market in South Korea*

South Korea had an estimated population of 48,324,000 in July 2002 the age structure of which was:

0-14 years: 21.4% (male 5,488,808; female 4,875,379)
15-64 years: 71% (male 17,404,645; female 16,894,361)
65 years and over: 7.6% (male 1,434,873; female 2,225,934) (2002 est.)

The population growth rate was estimated at 0.85% in 2002. Life expectancy at birth was estimated in 2002 to be 74.88 years, for the total population and 71.2 years for men and 78.95 years for women.

The ethnic composition of the population is overwhelmingly Korean, except for about 20,000 Chinese. The languages spoken are Korean and English, which is widely taught in junior high and high school. Literacy in South Korea, defined as the percentage or the population aged 15 and over which can read and write, was estimated in 1995 to be 98%, comprising 99.3% of men and 96.7% of women.

- *The economy of South Korea*

GDP: purchasing power parity - $865 billion (2001 est.)
GDP — real growth rate: 3.3% (2001 est.)
GDP — per capita: purchasing power parity - $18,000 (2001 est.)
GDP — composition by sector: agriculture: 5%, industry: 44% and services: 51% (2001 est.)

Household income or consumption by percentage share:
lowest 10%: 2.6%
highest 10%: 24.8% (1998)

Labour force: 22 million (2001)

- *Telecommunications in South Korea*

Telephone system: general assessment: There are excellent domestic and international services in Korea. In 2000 the number of main lines in use was estimated to be 24 million. In 2000 the number of mobile cellular telephones was estimated to be 28 million. The international telephone system is based around a fiber-optic submarine cable to China and the Russia-Korea-Japan submarine cable. There are 4 satellite earth stations - 3 Intelsat (2 Pacific Ocean and 1 Indian Ocean) and 1 Inmarsat (Pacific Ocean region). In 2001 there were 245 radio broadcast stations. In 1999 there were 121 television broadcast stations, 850 repeater stations and the eight-channel American Forces Korea Network. In 2000 there were 47.5 million radios. In 1997, there were 15.9 million televisions in South Korea. In 2000 there were 11 Internet service providers. In 2001, there were 22.23 million Internet users. The Internet country code is ‘kr’.

OVERVIEW

The Directors believe that the Group is one of the market leaders in Asian language infrastructure development for wireless devices such as PDAs and 2G and 3G mobile phones and PCs. The Company participated in the development of thin-client web-based technologies to facilitate seamless communications across language, cultural and dialectical boundaries among Chinese speakers.

PRIZES AND AWARDS

The Group has been awarded four prizes in the past two years. These are (a) Hong Kong Awards for Industry: Hong Kong Science & Technology Park Certificate of Merit in Technological Achievement, 2002; (b) Hong Kong Awards for Industry: Federation of Hong Kong Industries Consumer Product Design Award, 2002; (c) Hong Kong Awards for Industry: Hong Kong Science & Technology Park Technological Achievement Award, 2001; and, (d) The Hong Kong Computer Society: IT Excellence Product Silver Award, 2001.

PATENT APPLICATIONS AND PATENTS — HANWEB FONT TECHNOLOGY

The Group has a Hong Kong patent in respect of HanWeb Font Technology, awarded in August 2000 and has 4 patents applications for the same technology currently in process in the jurisdictions of the US, the PRC, Japan and Korea.

HanWeb Font Technology was invented by Mr. Mo as a culmination of Mr. Mo's ten years' experience in the development and marketing of Asian language related software products. HanWeb Font Technology was further developed by a small team of engineers selected by Mr. Mo, a process that started in 2000.

KEY FEATURES OF HANWEB PUBLISHING SERVER

In the opinion of the Directors HanWeb Publishing Server technology provides an unusual combination of Hanzi (Chinese characters) Language platform independent web, and thin client technology for clients using a device that requires an Internet browser or voice device, such as a mobile phone or conventional telephone.

When users visit a HanWeb Publishing Server empowered web site, all its contents, including documents not in web format, the content will be delivered to the users in either text or voice. For Chinese, the text information can be presented in both Simplified Chinese and Traditional Chinese. These capabilities allow US and European web-enabled device manufacturers to save in the provision of Asian character language software, upgrades and maintenance in order to sell their products. To the users these capabilities mean ease of use and lower cost. A key extension of the software of HanWeb Publishing Server is its application to Chinese text to speech systems for mobile devices and for use by the visually impaired.

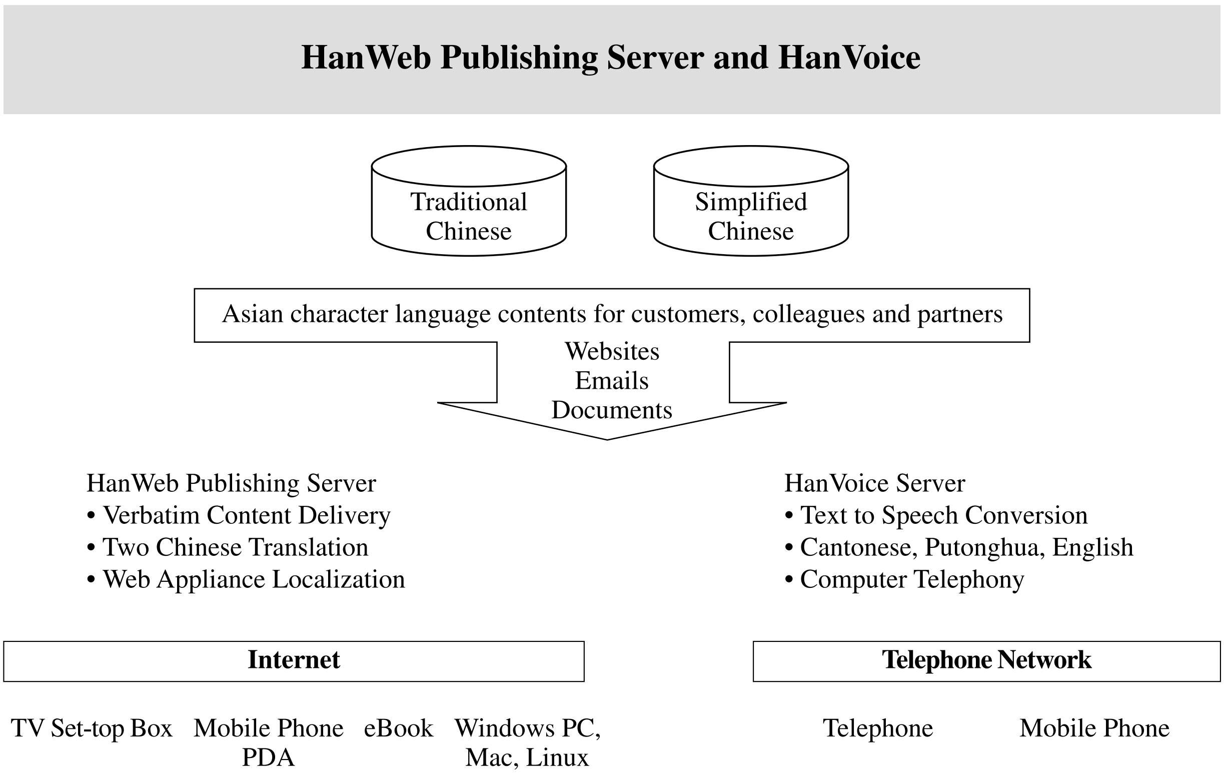
The Group has two main lines of products:

- HanWeb Publishing Server that the Directors believe it has potentially no missing characters in a page or document for its graphical presentation and gives a choice of Simplified Chinese or Traditional Chinese in websites; and

- HanVoice Server, part of HanWeb Publishing Server, which brings website information into the reach of mobile phone, conventional telephone and personal computer users in Cantonese, Putonghua and English.

How HanWeb Publishing Server and HanVoice Server operate

The following diagram shows the operations of HanWeb Publishing Server and HanVoice Server.



HanWeb Publishing Server provides end-to-end, plug and play, web-based applications to enterprises. These include the translation of Traditional Chinese into Simplified Chinese and vice versa, the web-casting of graphic characters to any Internet device, multilingual web-based messaging systems, web-based Asian language character input methods, wireless and desktop browser access to non-HTML based legacy documents and voice delivery of web content to telephone and standard Internet browsers in Cantonese, Putonghua and English.

HanWeb Publishing Server as web-based language interfacing technology

As a web-based language interfacing technology for Asian languages such as Chinese languages, the Directors believe that HanWeb Publishing Server has the following features and characteristics:

- potentially unlimited Asian language character set support with graphical presentation which the Directors believe it would ensure there are potentially no characters missed in the interface;
- users' choice of Traditional Chinese and Simplified Chinese view of contents;
- presentation of legacy documents such as Microsoft Office and PDF files in HTML format;
- no need for Asian character language plug-in software for English browser;
- support for PC, Mac, Unix Box, Web Phone, WAP Phone, Set-top Box & other Web Appliances; and
- HanWeb Publishing Server provides enterprises with saving in developing and maintaining only one content for Web, voice and wireless access for Internet.

HanWeb Publishing Server has Asian language character Localization Technology for Web appliance manufacturers

There is one Asian model with full Asian character language support. This feature reduces localization costs, shortens time to markets and enables verbatim content publishing applications on handheld devices such as third generation mobile phones.

HanWeb Publishing Server has industry standard compliant HTML server & parser technologies

The Directors believe that this feature gives compatibility with the web development tools.

HanWeb Publishing Server's plug & play architecture requires minimal modification of existing web pages

The Directors believe that there is compatibility with most present Websites reducing costs in building new delivery channels such as WAP and telephone utilizing existing contents.

Its translation engine for Simplified Chinese and Traditional Chinese has the following feature:

- it has context character and vocabulary rules which is especially for translating from Simplified Chinese to Traditional Chinese and vice versa

- vocabulary translation rules supporting multiple simultaneous vocabularies

The result is a saving from not having to maintain two Chinese content databases (one for Simplified Chinese and one for Traditional Chinese).

KEY FEATURE OF HANVOICE SERVER

HanVoice Server, an extension to HanWeb Publishing Server, opens up another business opportunity of considerable potential. HanVoice Server helps enterprises unlock web based information for direct access through conventional telephones and mobile phones in Cantonese, Putonghua and English in simulated human voice. Commercial applications such as phone banking, online stock quotes, real-time news, reservation systems, email access, language learning aids, traffic news and weather information retrieval can be built cost effectively by using the web version of the same information.

CHANNELS OF DISTRIBUTION

HanWeb Publishing Server is available in software licenses to enterprises and in application services through ASP service. The Company intends to establish strategic development relationship with major web appliance enterprises, by providing to them the HanWeb Font Technology and related technologies through an OEM licensing arrangement. Sales also take place through licensing agreements with re-sellers in Hong Kong and the PRC. The Group is developing an application service provider platform to market its products directly to end users on fee-based subscription basis.

MARKET OPPORTUNITIES

The Group expects to benefit greatly from China's accession to World Trade Organization and the policy of closer links with Taiwan in the near term, and the Group expects this trend will result in an increase in trade, investment and cultural and social exchanges in all walks of life between the PRC, Hong Kong and Taiwan. The Olympic Games of 2008, which are to be held in the PRC, are expected to contribute to an increase in communication between Chinese communities around the world.

In addition to any private sector investment, Beijing will invest over US$20 billion to improve national infrastructure in preparation for the games. The Directors believe that this investment should include spending on information technology to connect China with world audiences, and especially overseas Chinese, for the delivery of Internet based information on the Olympic Games and the delivery of e-commerce platforms, such as ticket sales, hotel and airline sales and other reservation systems.

To manage such an increase in the size of investment, trade and e-commerce activity, enterprises in Greater China are likely to require information such as sales forecasts, management reports and financial documents to be accessible from different devices, in both electronic and paper form, to be presented in both Traditional Chinese and Simplified Chinese to their staff, customers and business partners. The Company believes that HanWeb Publishing Server provides a cost effective and accurate way to make this information quickly available in both Chinese scripts and in Putonghua and Cantonese voice while having to keep one copy of the original document through corporate websites, Intranet and Extranet. In addition, HanDOC, an extension of HanWeb Publishing Server, allows original documents to be translated between popular electronic formats such as Microsoft Office, Acrobat PDF, WML and facsimile to suit for individually preferred access methods including wireless connection.

DEVELOPMENT OF THE GROUP

The Group was founded in 1999 principally by Mr. Mo with KanHan (BVI) incorporated on 21st September, 1999 in the BVI as an investment holding company to develop an invention of Mr. Mo's. As a culmination of Mr. Mo's ten year experience in the development and marketing of Asian language related software products, HanWeb Font Technology was invented by Mr. Mo before the Group was founded. This patent was then assigned by him to the Group. In extending the HanWeb Publishing Server's capability to handle the most commonly used office document format, Microsoft Office, HanDOC was developed in 2001 such that HanWeb Publishing Server would provide server-based Chinese publishing platform catered for enterprises for their Web and office requirements. HanVoice Server was put to development in 2001 and was completed by the Group's research and development team in 2002 for bringing Internet contents to voice in real time.

On 8th October, 1999, KanHan (HK) was incorporated. In November, 1999 Mr. Mo applied for the Hong Kong SAR Government's Patent Application Grant for funding support for the patent application of HanWeb Font Technology in Hong Kong. The grant of funding support was subsequently approved in January 2000. The patent application was first filed in Hong Kong and the USA and later in Japan, the PRC and Korea. These patent applications are strategically important to the future development of the HanWeb Publishing Server and in differentiating the Group's product and defending it from potential competition. The first patent was awarded by the Hong Kong SAR Government in August 2000.

The Directors wish the HK patent and the rights under the other patent applications to be held directly by KanHan (HK). KanHan (BVI) is an investment holding company and not an operating company it is therefore not appropriate to hold the HK patent and rights under the other patent applications in KanHan (BVI). Legal procedure in patent law for transferring the patent requires the patent first to be transferred from KanHan (BVI) to Mr. Mo (the original grantee of the patent) and then from Mr. Mo to KanHan (HK). There was no consideration involved in the transfer.

The following table summarizes the change of shareholdings since incorporation of the Group:

Shareholders	12/11/1999 *(Note 1)*	29/1/00 *(Note 2)*	23/2/00 *(Note 2)*	23/2/00 *(Note 2)*	25/2/00 *(Note 3)*	28/2/00 *(Note 4)*	24/11/00 *(Note 5)*	29/12/00 *(Note 6)*	31/12/00 *(Note 8)*	31/1/01 *(Note 9)*	28/2/01 *(Note 10)*	31/05/01 *(Note 12)*	3/9/01 *(Note 13)*	21/2/02 *(Note 14)*	8/6/02 *(Note 15)*	25/9/02 *(Note 16)*	Total	Consideration Amount US$	Method of Payment
Lee Chi Kong	270	(270)															0		
Mr. Mo	1,170	(1,170)															0		
Genius Group Investment Ltd.	90	(90)															0		
Metrolink	270	(270)															0		
Cyber Systems Ltd.		1,800	(1,800)														0		
Cyber Systems Ltd.			180,000	8,820,000													9,000,000	90,000	cash/cheques
Kapabla, Inc.					230,000												230,000	64,400	cash/cheques
Timeless Strategy						750,000											750,000	999,750	cash/cheques
Dragon Yield Investments Ltd.							40,000										40,000	26,800	cash/cheques
ZMGI								15,000									15,000	150	set off against consultancy fees owed
Lam Sau Fung *(Note 7)*									40,000	40,000	40,000	40,000					160,000	1,600	cash/cheques
Lau Shui Ying									10,000							28,000	38,000	380	cash/cheques
Tsang Hing Keung									30,000								30,000	300	cash/cheques
Sze-To Wai									10,000							28,000	38,000	380	cash/cheques
Tso Yuk									3,000							16,000	19,000	190	cash/cheques
Lee Jih Kang, Michael									10,000							28,000	38,000	380	cash/cheques
Choy Kwun Kei, Kay									5,000							16,000	21,000	210	cash/cheques
Ho Hing Yuen									3,000							22,000	25,000	250	cash/cheques
Wong Yu, Helen									1,000							8,000	9,000	90	cash/cheques
Wai Lai Yung									45,000							40,000	85,000	850	cash/cheques
Alexander Reid Hamilton									40,000							40,000	80,000	800	cash/cheques
Top Asia Management Limited									45,000								45,000	450	cash/cheques
Metrolink										122,500							122,500	41,895	set off against fixed assets acquired
Tsang Yiu Kwan, Odie											1,000					28,000	29,000	290	cash/cheques
Hung Kwok Wing *(Note 11)*											20,000					100,000	120,000	1,200	cash/cheques
Naturally Open Inc.												20,000					20,000	8,000	cash/cheques
Wong Ka Ming *(Note 13)*													20,000			100,000	120,000	1,200	cash/cheques
Delta Pacific Resources Limited														150,000			150,000	72,000	cash/cheques
Shen Yu-Hsueh															40,000		40,000	400	cash/cheques
Lee Chi Ming																40,000	40,000	400	cash/cheques
Yuen Ka Lok Ernest																40,000	40,000	400	cash/cheques
Young Antonio Chun Kwan																40,000	40,000	400	cash/cheques
Lai Ying Queenie																120,000	120,000	1,200	cash/cheques
Li Oi Heung Candy																120,000	120,000	1,200	cash/cheques
Wong Kim Yim Kimmy																10,000	10,000	100	cash/cheques
Wu Chun Wing																10,000	10,000	100	cash/cheques
Cheung Hong Hoi																10,000	10,000	100	cash/cheques
Lau Ching Yung																8,000	8,000	80	cash/cheques
	1,800	0	180,000	8,820,000	230,000	750,000	40,000	15,000	242,000	162,500	61,000	60,000	20,000	150,000	40,000	852,000	11,622,500	1,315,945	

Notes:

1. On 12th November, 1999, the issued share capital of KanHan (BVI) was 1,800 shares of US$1.00 each. Mr. Lee Chi Kong, Mr. Mo, Genius Group Investment Limited and Metrolink were respectively issued and allotted 270, 1,170, 90 and 270 shares therein.

2. On 29th January, 2000, Mr. Lee Chi Kong, Mr. Mo, Genius Group Investment Limited and Metrolink transferred their respective shares in KanHan (BVI) to Cyber Systems for the consideration of US$1,800. Cyber Systems then became the sole member of KanHan (BVI). On 23rd February, 2000, every share of KanHan (BVI) of US$1.00 each was subdivided into 100 shares of US$0.01 each. On 23rd February, 2000, KanHan (BVI) issued and allotted an additional 8,820,000 shares in KanHan (BVI) to Cyber Systems at par. In consideration, Mr. Mo, being the major shareholder of Cyber Systems, agreed to assign all his rights in the patent and the relevant patent applications to KanHan (BVI) absolutely and unconditionally upon KanHan (BVI)'s request.

3. On 25th February, 2000, Kapabla Inc. acquired 230,000 shares in KanHan (BVI) at a cost of US$64,400, being US$0.28 per share. Kapabla Inc. (a company beneficially owned by Mr. Richard S. Myers and Mr. John B. Possman as to 50%) is the first investor in KanHan (BVI). Mr. Richard S. Myers has not only provided technical advice to KanHan (BVI) to enhance its software but also helped KanHan (BVI) expanding its marketing network in the PRC, Hong Kong and Japan. Kapabla Inc. is a founding shareholder and received a low entry price as a result.

4. Timeless Strategy agreed to provide sufficient funding to the Group by both way of equity finance and debt finance. In terms of equity finance, on 28th February, 2000, Timeless Strategy acquired 750,000 shares in KanHan (BVI) representing approximately 6.45% shareholdings at a cost of US$1,000,000. The basis of such cost was the forecast of the capital expenditure and working capital requirement of the Group in the early stage of its development. In terms of debt finance, the Group issued the Convertible Notes in the total principal amount of HK$2.8 million to Timeless Strategy.

5. On 24th November, 2000, Dragon Yield Investments Limited subscribed 40,000 shares in KanHan (BVI) for a consideration of US$26,800, being US$0.67 per share. By reference to the price of US$1.33 per share offered to Timeless Strategy on 28th February, 2000, KanHan (BVI) agreed to issue and allot shares 40,000 shares in KanHan (BVI) at a price of US$0.67 per share to Dragon Yield taking into account of Dragon Yield's marketing network in language localization technology. The directors of KanHan (BVI) believed that Dragon Yield could help KanHan (BVI) developing its business of language localization software in Greater China.

6. On 29th December, 2000, ZMGI subscribed 15,000 shares in KanHan (BVI) for a consideration of US$150 of par value per share in settlement of marketing consultancy fees due to ZMGI by KanHan (BVI).

7. On 31st December, 2000, 31st January, 2001, 28th February, 2001 and 31st May, 2001, Mr. Lam Sau Fung subscribed an aggregate of 160,000 shares at par as consideration for Mr. Lam's assistance in the development of the software for the Group.

8. On 31st December, 2000, KanHan (BVI) issued and allotted shares at par to various members of its senior management and employees as year-end bonus taking into consideration of their respective year of service and performance in the preceding year and on the basis of KanHan (BVI)'s valuation that the cost of its share was US$0.01 per share, KanHan (BVI) issued and allotted 10,000 shares at par value per share to each of Ms. Lau Shui Ying, Mr. Sze-To Wai and Mr. Lee Jih Kang, Michael and 3,000 shares to Mr. Tso Yuk, all being members of its senior management as their year-end bonus. KanHan (BVI) further issued and allotted 30,000 shares to Mr. Tsang Hing Keung, 5,000 shares to Mr. Choy Kwun Kei, Kay, 3,000 shares to Mr. Ho Hing Yuen and 1,000 shares to Ms. Wong Yu, Helen, all being employees of KanHan (BVI). KanHan (BVI) further respectively issued and allotted 45,000 and 40,000 shares to Ms. Wai Lai Yung and Mr. Alexander Reid Hamilton as directors' remuneration. KanHan (BVI) further issued and allotted 45,000 shares to Top Asia Management Limited (an investment holding company which is wholly owned by Mr. Antonio Young) as Mr. Young's director's remuneration.

9. On 31st January, 2001, 122,500 shares at a price of US$0.342 each of KanHan (BVI) was issued to Metrolink and the consideration of which was paid by way of setting off against the costs for the fixed assets and renovation costs of the office of the Group in the sum of US$41,895 advanced by Metrolink for the Group. As Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing and as to 50% by Ms. Wai Lai Yung, who were then directors of KanHan (BVI) on 31st January, 2001, and by reference to the fact that KanHan (BVI)'s employees and consultants are allotted to subscribe shares at a price of US$0.2 per share, KanHan (BVI) agreed to allot and issue shares to Metrolink at a discounted price of US$0.342 per share in recognition of their service as directors rendered to KanHan (BVI).

10. On 28th February, 2001, 1,000 shares at par value per share in KanHan (BVI) were issued and allotted to Mr. Tsang Yiu Kwan, a member of the Group's senior management in appreciation of Mr. Tsang's service rendered to the Group.

11. 20,000 shares and 100,000 shares were issued to Mr. Hung Kwok Wing at par value per share on 28th February, 2001 and 25th September, 2002 respectively in lieu of the financial consultant services provided by Mr. Hung to the Group for corporate finance advice.

12. On 31st May, 2001, 20,000 shares of US$0.4 each were issued and allotted to Naturally Open Inc. (a company wholly and beneficially owned by Mr. Robert T. Myers).

13. 20,000 shares and 100,000 shares were issued to Mr. Wong Ka Ming at par value per share on 3rd September, 2001 and 25th September, 2002 respectively in lieu of the management consultant fee for a sum of US$24,000 due to Mr. Wong by the Group for marketing advice.

14. On 21st February, 2002, 150,000 shares of US$0.48 each were issued and allotted to Delta Pacific Resources Limited (a company wholly and beneficially owned by Mr. Tsang Hing Keung) pursuant to the share option scheme of KanHan (BVI) in favour of Mr. Tsang. This share option scheme has been replaced by the new share option scheme, details of which are given in Appendix V.

15. On 8th June, 2002, 40,000 shares at par value per share were issued and allotted to Mr. Shen Yu-Hsueh as director's remuneration before Mr. Shen ceased to be the director of KanHan (BVI).

16. On 25th September, 2002, KanHan (BVI) issued and allotted shares to its various employees and consultants: Ms. Lai Ying Queenie and Ms. Li Oi Heung Candy both being management consultants to the Group was issued and allotted 120,000 shares each in KanHan (BVI) at par value per share for advice on structuring the Group; Mr. Wong Kim Yim Kimmy, Mr. Wu Chun Wing and Mr. Cheung Hong Hoi all being employees of the Group were issued and allotted 10,000 shares each at par value per share and 8,000 shares to Mr. Lau Ching Yung as employee of the Group as bonus shares. On the same day, each of Lee Chi Ming and Young Antonio Chun Kwan were issued and allotted 40,000 shares of KanHan (BVI) at par value per share as directors' remuneration and Mr. Yuen Ka Lok Ernest was issued and allotted 40,000 shares of KanHan (BVI) in appreciation of his free legal advice rendered to the Group. On 25th September, 2002, KanHan (BVI) issued and allotted shares to its various employees, consultants and directors all being grantees under a share option plan issued by KanHan (BVI) at par value per share as consideration for their agreement to waive all their rights under the share option plan: Ms. Lau Shui Ying, Mr. Sze-To Wai and Mr. Lee Jih Kang, Michael all being issued and allotted 28,000 shares, Mr. Tso Yuk and Ms. Choy Kwun Kei, Kay 16,000 shares, Mr. Ho Hing Yuen 22,000 shares, Ms. Wong Yu, Helen 8,000 shares, Ms. Wai Lai Yung and Mr. Alexander Reid Hamilton 40,000 shares.

STATEMENT OF ACTIVE BUSINESS PURSUITS

The following is a statement of the active business pursuits of the Group for the 10 months to December 2000, the year from 1st January, 2001 to 31st December, 2001 and for the period from 1st January, 2002 to the Latest Practicable Date. The active business pursuits period starts from 1st March, 2000, being the date from which Mr. Mo had control of the Group.

History

Group companies were incorporated in September and October 1999.

Period from 1st March, 2000 to 31st December, 2000

During a course of six month period starting February 2000, a research and development team of 5 software engineers was recruited to develop and package HanWeb Publishing Server for market. The HanWeb Publishing Server was demonstrated to Trade Development Council's then newly formed trade portal, Tdctrade.com. Tdctrade.com provided an excellent testing bed for HanWeb Publishing Server. Eventually, Trade Development Council acquired through a local system integration house HanWeb Publishing Server to produce a Simplified Chinese version of the Tdctrade.com in September. Trade Development Council became the Group's first customer in Hong Kong and the Directors believe that Tdctrade.com served as an excellent testimonial to many government agencies and quasi government organisations in Hong Kong that the Group targeted.

The Directors believe the government sector would be the pioneer adopter of HanWeb Publishing Server since it thought they would be the first to realize the need in providing a Simplified Chinese interface in better communicating with their counterparts in China as well as those Chinese people travelling and doing business in Hong Kong. The focus in the government sector paid off for the year to come. Hong Kong Productivity Council, another quasi government organization, became the Group's customer one month after Trade Development Council.

The news of Tdctrade.com adopting HanWeb Publishing Server generated substantial publicity for the Group. As at 31st December, 2000, the Group has a team of 11 people, 4 in sales & marketing, 2 in finance and administration and 5 in research and development.

Period from 1st January, 2001 to 31st December, 2001

The year started with the Group acquiring its first user in the media industry, Radio Television Hong Kong, another quasi government organisation. The Group continued its focus in the government sector and began to explore the opportunities in Taiwan and the PRC. It was the Group's strategy to recruit as many partners and resellers as possible in Taiwan and the PRC with the goals to achieve maximum market exposure and to gain the most early adopters of HanWeb Publishing Server.

HanWeb Publishing Server was launched in Taipei, Taiwan in early 2001 as a result of appointing the first distributor, Status Internet Company. PC Home Taiwan, a high profile Web portal became the

Group's first customer in this new market. In the later part of the year, Status Internet Company succeeded in bringing many more prominent users of HanWeb Publishing Server both in the government and commercial sectors. They included Government Information Office of Executive Yuan, the National Palace Museum, Formosa Plastics Group and Tzuchi.

Marketing of the software was also started in China in 2001. A prominent web portal became the Group's first customer in March 2001 and was followed by the PC Online portal, the same month in Beijing. In May 2001, the Group entered into a co-operation agreement for marketing the Group's software to customer with CapInfo Company Limited, a systems integrator and a company indirect majority owned by the municipal government of Beijing and its shares was subsequently listed on GEM. Beijing municipal government became the user of the Group's products in the PRC government sector in providing a Traditional Chinese interface to its Simplified Chinese e-government portal. CapInfo was listed in December 2001 in Hong Kong and is an independent third party not connected with the Company except by this co-operation agreement.

The Group continued its success in selling into the government sector. An significant endorsement came when Department of Justice of Hong Kong adopted HanWeb Publishing Server for its Hong Kong Bilingual Law Information System for the Web in April 2001. The Intranet established by the Hong Kong SAR Government to facilitate effective communication with her counterparts in Guangdong Province became another major milestone for the Group around the same time. The City University of Hong Kong became the Group's first customer in education sector in February 2001, followed by Yellow Pages and Business, Netvigator of the PCCW group in March and May 2001 respectively. The financial sector opened door for the Group when KGI Hong Kong Limited used HanWeb Publishing Server for its online brokerage platform in September 2001.

The Group began to consider the ASP business model when a memorandum of understanding was signed with an association of manufacturers in Hong Kong in April 2001 for offering their members rental service of HanWeb Publishing Server via a server housed in that association. The Group began to offer ASP rental services to clients.

In March 2001, the Group obtained financial assistance of HK$0.4 million loan from Hong Kong Government's Innovation Technology Fund to assist in the development of the HanWeb Publishing Server. In July 2001 it obtained about HK$1.1 million from the same fund. The Group won substantial publicity and recognition in three occasions throughout the year. In May 2001, the Group spoke in the World Wide Web Conference held in Hong Kong on the subject "Resolving Infra-Structural Problems in Chinese Information Exchanges using the Web".

In November 2001, the Group was awarded Hong Kong Science & Technology Park's Technological Achievement Award, one major award offered by the annual Hong Kong Awards for Industry program. In December 2001, The Hong Kong Computer Society awarded the Group IT Excellence Product Silver Award. The Group was proud to have won these two major awards in the same year.

The Group initiated a strategic research and development move in advancing HanWeb Publishing Server to offer voice enabled applications in earlier part of the year. In June 2001, the Group completed the development of HanVoice Server, the server based voice technology enabling visually impaired and old aged persons to voice-browse the Web like listening to radio. A pilot project was then launched by the Hong Kong SAR Government incorporating HanVoice Server technology in July 2001. The success of this pilot project served as a cornerstone to the future development of HanVoice Server to HanPhone enabling telephone and mobile phone users listening to the Web for real-time commercial applications.

To cope with the Information Technology policy of the Hong Kong SAR Government, the Group's product marketing strategy was architected and marketed in close alignment with the "Digital 21" Information Technology blue print first published by the then Information Technology and Broadcasting Bureau in 2001. The Directors believe that the Group's marketing focus in the government sector were echoed and tacitly endorsed in the Chief Executive fifth policy address the same year. The Directors believe that three Information Technology policy directives about using the Internet were described vindicating her needs of the Group's technologies in conquering "the Digital Divide". The Directors believe that the Information Technology policy directives would ensure short-term and sustaining revenue to the Group. The Group also acquired a new customer in government sector, the Hong Kong Observatory in 2001.

There were 13 people in the Group's headquarters in the closing of the year.

Period from 1st January, 2002 to the Latest Practicable Date

The focus of the year was on certain large projects of the Hong Kong SAR Government resulting from the Information Technology policy directives set out in previous year. Government business was expected to form an essential portion of the revenue forecast for the year. In the financial sector, the Group added The Hongkong and Shanghai Banking Corporation Limited and sctrade.com as HanWeb Publishing Server users. There was a growing awareness of serving PRC nationals using their services via the Web. The Group began to invest more marketing resources in calling on the major banks and online brokerage houses generating a rather encouraging prospect list. In another field, Commercial Press became a HanWeb Publishing Server user in May 2002. In the Taiwan market, the Ministry of Foreign Affairs chose HanWeb to communicate with PRC over the Web.

The sales of the Group began to gain momentum by winning more key customers across industries. NangFang Daily became the Group's customer in the China media industry. A travel services provider used HanWeb Publishing Server in its popular online travel services portal and China Southern Airlines became the Group's first customer in the airline industry.

The HanVoice Server was launched in June 2002 with one of the first customers, Trade Development Council offering in Tdctrade.com, voice enabled website in Cantonese, Putonghua and English. There was extensive media coverage of the launch. The HanPhone, an extension of HanVoice Server, was introduced at the same time. HanPhone was a computer based telephony platform helping enterprise in adapting their Web contents to the reach of their customers by way of conventional telephone and mobile phone utilising text to speech technologies. The Directors believe that HanPhone would have substantial business potential bridging the chasm created by the much advertised up and coming Voice XML standard supposed to enable enterprises in building telephony applications. The

Directors believe that HanPhone required no reconfiguration of enterprises' existing web infrastructure for such purpose. The Text To Speech technology in Cantonese, Putonghua and English deployed in HanPhone avoids the normal requirement of manual recording in the human voice of contents to be announced to conventional telephone and mobile phone users.

The Directors believe that there were two segments targeted for HanPhone. First, the government sector enabling their Websites to be accessed by telephones and voice enabled for the visually impaired and old aged persons. Second, the financial sector which would perceive HanPhone as a cost-saving and technically superior replacement of the already installed Interactive Voice Response systems (IVRS) which companies have invested in over past years to provide telephone based real-time stock information and trading services for their customers. As of August 2002 the Group employed 13 people in Hong Kong.

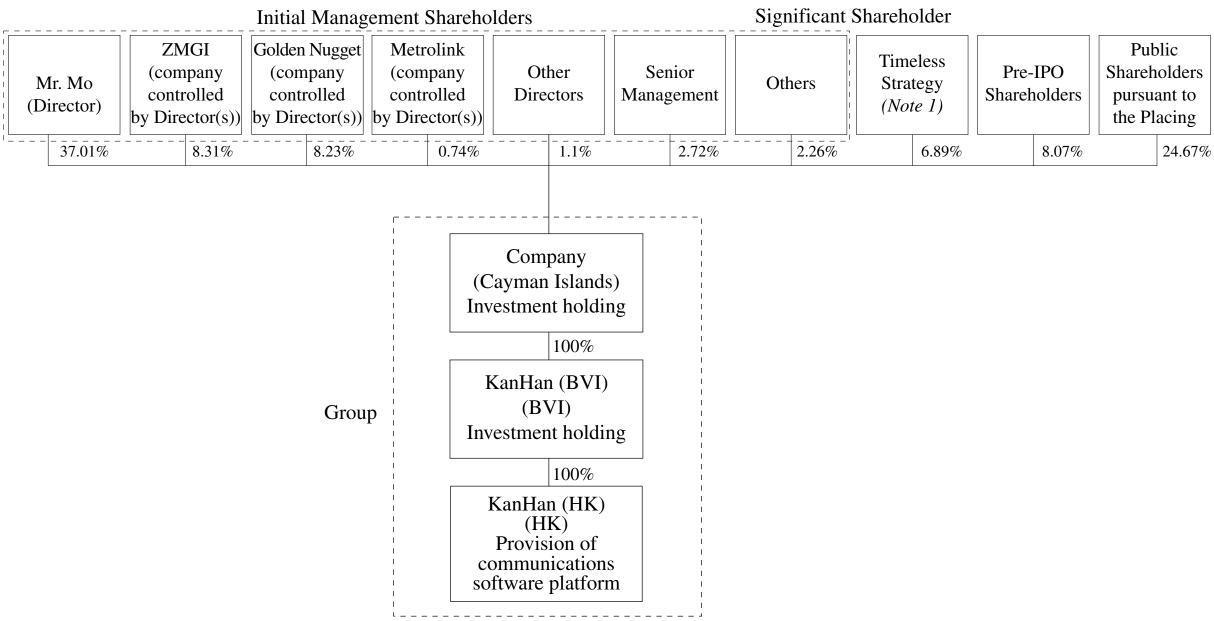
The Registrar of Patents of Hong Kong granted the Certificate of Grant of Patent (Patent No. HK1024380) to Mr. Mo on 25th August, 2000. Prior to the issue of the said Certificate, Mr. Mo assigned the right under the relevant patent application to KanHan (BVI) by an assignment dated 30th March, 2000. On 9th October, 2002, KanHan (BVI) re-assigned the patent and all rights under the patent applications to Mr. Mo and on the same day, Mr. Mo assigned the patent and the rights under the patent applications in all jurisdictions to KanHan (HK) absolutely and unconditionally by deed. The patent was first reassigned to Mr. Mo to facilitate the issue of the said Certificate.

RESEARCH AND DEVELOPMENT

The milestones of the Group's research and development in its products are summarised in the paragraph headed "Research and development milestones" in the section headed "Research, Products and Technology Development" in this prospectus.

CORPORATE STRUCTURE

The following chart sets out (a) the shareholding structure of the Company upon completion of the Placing (without taking into account of the exercise of the Over-allotment Option and the options to be granted under the Share Option Scheme), the Capitalisation Issue and the issue of Conversion Shares; (b) the structure of the Group upon the listing of the Shares on GEM and their respective place of incorporation and principal activities:



Notes:

1 **Convertible Notes**

Timeless Strategy provided financial support to the Group by purchasing two convertible notes issued by the Group.

3% Note

Pursuant to the 3% Note, Timeless Strategy agreed to convert the entire (but not part of) the principal amount of HK$1.8 million together with the accrued interest thereon at a price being 85% of the Issue Price of the Shares in the Company conditional upon and within 30 days after the GEM Listing Committee having informed the Company that it has in principle agreed to grant the listing of and permission to deal in the Shares.

8% Note

Pursuant to the 8% Note, Timeless Strategy previously had the right to convert on or before 31st March, 2003 the unsettled portion of the 8% Note together with accrued interest to the Shares at a conversion price equal to 85% of the Issue Price conditional upon the Shares are permitted to deal in the GEM. However, Timeless Strategy agreed to abandon all its conversion rights in the 8% Note unconditionally and irrevocably upon the Shares are permitted to deal in the GEM.

Timeless Strategy is regarded as member of the public. It has no board representation and no management function in the Group.

INITIAL MANAGEMENT SHAREHOLDERS AND OTHER SHAREHOLDERS OF THE COMPANY

Set out below are the respective shareholdings in the Company of the Initial Management Shareholders and other individual and corporate shareholders in the share capital of the Company immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised), the Capitalisation Issue and the issue of Conversion Shares.

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
1. Initial Management Shareholders								
(a) Directors (including companies controlled by Director(s))	Mr. Mo Wai Ming, Lawrence *(Chief Executive Officer, Executive Director)* *(Note 1)*	12th November, 1999	8th October, 1999	180,008	37.01%	0.0022	388,546	12 months
	ZMGI Corporation ("ZMGI") *(Note 1)*	29th January, 2000	N/A	40,432	8.31%	0.0022	87,297	12 months
	Golden Nugget Resources Limited ("Golden Nugget") *(Note 1)*	29th January, 2000	N/A	40,024	8.23%	0.0022	86,349	12 months
	Metrolink Holdings Limited ("Metrolink") *(Note 2)*	12th November, 1999	N/A	3,616	0.74%	0.0740	267,582	12 months
	Ms. Wai Lai Yung *(Executive Director)* *(Note 3)*	31st December, 2000	7th November, 2000	2,512	0.52%	0.0022	5,436	12 months
	Mr. Lee Chi Ming *(Executive Director)* *(Note 4a)*	25th September, 2002	10th October, 2002	1,432	0.29%	0.0022	3,120	12 months
	Mr. Yuen Ka Lok, Ernest *(Non-executive Director of KanHan (BVI))*	25th September, 2002	1st August, 2002	1,432	0.29%	0.0022	3,120	12 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
(b) Senior Management (including companies controlled by Senior Management)	Mr. Sze To Wai	31st December, 2000	2nd May, 2000	1,384	0.28%	0.0022	2,964	12 months
	Mr. Tso Yuk	31st December, 2000	19th July, 2000	672	0.14%	0.0022	1,482	12 months
	Mr. Tsang Yiu Kwan, Odie	28th February, 2001	15th November, 2000	1,048	0.22%	0.0022	2,262	12 months
	Ms. Lau Shui Ying	31st December, 2000	17th January, 2000	1,384	0.28%	0.0022	2,964	12 months
	Mr. Lee Jih Kang, Michael	31st December, 2000	28th March, 2000	1,384	0.28%	0.0022	2,964	12 months
	Mr. Alexander Reid Hamilton *(Note 11)*	31st December, 2000	7th November, 2000 (resigned)	2,896	0.60%	0.0022	6,240	12 months
	Mr. Young Antonio Chun-Kwan (the successor of Top Asia Management Limited ("Top Asia")) *(Notes 8 and 11)*	31st December, 2000	7th November, 2000 (resigned)	3,072	0.63%	0.0022	6,630	12 months
	Mr. Shen Yu-Hsueh *(Note 11)*	8th June, 2002	1st April, 2001 (resigned)	1,432	0.29%	0.0022	3,120	12 months
(c) Others	Sino Asia Properties Limited ("Sino Asia") *(Note 1)*	12th November, 1999	N/A	6,680	1.37%	0.0022	14,395	12 months
	Mr. Hung Kwok Wing *(Note 5)*	28th February, 2001	N/A	4,328	0.89%	0.0022	9,360	12 months
				293,736	60.37%			

2. Significant Shareholder

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares ('000)	Approximate percentage	Approximate cost of investment for each Share (HK$)	Total cost of investment (HK$)	Moratorium period
	Timeless Strategy Limited ("Timeless Strategy") *(Note 4)*	28th February, 2000	N/A	33,520	6.89%	0.2879	7,798,050	6 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
3. Pre-IPO Shareholders								
(a) Employees other than Directors and Senior Management *(Note 5)*								
	Mr. Lam Sau Fung	31st December, 2000	14th February, 2000 (resigned)	5,792	1.19%	0.0022	12,480	12 months
	Mr. Tsang Hing Keung	31st December, 2000	21st August, 2000 (resigned)	1,088	0.22%	0.0022	2,340	12 months
	Ms. Choy Kwun Kei, Kay	31st December, 2000	1st April, 2000	760	0.16%	0.0022	1,638	12 months
	Mr. Ho Hing Yuen	31st December, 2000	5th July, 2000	920	0.19%	0.0021	1,950	12 months
	Ms. Wong Yu, Helen	31st December, 2000	18th February, 2000	336	0.07%	0.0021	702	12 months
	Ms. Wong Kim Yim Kimmy	25th September, 2002	2nd April, 2001	376	0.08%	0.0021	780	12 months
	Mr. Lau Ching Yung	25th September, 2002	21st May, 2001	296	0.06%	0.0021	624	12 months
	Mr. Wu Chun Wing	25th September, 2002	16th July, 2001	376	0.08%	0.0021	780	12 months
	Mr. Cheung Hong Hoi	25th September, 2002	18th June, 2001	376	0.08%	0.0021	780	12 months
	Delta Pacific Resources Limited ("Delta Pacific") *(Note 10)*	21st February, 2002	N/A	5,416	1.12%	0.1037	561,600	12 months
				15,736	3.25%			
(b) Pre-IPO Shareholders classified as Public Shareholders								
(i) Consultants *(Notes 5 and 12)*	Ms. Lai Ying, Queenie	25th September, 2002	N/A	4,328	0.89%	0.0022	9,360	12 months
	Ms. Li Oi Heung, Candy	25th September, 2002	N/A	4,328	0.89%	0.0022	9,360	12 months
	Mr. Wong Ka Ming	25th September, 2001	N/A	4,328	0.89%	0.0022	9,360	12 months

Category of Shareholders	Name of Shareholders	Date on which interest in the Group was first acquired	Joining date	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares	Approximate cost of investment for each Share	Total cost of investment	Moratorium period commencing from the Listing Date
				'000		*HK$*	*HK$*	
(ii) Individual and Corporate Shareholders	Kapabla, Inc. ("Kapabla") *(Note 6)*	25th February, 2000	N/A	8,312	1.71%	0.0604	502,320	12 months
	Dragon Yield Investments Limited ("Dragon Yield") *(Note 7)*	24th November, 2000	N/A	1,432	0.29%	0.1460	209,040	12 months
	Naturally Open Inc. ("Naturally Open") *(Note 9)*	31st May, 2001	N/A	712	0.15%	0.0876	62,400	12 months
				23,440	4.82%			
4. Public Shareholders pursuant to the Placing								
	Public Shareholders pursuant to the Placing	Listing Date	N/A	120,000	24.67%	Issue Price	N/A	N/A
Total:				486,432	100%			

Notes:

1. The issued share capital of Cyber Systems Limited ("Cyber Systems") is beneficially owned as follows:

Name of shareholder	Percentage of shareholdings in Cyber Systems	Ultimate beneficial owner of the shareholders in Cyber Systems
Mr. Mo	67.5%	Mr. Mo
ZMGI (principally engaged in investment holding)	15%	Mr. Lee Chi Kong, an independent third party to the Group (save as his interest in ZMGI) (42.5%) Metrolink (owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung) (42.5%) Mr. Chan Chun Hung, Vincent (1%), an independent third party to the Group (save as his interest in ZMGI) Golden Nugget (owned solely by Ms. Wai Lai Yung) (6%)

Name of shareholder	Percentage of shareholdings in Cyber Systems	Ultimate beneficial owner of the shareholders in Cyber Systems
		Crystal Bright Investments Ltd. ("Crystal Bright") (owned solely by Chan Hoi Kwong, Paul, an independent third party to the Group (save as his interest in ZMGI through Crystal Bright)) (2%) Mr. Hung Kwok Wing (3%), a consultant of the Group Mr. Young Antonio Chun Kwan (3%)
Golden Nugget (principally engaged in investment holding)	15%	Ms. Wai Lai Yung (100%)
Sino Asia (principally engaged in investment holding), the successor of Genius Group Investment Limited ("Genius Investment")	2.5%	Mr. Cheung Wing Woo, an independent third party to the Group (save as his interest in Sino Asia) (50%) Mr. Kwok Chi Ho, an independent third party to the Group (save as his interest in Sino Asia) (50%)
Total	100%	

Cyber Systems was incorporated as a corporate vehicle for the sole purpose of holding the respective interests of Mr. Mo, ZMGI, Genius Investment and Golden Nugget. Genius Investment is owned as to 50% by Mr. Cheung Wing Woo and as to 50% by Mr. Kwok Chi Ho. On 18th September, 2001, Genius Investment disposed of its entire interests in Cyber Systems to Sino Asia at a consideration of US$4,500, being the cost of investment.

Neither Sino Asia nor its ultimate beneficial owner has board representation or management function in the Group.

Taking into consideration of the contributions made to the Group by Mr. Mo, ZMGI, Golden Nugget and Genius Investment (the predecessor of Sino Asia), the cost of investment of Cyber Systems in the Group was nominal.

Examples of contributions made by the founders:

Mr. Mo assigned the patent of HanWeb Font Technology to the Group without economic consideration.

ZMGI rendered financial and management consultancy services to the Group. As regards financial consultancy service, ZMGI introduced potential investors and customers to the Group. For instance, Timeless Strategy, who has become an investor in the Group, was introduced by ZMGI. As regards management consultancy services, ZMGI developed the accounting system for the Group.

Ms. Wai Lai Yung (who is the sole shareholder of Golden Nugget) devoted her effort in giving financial advices to the Group. Furthermore, on 7th November, 2000, she become a director of KanHan (BVI) as a recognition of her contribution to the Group.

Genius Investment was previously wholly owned by Mr. Kane Cheung who had devoted his effort in advising the design of the software of the Group during the founding stage of the Group.

Shareholding changes of Cyber Systems are as follows:

Shareholders of Cyber Systems:	**%**	**5th January, 2000**	**29th February, 2000**	**25th March, 2000**	**6th April, 2001**	**18th September, 2001**	**9th November, 2001**	**Total**
Metrolink	0	1,000,000	350,000	(1,350,000)				0
Mr. Mo	67.5		5,850,000		9,000,000		(2,700,000)	12,150,000
Mr. Lee Chi Kong	0		1,350,000	(1,350,000)				0
Genius Investment	0		450,000			(450,000)		0
ZMGI	15			2,700,000				2,700,000
Sino Asia	2.5					450,000		450,000
Golden Nugget	15						2,700,000	2,700,000
	100	1,000,000	8,000,000	—	9,000,000	—	—	18,000,000

As part of the Reorganisation, in consideration of and in exchange for Cyber Systems selling to the Company all its interest in KanHan (BVI), the Company (a) allotted and issued and credited as fully paid an aggregate of 8,900,000 Shares to the above shareholders of Cyber Systems, (as to 5,975,000 Shares to Mr. Mo, 1,350,000 Shares to ZMGI, 225,000 Shares to Sino Asia and 1,350,000 Shares to Golden Nugget); and (b) credited as fully paid 100,000 nil-paid Shares issued to Mr. Mo on incorporation of the Company. Further particulars of the Reorganisation are set out in the paragraph headed "Group Reorganisation" in Appendix V to this prospectus.

2. Metrolink is principally engaged in investment holding. The issued share capital of Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung.

   Mr. Lai Kui Shing, Andy, being one of the beneficial owners of Metrolink, is a director of each of KanHan (BVI) and KanHan (HK).

   Ms. Wai Lai Yung, being one of the beneficial owners of Metrolink, is an executive Director of the Company.

3. Ms. Wai Lai Yung, an executive Director of the Company, has 100% beneficial interest in Golden Nugget and 50% beneficial interest in Metrolink, which holds 42.5% in ZMGI.

4. Timeless Strategy is principally engaged in investment holding and is a wholly owned subsidiary of Timeless Software Limited. The shares of Timeless Software Limited are listed on GEM. Timeless Software Limited develops computer software and sells computer software and hardware. Timeless Software Limited does not compete with the Group.

   Neither Timeless Strategy nor its beneficial owner has board representation or management function in the Group. Both Timeless Strategy and its beneficial owner are independent third party of the Group.

4a. KanHan (BVI) issued and allotted shares to Mr. Lee on 25th September, 2002 on the understanding that Mr. Lee will be the executive Director of the Company after the Company has been duly incorporated. After the Company had been duly incorporated in October 2002, Mr. Lee started rendering service to the Company.

5. The interests of employees and consultants in the Group represent the swap of their respective interests in KanHan (BVI), which was allotted at par value of US$0.01 as the performance bonus in respect of their respective contributions to the Group, pursuant to the Reorganisation.

   All the employees are independent third parties of the Group (save as their employment by the Group).

Ms. Lai Ying, Queenie, being a consultant of the Group, is a daughter of Mr. Lai Kui Shing, Andy, a shareholder of Metrolink and a director of both KanHan (HK) and KanHan (BVI). Mr. Hung Kwok Wing, being a consultant of the Group, holds 3% shareholdings in ZMGI, a shareholder of the Company. Save as disclosed herein, all the consultants are independent third parties of the Group.

6. Kapabla is principally engaged in investment holding. The issued share capital of Kapabla is beneficially owned as to 50% by Mr. Richard S. Myers and as to 50% by Mr. John B. Possman.

   Neither Kapabla nor its ultimate beneficial owners has board representation or management function in the Group. Both Kapabla and its ultimate beneficial owners are independent third party of the Group.

7. Dragon Yield is principally engaged in investment holding. The issued share capital of Dragon Yield is beneficially owned as to 100% by Ms. Tang Wai Fun.

   Neither Dragon Yield nor its ultimate beneficial owners has board representation or management function in the Group. Both Dragon Yield and its ultimate beneficial owners are independent third party of the Group.

8. The issued share capital of Top Asia is beneficially owned as to 100% by Mr. Young Antonio Chun Kwan. Top Asia is an investment holding company. In consideration and is exchange for Top Asia selling all its interest in KanHan (BVI), the Company issued, allotted and credited as fully paid an aggregate of 45,000 Shares (before Capitalisation Issue) to Mr. Young Antonio Chun Kwan.

   Mr. Young, Antonio Chun Kwan was an ex-director of KanHan (BVI) and resigned in October 2002.

9. Naturally Open is principally engaged in investment holding. The issued share capital of Naturally Open is beneficially owned as to 100% by Mr. Robert T. Myers.

   Neither Naturally Open nor its ultimate beneficial owners has board representation or management function in the Group. Both Naturally Open and its ultimate beneficial owners are independent third party of the Group.

10. Delta Pacific is principally engaged in investment holding. The issued share capital of Delta Pacific is beneficially owned as to 100% by Mr. Tsang Hing Keung.

    Neither Delta Pacific nor its ultimate beneficial owners has board representation or management function in the Group. Mr. Tsang Hing Keung was an employee of the Group and resigned on 31st December, 2001.

11. Mr. Alexander Reid Hamilton was an ex-non-executive director of KanHan (BVI) and resigned in October 2002. Both Mr. Shen Yu-Hsueh and Mr. Young Antonio Chun-Kwan were ex-directors of KanHan (BVI) and resigned in November 2002 and October 2002 respectively as they do not have enough time to carry out the duty as directors.

12. **Consultants**

    Four consultants have been engaged in the past two years in respect of the services described below. The Group compensates their services with KanHan(BVI) shares acquired at par value disclosed in the section on Shareholders.

    The consultants have not been paid in cash.

    Ms. Queenie Lai Ying

    Ms. Lai is a trainee solicitor and holds an LLB degree from Cambridge University. She provided legal advice to the Group from June 2000 through August 2001, in particularly on the application of patent in various countries. She is not involved in management and has no business transaction with other shareholders or directors of the Group. Ms. Queenie Lai is the daughter of Mr. Lai Kui Shing, Andy a shareholder of Metrolink (a shareholder of the Company) and a director of KanHan (HK) and KanHan (BVI).

Ms. Candy Li Oi Heung

Ms. Li is an individual with telecom background. She has been working in the telecommunications industry for approximately 10 years and she has provided consultancy services on the development of HanVoice Server and HanPhone since September 2001 until December 2002. She is not involved in management and has no business relationship with any other shareholders or directors of the Group.

Mr. Wong Ka Ming and Mr. Hung Kwok Wing

Mr. Wong and Mr. Hung have, respectively, 20 years and 12 years of experience in corporate finance with local banks and securities business in Hong Kong, and have been employed by Yorkshire Capital Limited, which provides business consultancy and accounting services to its clients, to provide directions and guidelines in restructuring the Group in the preparation of a possible listing of shares since the beginning of 2001 until mid 2002. Their services including, but not limited to, advice on jurisdiction of incorporation, shareholding structure and locate potential sources of finance to the Group. Mr. Wong is not involved in management and has no business transaction or relationship with other shareholders or directors of the Group. Mr. Hung holds 3% shareholdings in ZMGI (an Initial Management Shareholder of the Company). Mr. Hung resigned from Yorkshire Capital Limited in November 2002.

Except as disclosed in this prospectus, each of the Initial Management Shareholders has confirmed with the Company the Sponsor and the Stock Exchange that he, she or it or his, her or its respective associate, has not entered into, and will not enter into prior to listing, any arrangements or agreements in relation to the Shares of the Company or any member of the Group issued and allotted to each of them or to be placed pursuant to the Placing and price of the Shares. Except as disclosed above, each of the Pre-IPO Shareholders is independent of and not connected with the Directors, chief executives, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates or existing shareholders of the Company. The relevant Shares are subscribed by the Pre-IPO Shareholders of their own funds and/or are settled by assets owned by the respective Pre-IPO Shareholders. The acquisition of the relevant Shares is not financed directly or indirectly by any connected person of the Company, the Directors, chief executives, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates.

Each of the Pre-IPO Shareholders is not accustomed to taking instructions from a connected person of the Company in relation to the acquisition, disposal, voting or other disposition of the relevant Shares registered in his/her/its name or otherwise held by him/her/it.

No arrangement nor proposal has been made by each of the Pre-IPO Shareholders with any other party connected with the Company, the Directors, chief executives, substantial shareholders or Initial Management Shareholders of the Company or any of its subsidiaries or any of their respective associates in respect of the manner of the voting rights of the Shares.

The Directors consider the discounts given to all investors for the shares as compared to the Issue Price to be fair and reasonable, after taking into account the risk of investment involved. The Directors also consider the benefits received by the Group to be commensurate with the value of the shares allotted to all investors.

HANWEB PUBLISHING SERVER

The requirement — Traditional Chinese compared with Simplified Chinese

There was only one Chinese script, Traditional Chinese, before the establishment of the PRC in 1949. A new set of Chinese script was established by the Communist government in the 1950s, and named Simplified Chinese and became the official script in the PRC ever since. Among the Simplified Chinese characters, some are existing characters; some are simplified forms of the traditional characters that are commonly believed to be too difficult to write. Nowadays, Hong Kong, Macau, Taiwan, & most overseas Chinese societies use Traditional Chinese while the PRC and Singapore use Simplified Chinese.

The complexities of translating from Simplified Chinese to Traditional Chinese

The complexities of translating from Simplified Chinese to Traditional Chinese include these factors:

1. Many simplified characters are no longer recognizable from their original forms in Traditional Chinese.

2. In numerous cases, one simplified character will correspond with two or more Traditional Chinese characters. A translator must determine from the context whether two or more traditional characters in fact represent one simplified character, or whether they have separate meanings.

Examples of translation from Simplified Chinese in different contexts to Traditional Chinese

	Translation from Simplified Chinese to Traditional Chinese	Context of the Simplified Chinese character
1	肮 ⟶ 骯	骯髒
2	摆 ⟶ 擺	搖擺
3	摆 ⟶ 襬	衣襬下襬
4	板 ⟶ 板	黑板、白板、面板、板面、板塊
5	板 ⟶ 闆	老闆
6	杯 ⟶ 杯	杯葛、杯子、玻璃杯
7	杯 ⟶ 盃	獎盃、世界盃、冠軍盃、國家盃、球會盃
8	背 ⟶ 背	背脊、背景、背負
9	背 ⟶ 揹	揹縴、揹債、揹榜、揹包、揹黑鍋、揹書包、揹行李

3. The two versions of Chinese script use different encoding systems in computer systems. Should the wrong encoding system be used the resulting display will omit numerous characters, making the display hard or impossible to read. Invariably this will result in indecipherable symbols being displayed.

4. There are differences in vocabulary. Simplified Chinese mainly follows the vocabulary used in the PRC, whereas Traditional Chinese mainly follows the vocabulary user in Taiwan and Hong Kong.

Examples of translation from vocabulary used in Hong Kong to vocabulary used in the PRC

	由香港使用之詞彙轉譯為在中國使用之詞彙
1	call機 ⟶ 传呼机
2	的士 ⟶ 计程车
3	call台 ⟶ 传呼台
4	巴士 ⟶ 公共汽车
5	菲林 ⟶ 胶卷
6	電視機 ⟶ 彩电
7	冷氣機 ⟶ 空调
8	互聯網 ⟶ 因特网
9	乞兒 ⟶ 叫化子
10	網絡 ⟶ 网络
11	軟體 ⟶ 软体
12	電腦 ⟶ 计算机

HanWeb Publishing Server copes with non-standard local language requirements

Non-standard characters are commonly found in Asian countries. Non-standard characters are defined as those not contained in national character coding schemes, such as “JIS” in Japan, “Big-5” for Traditional Chinese, “GB2312-80” or “HZ” for Simplified Chinese and “KSC” for Korea. These schemes are supported on most computer platforms, such as Microsoft Windows and Mac O/S, in their respective country versions only.

Unicode and ISO 10646 and its periodical extensions are international attempts to consolidate global character coding schemes into one common coding scheme, which encompasses the most frequently used Han characters. The Directors believe that the new extensions illustrate the inadequacy of the present Han character coding scheme in respect of non-standard characters.

In Hong Kong, the Government has published the "Hong Kong Supplement Character Set", which includes 4,800 commonly used Traditional Chinese characters that are not encoded in Big-5. For example:

埗－廈－鱲－滙－呑－廁－鰂－邨－啲－鷄－鏈

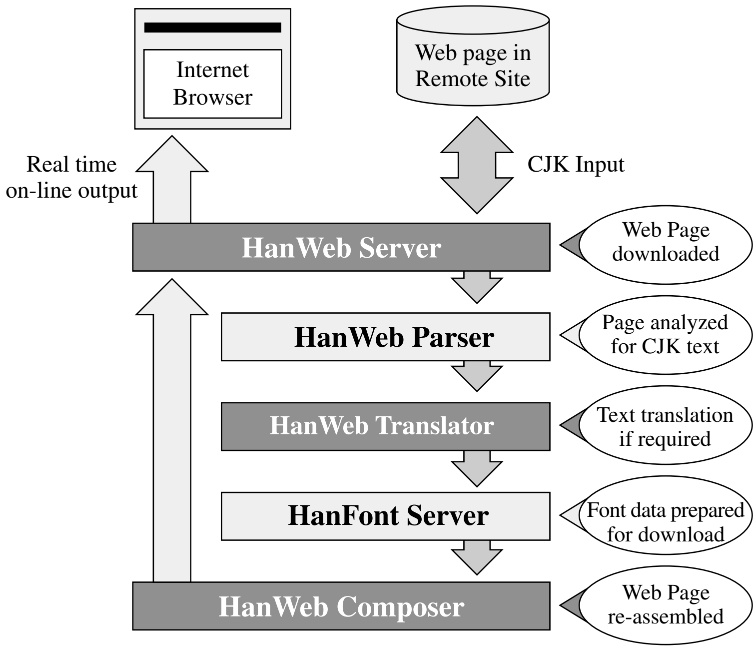
These characters are those which are frequently used in the names of places and people, or are specific to Cantonese. Because of changing local language requirements which will create new non-standard characters, the Directors believe that a client based approach, such as having a font embedded in the users system, cannot guarantee that all CJK characters will be correctly and completely displayed. The Directors believe that the Group's HanWeb Publishing Server developed on server-based approach can guarantee that an accurate display of CJK characters with no missing characters because of its graphical presentation.

The HanWeb server based translation engine between Traditional Chinese and Simplified Chinese has character and vocabulary rules in governing the accuracy while most other PC based translation software come with only limited rules and require users to input their own rules in order to improve accuracy. The advantage of a server based approach is that the rules database is centrally managed, improved and updated without requiring action from user side. While the Group continues to provide new rules to customer, it is thus more accurate than most static translation software available on PC side.

OPERATIONS OF HANWEB PUBLISHING SERVER

HanWeb Publishing Server enables clients to perform a number of tasks that could not otherwise be easily performed. These tasks include translating between Traditional Chinese and Simplified Chinese, and converting text to graphic format for display on a computer or handheld device. HanWeb Publishing Server is composed of a web server, a parser, a translation engine, a font server and a web composer. The following diagram depicts how HanWeb Publishing Server interacts with the client's browser and the remote web site.

HanWeb Publishing Server



Internet Browser — the only device the client requires

The device the client requires is an Internet browser. The client visits Web pages and downloads those Web pages to HanWeb Publishing Server, and through which the Directors believe that all the Asian language content of those pages will be delivered to the user's browser accurately for its graphical presentation. Asian character language users can view and input characters on any Web application with only a standard Web browser without any plug-in device of any kind.

HanWeb Server — Asian character language interface

The Group aims to overcome the shortcomings created by existing web browser technology in handling Asian character languages which relies on the compatibility of the local character coding schemes used in the browser and the Web Site. The Directors believe that these shortcomings are summarized as follows:

- there is a loss of the advantage of platform independence;
- there is no guarantee of verbatim access to Asian language character content, i.e. the inability to support non-standard local language requirements, such as Cantonese dialectal characters;
- web appliances require a costly and lengthy process of Asian localization to display and accept Asian characters e.g. in WAP phone, set-top boxes, and Web pads; and
- the existing systems often require a special plug-in and client side program to access non-HTML based legacy documents.

The Directors believe that HanWeb Server is the pure HTML implementation server platform for inputting Asian character language over a web browser.

The HanWeb Server formats and transmits Web pages in remote Web Site to HanWeb Parser. HanWeb Server currently adheres to the HTTP 1.0 standard and supports SSL 3.0.

HanWeb Parser

The HanWeb Parser is a set of Web server programs that scans the source of Web pages for text information and performs various operations, such as translation between two Chinese scripts and text to speech conversion. The HanWeb Parser supports HTML 4.0, JavaScript 1.0 - 1.5, CSS 1 and 2 and WML.

HanWeb Translator

The Directors believe that HanWeb Translator is an accurate real-time translation engine operating between Simplified Chinese and Traditional Chinese that is powered by a combination of a database of characters and vocabulary rules.

HanFont Server

HanFont Server first identifies text information on a particular Web page through the HanWeb Parser. It then downloads the font data to a Web browser by replacing each character code in the page with an unique URL address to a graphic image corresponding to that character's shape.

HanFont Server is used for browsing Web pages in different languages particularly, but not exclusively, in languages of ideographic character such as Chinese, Japanese and Korean. Normally in a conventional Internet application, in order to be able to display the text of a particular language the operating system of a computer incorporates a font rendering system. One example would be "TrueType" in Microsoft Windows, which uses font files residing in the computer's hard disk. The font files must be compatible with the particular font rendering system, which then generates a bitmap of a character from the font file used by the operating system and application software. The conventional application system uses an Internet browser to access Web information and the browser makes use of a font rendering system that supports different sizes and styles of characters, as specified by the Web pages. Different font files are required for the font rendering system to work in different languages and if the required file is not installed, the browser cannot display the required letter or character and will instead display a "□". The Directors believe that of the 50,000 Chinese characters commonly used only about 8,000 to 20,000 are stored in a computer. The HanFont Server translates the characters into graphics, which can be displayed by any browser. The Directors believe that HanFont Server can also work with other languages, including those with Roman and Cyrillic alphabets.

HanWeb Composer

The resulting page will be re-composed by HanWeb Composer and returned to the user's browser with its presentation format.

DISTINCTIVE FEATURES OF HANWEB PUBLISHING SERVER

The Directors believe that using Web servers powered by HanWeb Publishing Server, content providers may be assured their Web pages will be accurately displayed on a Web browser and that viewers do not have to equip their devices with language software for viewing Asian character script in their desktop PCs. The Directors believe that most existing Web pages will not have to be reconfigured to use HanWeb Publishing Server and that developers of web appliances will save costs for not having to design for a separate interface for Asian characters, significantly the product development cycle for Asian markets. The Directors believe that the HanWeb Publishing Server will allow Web designers to improve the appearance of their pages with a greater range of font styles, creating a more attractive Web environment.

In summary, the Directors believe that HanWeb Publishing Server has the following key features:

- The system is "Plug & Play", the traditional Chinese version, simplified Chinese version, Unicode version and Cantonese Braille versions can be installed and run immediately.

- Content management has been made simple, no changes to the user's existing Website is required. All maintenance and update, including content, design and programming, can be made at one time.

- There is high quality translation - accurate translation is assured by using a rule-based, database-driven engine. As well as character-based translation, vocabulary-based database translation is also included.

- Microsoft Office Documents can be converted to HTML documents in real time. Microsoft Word and Excel files are converted into HTML format while preserving most of their layout information allowing for viewing online using a standard browser.

- The HanWeb activeLink creates hyperlinks between key words in a HTML page to online resources governed by a dynamic database that is updated by web master.

The Directors believe that there are many benefits to users of the HanWeb Publishing Server, including:

- Web-based Chinese and potentially Japanese and Korean language interfacing technologies

- Potentially unlimited Asian language character set support with graphical presentation which the Directors believe that it would ensure there are potentially no missing characters for its graphical presentation

- Potentially Users' choice of Traditional and Simplified Chinese view of content

- Presentation of legacy documents in HTML format

- Text to speech capability for telephone and browser access

- No Asian character language plug-in software is required for English language browsers

- HanWeb Font Technology supports PCs, Macs, Unix Box, Web phone, WAP phone, set-top boxes & other Web appliances

- Capability for information publishing platform for Internet

- Cost savings in developing and maintaining only one content for Web, voice and Wireless access

- Enables browser access to popular legacy document formats

- Potentially Asian character localization technology for Web appliance manufacturers

- Potentially one model for all Asia with full Asian language character support reducing localization costs

- Industry standard compliant HTML server and parser technologies

- Compatibility with Web development tools

- Plug and play architecture requires less conversion of existing Web pages

- Translation Engine for Simplified Chinese and Traditional Chinese

- Rule-based system with vocabulary translation

- Enterprises, ICPs and portals avoid having to maintain two Chinese Web sites

HANVOICE SERVER

Evolution from text to speech technology

The Directors believe that when text to speech technology is used in conjunction with the HanVoice Server the product has little competition. The Directors believe that HanVoice Server's plug and play approach in automating the text to voice conversion and navigation flow to access the World Wide Web from PCs, telephones and hand held devices is a market leader. HanVoice Server uses text to speech engines for Putonghua, Cantonese and English and it is extensible into other languages. HanVoice Server uses Web design tools to build content-rich interactive voice response system and does not require reconfiguration of existing Websites.

The following list gives some examples of everyday applications of text to speech technology.

- In the enterprise, voice enabled applications allows a mobile workforce to access critical business information from any location on the web.

- While driving on the road, the system allows hands free and eyes-free access to information from the car, taking advantage of the high quality of car audio systems. There is a need for converting text messages into the spoken word in this context. As the number of in-car information systems increases, so the use of text to speech software allows the information provided to be assistive and not distracting to the vehicle driver.

- In mobile gaming, fans of gaming are no longer tied to the PC or the games console.

- In healthcare, doctors can download a patient's record and have it read aloud by a high quality voice.

- In industrial environments, information can be sent directly from the factory floor to and from the information management system.

Operations of HanVoice Server

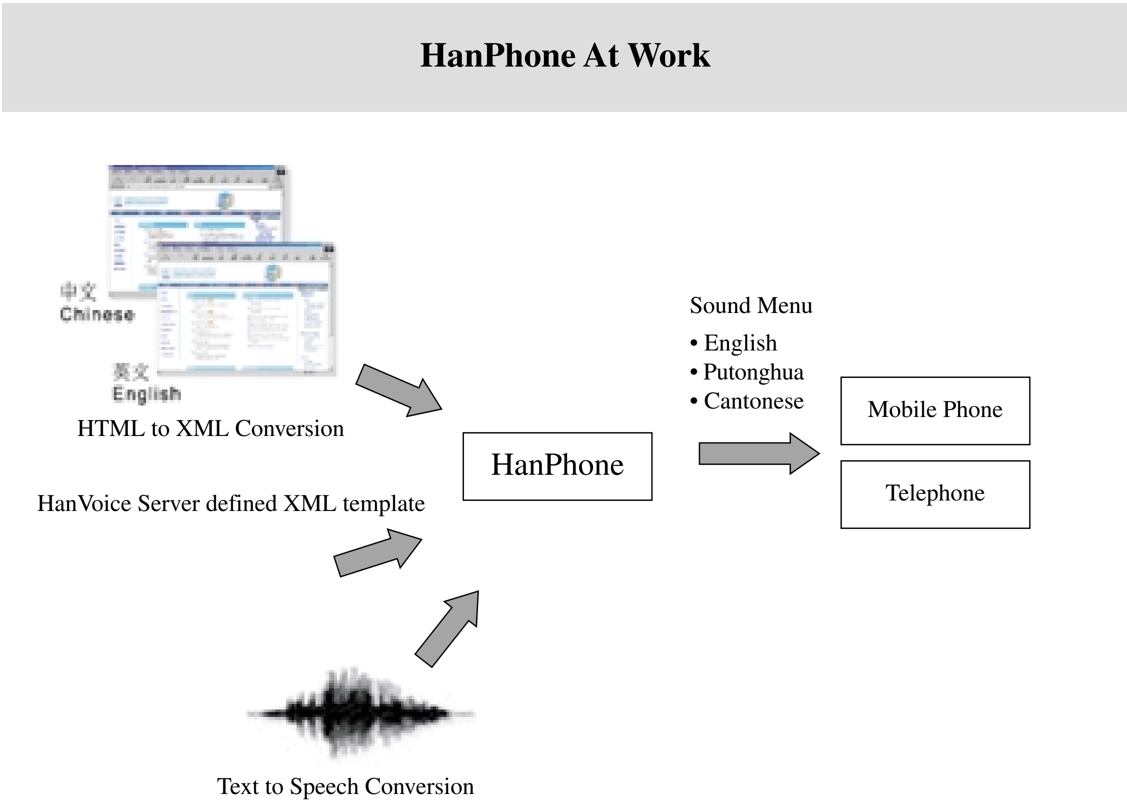
HanVoice Server is a real-time text to speech platform available in Cantonese, Putonghua and English. A vocabulary database is used to generate an intonation of a Chinese character as pertaining to its context. The server can access a Web site with fixed line telephones and mobile phones, in either Chinese or in English.

HanWeb Voice Translator helps visually impaired persons to navigate a Website by converting the text information into voice files and streaming them to browser for listening without having to rely on special client software. When integrated with standard Internet telephony technology, a normal telephone can be used to listen to a Website. In conjunction with HanWeb Publishing Server, the webmaster needs only to develop and maintain one web-based content site with KanHan specific tags to cater for access by Internet browsers as well as normal telephones.

HanVoice Server provides a powerful platform that converts Web content into voice for wireless clients. Working with other HanWeb components, the Directors believe that HanVoice Server is the ultimate platform for enterprises to bring corporate knowledge and data from diverse formats to within the reach of most Internet enabled wireless devices in voice format. The Group does not offer speech recognition technology on its HanVoice Server at the present time but will consider to incorporate through partnership with technology partners when the technology matures to commercially viable for Cantonese and Putonghua.

The functions of HanVoice Server are schematically presented as follows:

The following diagram shows how the HanPhone operates:



DISTINCTIVE FEATURES OR HANVOICE SERVER

The Directors believe that HanVoice Server has a number of key features including:

- good voice quality, a sound that is pleasant to hear and natural sounding;
- easily understood pronunciation; and
- being multi-lingual and available in a variety of languages.

REASERCH AND DEVELOPMENT MILESTONES

	Number of R&D staff
September 1999	1
● Commenced design and implementation of HanWeb Publishing Server.	
October 1999	1
● Commenced design and implementation of HanPort, a Windows application serving as a client-side proxy to HanWeb.	
November 1999	1
● Completed implementation of HanPort.	
December 1999	1
● HanWeb Publishing Server 1.0 released. ● Commenced design and implementation of HanWeb 2.0. ● Commenced design of HanFont Server.	
January 2000	1
● Commenced implementation of HanFont Server.	
February 2000	1
● HanFont Server 1.0 released.	
March 2000	1
● Commenced and completed implementation of Virtual Keyboard.	
April 2000	3
● Completed implementation of HanWeb Publishing Server's setup program. ● Commenced design of HanWeb Parser.	

	Number of R&D staff
May 2000	3

- HanFont Server 2.0 released.
- Commenced implementation of HanWeb Parser.

June 2000	3

- Commenced extensive testing of HanWeb Publishing Server 2.0.

July 2000	6

- HanWeb Publishing Server 2.0 released.
- Completed integration of HanWeb Parser to HanWeb Publishing Server.
- Commenced porting of HanWeb to UNIX platforms.
- Commenced design and implementation of ActiveLink, a new feature of HanWeb Publishing Server.

August 2000	6

- Completed implementation of HanWeb Publishing Server's configuration tool for UNIX platforms.
- Completed implementation of offline batch conversion tool.
- Commenced integration of ActiveLink to HanWeb Publishing Server.
- Commenced redesign and implementation of web-based email service.

September 2000	5

- Completed integration of web-based rule database editor to HanWeb.
- Commenced integration of OpenSSL to HanWeb Publishing Server.
- Commenced redesign of Virtual Keyboard.

October 2000	5

- Completed integration of OpenSSL to HanWeb Publishing Server.
- Commenced design of new interface of ActiveLink.
- Commenced implementation of new Virtual Keyboard.

	Number of R&D staff
November 2000	5

- Completed porting of HanWeb Publishing Server to AIX.
- Completed HanWeb customization for PortalBar.com
- Completed integration of SponsorLink to HanWeb Publishing Server.
- Completed implementation of web-based email support to ActiveLink.
- Commenced design of HanWeb Publishing Server retail version.
- Commenced research on XML, WML and related technologies.

December 2000	4

- HanWeb Publishing Server 2.5 released.
- Completed implementation of support of Virtual Keyboard to HanWeb Publishing Server.
- Commenced design of XSLT style sheets for transformation of HTML to WML.
- Commenced research on various language translation engines.

January 2001	4

- HanWeb retail version released.
- Commenced implementation of XSLT style sheets for transformation of HTML to WML.
- Commenced research on Microsoft Word and Adobe PDF formats and means to convert them to other formats.

February 2001	4

- Commenced design of HanWeb Publishing Server 3.0.
- Commenced research on file formats supported by PDA.

March 2001	4

- Completed implementation of Big5-to-Braille conversion in HanWeb.
- Commenced implementation of HanWeb Publishing Server 3.0.
- Commenced design of HanVoice Server, a variant of HanWeb Publishing Server with text-to-speech capabilities.

April 2001	4

- Commenced implementation of HanVoice Server.

	Number of R&D staff
May 2001	4

- Commenced design of new translation engine.
- Commenced design of HanMail Server, HanWeb Publishing Server variant for e-mail usage.

June 2001	4

- Completed implementation of HanVoice Server.
- Completed implementation of new translation engine.
- Commenced implementation of HanMail Server.

July 2001	5

- Completed implementation of HanMail Server.
- Completed implementation of audio file cache for HanVoice Server.
- Commenced integration of a Mandarin TTS engine to HanVoice Server.
- Commenced design of web-based configuration interface for HanMail Server.

August 2001	5

- Completed integration of a Mandarin TTS engine to HanVoice Server.
- Commenced redesign and implementation of HanMail Server to utilize MySQL.
- Commenced design of Win32 service version of HanMail Server.
- Commenced design and implementation of HanAccess, a HanWeb Publishing Server variant with user management features.
- Commenced redesign of platform-dependent code in HanWeb to address HTTPS connection problems.

September 2001	5

- Completed implementation of Win32 service version of HanMail Server.
- Completed implementation of HanAccess.
- Completed integration of new platform-dependent code specific to UNIX.
- Commenced design and implementation of file cache for HanWeb Publishing Server.

	Number of R&D staff
October 2001	5

- Commenced integration of file cache to HanWeb Publishing Server.
- Commenced design of HanFax, a HanWeb Publishing Server variant for fax usage.
- Commenced design of HanWeb Publishing Server's legacy document conversion features.

November 2001	5

- HanMail Server 1.0 released.
- Commenced and completed design of Han Family Protocol, a proprietary protocol for communication between the products of the Group.
- Commenced redesign and implementation of HanWeb Publishing Server's legacy document conversion features.

December 2001	5

- Completed implementation of new features of HanWeb Publishing Server to fulfill Government's GDLink project.
- Completed integration of new translation engine to HanWeb.
- Commenced design and implementation of new JavaScript handling routines in HanWeb Publishing Server completed.
- Commenced code review of HanWeb Publishing Server to eliminate memory leaks.

January 2002	5

- Completed implementation of HanFax.
- Commenced and completed implementation of the Win32 service version of HanWeb Publishing Server.
- Completed integration of TTS engine to HanVoice Server.
- Commenced design of a new product key and online product registration system.
- Commenced design of HanPhone.

	Number of R&D staff
February 2002	5

- Commenced design of HanPhone's XML template format.
- Commenced implementation of HanPhone.
- Completed implementation of new product key algorithm.

March 2002	5

- Completed implementation of HTML-to-XML conversion library for HanPhone Server.
- Completed implementation of HanVoice Server's support of streaming WMA files.
- Commenced implementation of new telephony features (call-forwarding, sound recording, etc.) of HanPhone Server.
- Commenced implementation of new online product registration system.

April 2002	5

- Completed integration of TTS dual engine to HanVoice Server.
- Commenced design of Java translation engine.
- Commenced design and implementation of a stand-alone TTS text preprocessor, former part of HanVoice Server.

May 2002	5

- Completed implementation of HanFax.
- Completed internal changes in HanWeb Publishing Server to better utilize the new translation engine.
- Commenced redesign and implementation of Java translation engine.

June 2002	5

- Completed implementation of HanDoc's embedded font support.
- Completed implementation of new features of HanWeb Publishing Server to fulfill government's requirements.
- Commenced research and prototyping of various Web server translation filter solutions.

	Number of R&D staff
July 2002	5

- HanWeb Publishing Server 3.0 released.
- Completed implementation of TTS text preprocessor.
- Commenced design and implementation of Microsoft IIS Filter.
- Commenced design and implementation of HanDoc Client, part of HanDoc for communications with other computer programs.

August 2002	5

- HanDoc Client 1.0 released.
- Completed optimization of Java translation engine. Performance was improved ten-fold.
- Completed integration of TTS text preprocessor to HanVoice Server and HanPhone.
- Commenced design and implementation of HanWeb Publishing Server's profile-based configuration component.

September 2002	5

- Microsoft IIS filter 1.0 released.
- Completed integration of profile-based configuration component to HanWeb Publishing Server.

The Group is currently employing five staff in the existing R&D team as follows:

Name	**Position held**	**Qualification**	**Software engineering experiences**
Mr. Lee Jih Kang, Michael	Senior Software Engineer	Degree in Applied Science	4 years
Mr. Choy Kwun Kei, Kay	Software Engineer	Degree of Engineering in Computer Systems Engineering	2.5 years
Mr. Ho Hing Yuen	Software Engineer	Degree in Science	2 years
Mr. Cheung Hong Hoi	Software Engineer	Degree of Engineering in Computer Science	1 year
Mr. Wu Chun Wing	Software Engineer	Degree in Engineering	1 year

Products under development

Product name	Description	Status	Expected completion date
HanPhone 1.0	Real time Web to speech engine on telephone. Generate the netvigation map to browse the web content on the phone, as well as a simulated IRVS system on a PC.	Under Development. Have completed 80% of the functionalities. Working on the graphical interface.	March 2003
HanWeb IIS filter 1.0	Microsoft IIS web server add-on program. Translate a native web server contents with this HanWEB IIS filter.	Pilot run version release. Under testing phase.	February 2003
HanWeb for Apache	Apache web server add-on module. Translate a native web server contents with this HanWEB Apache module.	Pending for first beta version release in December 2002.	February 2003
HanFax 1.0	Web-based fax machine. View and send faxes on internet.	Pilot run version release. Under testing phase.	January 2003

INTELLECTUAL PROPERTY

Grants, awards and patents

The Group was accredited the following awards in 2001 and 2002:

- Hong Kong Awards for Industry: Hong Kong Science & Technology Park Certificate of Merit in Technological Achievement 2002 — for the HanWeb Publishing Server

- Hong Kong Awards for Industry: Federation of Hong Kong Industries Consumer Product Design Award 2002 — for the HanWeb Publishing Server

- Hong Kong Awards for Industry: Hong Kong Science & Technology Park Technological Achievement Award 2001 — for the HanVoice Server

- The Hong Kong Computer Society: IT Excellence Product Silver Award 2001 — for the HanWeb Publishing Server

The awards are open to companies incorporated in Hong Kong and are given for excellence a particular field of technology. All the awarding bodies are third parties independent of the Group. The Hong Kong Science and Technology Park is funded by the government of the Hong Kong SAR and its objects are to provide companies technology in Hong Kong. The Federation of Hong Kong Industries and the Hong Kong Computer Society are independent trade organisations. The object of the Federation of Hong Kong Industries is to promote industry in Hong Kong. The Hong Kong Computer Society is an independent organisation whose objects are to foster the growth of computing expertise in Hong Kong.

The patent of HanWeb Font Technology was first granted by the Hong Kong SAR Government on 25th August, 2000. Patent applications for the HanWeb Font Technology have been filed in the US, the PRC, Japan and Korea.

Table showing details of patent applications

Country	**Date**	**Application Number**	**Application Status**	**Approximate Expected Date of Award**
Hong Kong	Awarded on 25th August, 2000	HK1024380	Granted	—
US	Filed on 28th March, 2000	09/537,042	in process	December 2005
PRC	Filed on 28th August, 2000	00126309.9	in process	December 2003
Japan	Filed on 15th December, 2000	2000-381275	in process	September 2004
Korea	Filed on 22nd March, 2001	10-2001-0014821	in process	December 2004

KEY MARKETS BY GEOGRAPHICAL AREA

Greater China

IDC estimates that the number of Internet users in the Greater China Region will grow from approximately 22 million in 2000 to approximately 50 million in 2002 and more significantly to approximately 120 million in 2005. It estimates that e-commerce in China will grow from approximately US$2.2 billion in 2000 to approximately US$60 billion by 2004. Furthermore, according to Websidestory Statmarket service, China has the second largest Internet population in the world. In addition, IDC estimates the size of spending on China's Information Technology will reach US$30 billion by 2003.

The Group stands to benefit from the exponential growth in Information Technology spending from enterprises investing in web-based infrastructure in communicating with its customers, business partners as well as their co-workers through diverse web-enabled devices of which verbatim Chinese information access is of paramount importance. The Directors believe that the fast growing cross-strait trade and investment activities between China, Hong Kong and Taiwan stipulates the requirement in presenting Chinese contents in both forms of Chinese writing, Simplified Chinese for China and Traditional Chinese for Taiwan and Hong Kong, a key feature in the Company's inaugural product.

The HanVoice Server in Cantonese and Putonghua brings to many Chinese communities serving commercial applications such as phone banking, online stock quote, real-time news, reservation systems, email access, language learning aid, traffic and weather information retrieval for voice access to diverse business information systems through normal telephones and mobile phones.

The advent of the Internet has brought to the Governments in the region a cost effective way in disseminating information and servicing their citizens. Both short-term tactics as well as long-term deployment strategies have been drawn up in investing significantly in the web infrastructure and applications, first to boost the efficiency in administration, second to lead and stimulate the metamorphosis of traditional economy into knowledge based economy and third to promote the community-wide adoption of Internet bringing the global wealth of knowledge to the reach of all citizens without discrimination. This is one primary industry that the Group focuses in bringing in short-term revenue at the current lack-luster global economic situation.

Marketing opportunities in Hong Kong

The Group is an innovator in the development of Chinese language web server technology. The Directors believe there is no other Hong Kong based company competing with the Group in the domestic market. The Directors believe that the Hong Kong SAR Government information technology strategy of fostering local high technology industry has provided an advantage to the Group for a bidding on government projects. The Directors believe that the patented HanWeb Font Technology has erected a barrier to preventing copycat competition stemming from China and Taiwan.

In the Chief Executive of the Hong Kong SAR Government's fifth policy address released in 2001, three Information Technology related policy directives have been described tacitly endorsing the KanHan technologies. In Volume 2 of Policy Objectives of the Policy Address, it refers to three Information Technology initiatives in the Information Technology section:

- "To enhance the accessibility of government Websites to Chinese communities outside Hong Kong so as to help facilitate cross-border e-business with these communities". The target is "To develop a simplified character version for government Websites in 2002 to enhance their accessibility to Chinese communities outside Hong Kong, in particular the people in Mainland, thus helping to facilitate the development of e-business with these communities". It is expected that with the Hong Kong SAR Government leading the push to attract PRC audience, most HK enterprises will view simplified Chinese as a de-facto for their Websites and web based applications.

- The report continues to say: "To use Information Technology to provide a new channel for the Government to communicate interactively with the community". And the target is "To launch in 2002 an online news bulletin to put out Government news, interviews and information through multi-media and to communicate interactively with the community in an innovative manner". The Directors believe this will be fulfilled by the HanDOC Server and HanVoice Server providing government Website visitors their preferred way of access, the web contents will be converted in real time to MS-WORD, PDF, Fax, Email and Cantonese & Putonghua voice formats.

- The report continues to say: "To enhance the accessibility of government Websites". The target is "To explore the development of text-to-speech translation services and a sound version for government Websites in 2002 in order to facilitate the blind, the visually impaired, and senior citizens to access government online information". This is HanVoice Server technology helping the less fortunate groups in conquering the "Digital Divide". Using any PC, these groups will be able to listen the government Websites without having to purchase and install PC speech software.

Marketing opportunities in Taiwan

The Group intends to market its software products in Taiwan in broadly the same way as it plans to market in the PRC. While the overall market in Taiwan is clearly much smaller than in the PRC the GDP per capita was higher in 2001 and the use of Information Technology is move widespread. Taiwan is therefore an attractive market for the Group.

BUSINESS STRATEGY

Revenue Model

The Group earns revenue from two sources. At present the majority of income is earned by selling software licenses to enterprises. The basis of charging these customers is per server and per domain provided. There is a recurring annual maintenance fee for the software provided and recurring income from annual subscription fees for software. The customer will have the software running in their premises and owns a non-transferable license for its use.

For smaller customers who cannot afford a one-time license to use the services offered, the Group provides an application server running HanWeb Publishing Server in its ISP's data centre. The ASP serves this group of customers who pay a monthly subscription fee to generate a Simplified Chinese version of their Website through a real-time connection to this server.

MARKETING AND PROMOTION

The Group promotes its products and services by direct marketing and through its reseller network.

Target markets

The target markets for the different products of the Group may be described as follows.

For large enterprises and government agencies

HanWeb Publishing Server. Targeting large enterprises, e-commerce portals and Government agencies for providing a Chinese language interface to their Internet, Intranet and Extranet contents including translation between the two Chinese fonts and verbatim delivery of Chinese character information. The HanVoice Server/HanPhone provides a natural extension in reaching customers via mobile phones and conventional telephones.

For small and medium sized enterprises

HanWeb Publishing Server for IIS filter. Some functions are taken out from the professional version, targeting small to medium size enterprises with less contents in their less technological sophisticated Websites.

For the visually impaired

HanVoice Server can assist visually impaired people. A HanVoice Server application targeting Government agencies and large corporations to provide a voice version of their Websites accessible by visually impaired and elderly persons with problems reading information from computer screens. Versions with Cantonese, Putonghua and English voices are available.

For general users

HanWeb Access Server. This is an Intranet version of HanWeb Publishing Server enabling corporate users in viewing external company Websites in their preferred Chinese. HanWeb Access Server is charged on per user account basis.

HanMail Translation Server. This is an enterprise email server installed on top of existing corporate email systems. HanMail provides translation between two Chinese on sent, received messages.

HanWeb Document Server. A HanDOC Server application targeting Government agencies and large corporations to provide a server based solution for accessing documents in Microsoft Office, PDF and other legacy file formats using an Internet browser with two-Chinese translation function. It also in real time converts HTML contents into Microsoft Word and PDF formats for distribution via email, fax, WAP phone according to user's access preference. HanDOC Server provides corporations flexibility in serving customers in their choice of access methods to content in diverse formats.

HanVoice Information Access Server. The HanPhone gateway is an enterprise voice server converting web contents into voice for access via mobile phone and conventional telephone users.

General users benefit by the subscription based services offered by the Group of the server technologies if partnership with content providers, ISP and mobile phone operators are formed.

The HanWeb Publishing Server is a natural publishing platform for Asian language contents. The Company is looking for new business opportunities particularly in the vertical business applications of Asian language information distribution on which customization and setup fees will be charged on top of subscription based sharing of revenue.

The following table gives an analysis of turnover:

	Year ended 31st December, 2000 *HK$*	**Percent of total**	**Year ended 31st December, 2001** *HK$*	**Percent of total**	**Seven months ended 31st July, 2002** *HK$*	**Percent of total**
Sales of licensed software	415,620	100.0%	2,319,092	94.7%	545,963	79.1%
Software maintenance			112,100	4.6%	103,242	15.0%
Software rental and subscription income			16,500	0.7%	40,500	5.9%
Total	415,620		2,447,692		689,705	

The current release of the voice product works in English and Chinese, both Mandarin and Cantonese. The Directors believe that the level of accuracy of the KanHan product is higher because the KanHan server based translation engine for Traditional Chinese and Simplified Chinese has character and vocabulary rules in governing how translation takes place while most other PC based translation software come with only a limited number of rules and require users to input their own rules to improving the accuracy of translation. The advantage of a server based approach is that the rules database is centrally managed, improved and updated by the Company without requiring action from the user. The Company continues to provide new rules for the software used by its customers and its software is thus believed to be more accurate than most static translation software available on PCs.

SALES AND DISTRIBUTION

Channels of distribution

In Hong Kong, the Group sells both directly and through major system integration houses. The Company also operates the ASP service directly and also via partners. In the PRC and Taiwan the Company relies on resellers to distribute the software in both the methods described above, that is the resellers sell the software license or operate an ASP model with their own servers. In 2001, sales through resellers accounted for approximately 30% of Group's sales. In the seven months to 31st July, 2002, sales through resellers accounted for 25% of Group's sales.

CUSTOMERS

For the year ended 31st December, 2000, the Group has only four customers amounted to approximately HK$155,000, HK$122,000, HK$92,880 and HK$46,000 respectively, the turnover of these four customers representing 100% of the Group's total turnover. The largest customer of the Group was the Hong Kong Productivity Council and accounted for 37% of the Group's turnover.

For the year ended 31st December, 2001 sales to the top five customers amounted to approximately HK$900,000, HK$323,000, HK$251,000, HK$203,000 and HK$194,000 respectively, representing approximately 37%, 13%, 10%, 8% and 8% respectively. The five largest customers of the Group represented 76% of the Group's total turnover. The settlement term of these sales was one month or cash on delivery of product. The gross profit margins of these top five sales on average were approximately 92%. The largest customer was the Information Technology Services Department and accounted for 37% of turnover for the year ended 31st December, 2001.

For the seven months ended 31st July, 2002 sales to the top five customers amounted to approximately HK$235,000, HK$226,000, HK$28,000, HK$23,000 and HK$14,000 respectively, representing approximately 34%, 33%, 4%, 3% and 2% respectively. The five largest customers of the Group represented 76% of the Group's total turnover. The largest customer was Timeless Software Limited and accounted for 34% of turnover for the seven months ended 31st July, 2002.

Total sales to the government accounted for 48%, 45% and 33% for the two years ended 31st December, 2001 and the seven months ended 31st July, 2002.

As at the Latest Practicable Date, none of the Directors, their respective associates (as defined in the GEM Listing Rules) or any shareholders who own more than 5% of the issued share capital of the Group with the exception of Timeless Strategy had any interest in any of the top four customers of the Group for year ended 31st December, 2000 and the top five customers of the Group for the year ended 31st December, 2001 and the seven months ended 31st July, 2002.

Normal credit terms are thirty days from presentation of invoice on product delivery and the method of payment accepted is company cheque or bank transfer. Some distributors receive extended credit terms of up to 120 days. Customers are billed in Hong Kong dollars. The Group's provision policy is to provide for unpaid debts after one year. Customer's credit standings are reviewed before credit is given, the majority of the Group's sales, however, are to large companies or government departments. Sales to smaller customers are often for cash.

Most existing customers are enterprises and government agencies. Future customers are expected to be mobile phone and fixed line telecom operators, telecom equipment and software suppliers and web appliance design companies.

Government Contract

The major terms of the Group's contract, which was signed and implemented in 2002, with the Hong Kong SAR Government are:

- The supply and installation of server based software and the provision of services for the online and dynamic translation of Traditional Chinese characters to Simplified Chinese characters in the web pages of the Hong Kong SAR Government on Internet in accordance with requirements specified in the contract.

- The server based software is to handle presently 220 web domains of all bureaux and departments in the Hong Kong SAR Government. A copy of the software will be installed in the Government's Central Internet Gateway system to handle 130 web domains. The remaining web domains will be handled by additional 47 copies of the software to be installed at 19 Internet Service Providers and 6 Bureaux and Departments.

- The total contract sum is HK$4,212,000 to the Group for the 180 software licenses and the related services. Of the total sum, HK$3,800,000 are the license fees which was recognised as turnover in 2002 and the balance is service charges, which will be recognised as service income from November 2002 for a 12 months period.

The contract was completed and signed off on 2nd October, 2002. The Directors expect further contracts in 2003.

STAFF

In Hong Kong: 1 CEO, 5 core software engineers, 1 testing engineer, 1 product manager, 2 business development managers, 1 sales manager, 1 administration manager and 1 administrative assistant.

PURCHASES

The only capital items purchased are computer hardware and software and these purchases are overseen by the administration manager. The Group does not own or lease any other capital equipment. The Group's single product is computer software, which it develops internally. It did not, therefore, have material supply contracts in the track record period.

SALE SHARES

The Vendors are offering 60,000,000 Sale Shares for purchase by way of placing. The Vendors are Mr. Mo, Ms. Wai Lai Yung and companies controlled by Ms. Wai Lai Yung, Mr. Lai Kui Shing, Andy, Mr. Lee Chi Kong, Mr. Cheung Wing Woo (the father of Mr. Kane Cheung, an independent third party to the Group save as his directorship in Sino Asia) and Mr. Kwok Chi Ho, (the "Sale Shareholders"). Mr. Kane Cheung was a director of KanHan (BVI) until resigning in October 2002. The Vendors will receive net proceeds of approximately HK$14.7 million from the Placing of the Sale Shares after deducting the relevant expenses to be borne by them. Since the establishment of the Group the Sale Shareholders have provided financial support to the Group by way of equity investment and by loans and guarantees of HK$2.3 million. Details of these loans and guarantees are set out in the paragraph headed "Exempted continuing connected transactions" under the section headed "Business" in this prospectus. The Sale Shareholders consider they have contributed significant support to the Group and have given up certain of their personal entitlements so as to facilitate the listing of the Company. In addition the offering of the Sale Shares will not affect the Group's achievement of its objectives as set out in the section headed "Statement of business objectives" in this prospectus. Furthermore, the Directors wish the shareholding structure to be more evenly distributed after the Placing. The potential investors wish the Sale Shareholders of the Company to be adequately financially compensated.

CONNECTED TRANSACTIONS

Exempted continuing connected transaction

Lease agreement between KanHan (HK) and Comeasy Communications Limited ("Comeasy")

Pursuant to a lease agreement dated 1st September, 2000, entered into between KanHan (HK) as lessee and Comeasy as lessor, whereby KanHan (HK) agreed to lease a residential unit located at Unit 7A Belmont Court, No.10 Kotewall Road, Mid-levels West, Hong Kong from Comeasy for a term of 2 years from 1st September, 2000 at a monthly rent of HK$40,000, inclusive of rates, utilities, maintenance, management charges and one full-time domestic helper. The said residential premises are occupied by Mr. Mo and his family and the rental expenses are borne by KanHan (HK) as part of directors' emoluments. The lease has been renewed for a further term of 2 years with effect from 1st September, 2002 at a monthly rent of HK$40,000, inclusive of rates, utilities, maintenance and management charges and one full-time domestic helper.

As Comeasy is beneficially owned by Mr. Mo who is also a director, chief executive and controlling shareholder of the Company, the lease constitutes a connected transaction (as defined in GEM Listing Rules) for the Company. BMI Appraisals Limited, an independent valuer, has reviewed the terms of the lease agreement and has confirmed that the rental payable thereunder is fair and reasonable under the prevailing market conditions.

The transaction is exempted from reporting, announcement and independent shareholders' approval requirements under Rule 20.25(3) of the GEM Listing Rules as the annual consideration of the transaction is less than HK$1,000,000.

Loans from a shareholder

KanHan (BVI) as borrower and Metrolink as lender entered into three loan agreements (collectively referred to as the "Loan Agreements") dated 29th January, 2002, 26th March, 2002 and 9th July, 2002 for the unsecured loans (the "Loans") of HK$220,000, HK$310,000 and HK$160,000 respectively, with interest chargeable at a rate of 12% per annum. HK$60,000 was repaid on 1st February, 2002 and as at 31st July, 2002, the total amount of the Loans and the accrued interest under the Loan Agreements due to Metrolink by KanHan (BVI) is HK$658,958.34 (the "Outstanding Loans") representing approximately HK$630,000 in principal and HK$29,000 in accrued interest. As at the Latest Practicable Date none had been repaid.

On 1st August, 2002, a supplemental agreement (the "Supplemental Agreement") was entered into between the KanHan (BVI) and Metrolink pursuant to which the due date for repayment of the Outstanding Loans was extended to 31st December, 2003 and the interest rate for the Outstanding Loans was reduced to 8% per annum with effect from 1st August, 2002.

The Loans from Metrolink were used for financing the Group's operations. It is expected that the Loans will be repaid at 31st December, 2003 by net proceeds of the Placing issued.

As Metrolink is beneficially owned as to 50% by Ms. Wai Lai Yung who is also a director and management shareholder of the Company, these loan transactions constitute connected transactions (as defined in GEM Listing Rules) for the Company. The Directors having reviewed the terms of the Loan Agreements and the Supplemental Agreement are of the view that that the interest payable thereunder is fair and reasonable under the prevailing market conditions and the Sponsor concurs with their view on the grounds that such loan and interest rate are on normal commercial terms where no security over the assets of the Group is given, in particular, the prevailing bank lending rate for unsecured loan is in the range of 3% to 10% over the prime lending rate from time to time.

The transactions are exempted from reporting, announcement and independent shareholders' approval requirement under Rule 20.52(2) of the GEM Listing Rules as the transactions were unsecured and on normal commercial terms.

Personal guarantee by a director

In October 2002, the Group obtained a new bank overdraft facility up to HK$1,600,000, secured by a personal guarantee of Mr. Mo and a property held by a company controlled by Mr. Mo. On 22nd January, 2003, the Group settled all the outstanding indebtedness under this bank overdraft facility which has been cancelled before listing.

COMPETITION

Competition for the graphical font server

The Group owns a patent in this technology that can turn any Chinese, Japanese and Korean characters into graphics and broadcast to any browsers. The Directors foresee no competition for this technology as at the Latest Practicable Date.

Competition in embedding fonts

KanHan requires no font embedding, adds no overhead to the page and downloads faster. Font data is downloaded only on demand.

Competition in enterprise email server for two Chinese translation

HanMail translation server addresses the application of translating automatically between two Chinese on mail communication and attached document. Once installed on top of existing corporate mail server, any email client program will be able to send and receive mail in their preferred Chinese without having to install any special software. The Directors have yet to see any competing products.

Competition in the plug and play server for website translation

In the opinion of the Directors there are a few PRC companies engaged in the development of similar technology. The Directors believe that the Company's technology is sophisticated in the handling of legacy documents. The Directors believe that the competing products lack the graphical font server technology to ensure the viewing of non-standard Chinese characters.

Competition for the HanVoice Server

The Directors have not seen any companies offering end-to-end web based voice platform for Cantonese and Putonghua. There are a few voice technology oriented companies, offering development platforms and technology components to address voice applications. The Directors believe that the Company offers a plug & play solution to help enterprises re-purpose web contents for telephone access in the short time frame with less effort. No adoption of existing website is required when HanVoice Server is deployed.

Non-Competition Undertakings

As at the Latest Practicable Date, none of the Directors or the chief executive of the Company and its subsidiaries, the Initial Management Shareholders, the substantial shareholders (as defined in the GEM Listing Rules) of the Company or their respective associates had any interest in any business which may compete with the existing business of the Group.

Pursuant to a non-competition deed dated 24th January, 2003 entered into between the Company and Mr. Mo, Mr. Mo has undertaken to the Company not to carry on, participate or be engaged, concerned or interested, directly or indirectly, either for his own account or for any other person, in any business relating to developing and marketing of communication software for Chinese, Japanese, Korean and other languages for use in wireless PDAs, 2G, and 3G mobile telephones, other mobile broadband and 3G devices, and broadband enabled PCs and all other businesses as may be carried on, engaged in or to be carried on or engaged in by any member of the Group from time to time in Hong Kong and/or the PRC and/or Taiwan and/or Macau, which is or may be in competition with that of any member of the Group. Moreover, Mr. Mo confirms that he, as at the Latest Practicable Date, did not carry on nor is engaged in any business which may compete with the present business of any member of the Group.

BUSINESS PLAN

The Group's business objective is to be one of the leaders in the Chinese and Asian language communications business in the PRC, Hong Kong, Taiwan, Japan and Korea; to consolidate its position as a provider of Internet based publishing server software in Greater China; to establish the de facto standard of its patented HanWeb Font Technology in the web appliance industry; to become a well known distributor of Internet based voiced enabled telephony gateway software in Greater China; to become an information service gateway operator for mobile phone users in China whose languages use character script; and to apply this business model to other countries.

To achieve these ultimate goals, the Group intends to implement the following key strategic initiatives:

1. **Market awareness of inherent problems of Asian languages**

The Company believes the key success factor to the Company is the awareness of the government agencies and business enterprises in Greater China as well as those web appliance developers serving the Asian market, the requirement of providing information in both Traditional Chinese and Simplified Chinese interface and the importance of the accuracy of no missing information resulting from the shortcomings of the Internet access devices. The higher level of awareness will result into a greater demand of HanWeb Font Technology, which provides (a) an accurate translation platform between Simplified Chinese and Traditional Chinese providing global Chinese communities a Chinese interface of choice, and (b) the serving of Asian language characters in graphic format for display in any web-enabled devices ensuring no missing information, and (c) the conversion of Asian text information into a consistent, human-like synthetic voice to the reach of telephone and mobile phone users.

2. **Development of product**

The Directors believe that HanWeb Font Technology is to be commercialized with maximum quality control to ensure quickest possible market penetration with minimal after sales service required. Diversity of the Group's products is to be offered in addressing requirements in different industry sectors.

3. **Prudent pricing model**

The Directors believe its products are to be priced discerningly according to industry traits and technology platform. A prudent, discriminative pricing model will help the Company maximize short-term revenue while its innovative products are gradually finding their way to the mainstream market. The early adopters will mostly be project driven that can afford paying a premium of getting the work done. Pricing strategy for all markets is based on the number of web pages and the number of users a customer has.

4. **Industry and application focus**

The Directors believe it is critical to focus on well funded and flourishing industries and to identify applications that will be benefited by its products most immediately. The Company will further focus in large-scale project opportunities arising from the needs in these industries and applications.

5. **Protection of intellectual property right**

The Directors expect the use of its patent will inhibit competition. The Company will continue to patent and protect vigorously its intellectual property rights.

6. **Global opportunities**

The Directors see the business potential in Japan, Korean and other international markets for its font server and voice enabled telephony technologies. The Company will seek opportunities in these new markets by ways of business partnership and technology alliance.

7. **Recurring revenue**

The Company will endeavor to develop a subscription based recurring service business.

STATEMENT OF OBJECTIVES

The Group intends to implement the following key initiatives in accordance with its Business Plan:

Upgrading Group's product

The Company will continue to improve and develop new ASP products and services, with key initiatives in the development of applications that can be used for 3G based mobile phone system and different languages, e.g. Chinese, and English. As such, the Company will seek joint-venture partner and recruit more technical staffs to initiate development of the products.

The upgrading will focus on

— Ease of use

— Supporting diverse technology platforms

— Develop an alliance with a language technology vendor

— The commercialization of the Group's voice platform

HK$2.0 million of the net placing proceeds will be spent on upgrading the Group's product.

Marketing of HanVoice

Since the Directors believe that the HanVoice products and services will be one of the Company's key businesses, the Company will endeavor to market HanVoice products and services through agents in the PRC. The Company will also explore the marketing of HanVoice Server for other languages.

HanVoice products and services are targeting Government agencies and large corporations to provide a voice version of their Website accessible by visually impaired and elderly persons with problems reading information from computer screens.

HK$1.1 million of the net placing proceeds will be spent on marketing of HanVoice Server.

Development of HanVoice Server

The Company will endeavor to enhance HanVoice products and services by implementing "Plug & Play", developing the pilot programme and improving the Company's voice platform. The Company will also consider to improve the technology incorporated in HanVoice products and services through partnership with technology partners, e.g. the Company has a US partner which develops text speech technology.

HK$0.9 million of the net placing proceeds will be spent on development of HanVoice.

General promotion and marketing

The Company will implement a series of marketing activities and promotion through all possible public channels in local places to enhance the market awareness of the Company's products and services. The Directors have selected certain regions with high-growth potential, such as the PRC and Japan, to promote and market its products and services through setting up representative offices and seeking distribution partners. In Japan, HK$1 million will be spent on distribution partners to promote and market its products while in the PRC, a total of HK$3 million will be invested, with approximately HK$1 million to be invested in opening each of the representative offices.

HK$6.0 million of the net placing proceeds will be spent on general promotion and marketing.

Repayment of loans

The Company received loans amounting to approximately 1.7 million Hong Kong dollars from Timeless Strategy and Metrolink as an early financing to develop and market its products and services. The Company intends to repay these loans after the Placing. HK$1.7 million of the net placing proceeds will be spent on the repayment of loans.

General Working Capital

HK$3.6 million of the net placing proceeds will be spent on general working capital uses.

Cost of implementation

The estimated costs for implementing the Group's business objectives until 31st December, 2004 are set out below:

1. Product development: HK$2 million

2. Marketing and development of the HanVoice platform: HK$2 million

3. Promotion and marketing of the Group's business and promotion of customer awareness in the Greater China: HK$6.0 million

4. Repayment of debt: HK$1.7 million

5. For general working capital of the Group to support its ongoing operations and expansion into the PRC: HK$3.0 million

BASES AND ASSUMPTIONS

The Group's business objectives set out above have been formulated on the following bases and assumptions:

- there will be no material changes in the existing laws of the PRC and Hong Kong
- inflation, interest rates and exchange rates will not differ materially
- there will be no material changes in the bases or rates of taxation applicable to the Group
- suitable personnel can be recruited and retained by the Group
- there will be no change in the funding requirements of the Group
- external financing will be readily available to the Group
- there will be no disaster, political or otherwise that would materially disrupt the business or operations of the Group

IMPLEMENTATION SCHEDULE

The Group intends to implement its strategies in the time periods set out below from the Latest Practicable Date until 31st December, 2005. The cost of opening each representative offices is expected to be approximately HK$1 million each.

	Upgrading Group's product	Marketing and development of HanVoice Server	General promotion, marketing and opening new offices	Repayment of loans	Technical Staff
From the Latest Practicable Date to 30th June, 2003	— Initiate the development of ASP service	Develop the pilot programme of HanVoice Server	— Marketing its software in the PRC by opening a representative office in Beijing	— Repayment of loan to Timeless Strategy	— Recruitment of 2 software engineers
Six months ending 31st December, 2003	— Continue the development of ASP service — Invest in software development with focus in fine-tuning the Putonghua voice quality for the PRC market	Start reselling HanVoice Server through agents in the PRC	— Develop marketing and sales by opening representative office in Shanghai	— Repayment of loan to Metrolink	
Six months ending 30th June, 2004	— Customise the Group's software to fit for 3G based mobile phone systems — Seek joint-venture partner to initiate development of ASP service in Shanghai	Explore the marketing of HanVoice Server for other languages	— Seek distribution partners for Japanese and Korean markets — Open representative office in Chengdu		

	Upgrading Group's product	Marketing and development of HanVoice	General promotion, marketing and opening new offices	Repayment of loans	Technical Staff
Six months ending 31st December, 2004	— Develop ASP service that supports Japanese and Korean — Launch ASP service in Shanghai and develop ASP service in Hong Kong and Guangzhou		— Participate in major international trade shows to solicit OEM prospects in the adoption of its 3G enabled software technologies		
Six months ending 30th June, 2005	— Further develop its Japanese and Korean language ASP products				
Six months ending 31st December, 2005					

Warning:

The plans described above are based on the existing plans and intentions of the Group. As such intentions and plans are based on assumptions of future events which by their very nature are subject to uncertainty, the Group's actual course of action may vary from the intentions and plans set out above. Although the Directors will endeavor to execute such plans in accordance with the stated time frame, there is no assurance that the plans of the Group will materialize, result in the conclusion of any agreement or be executed in accordance with the anticipated timeframe, or that the objectives of the Group will be fully accomplished or accomplished at all.

REASONS FOR THE PLACING AND USE OF PROCEEDS

The Directors believe that listing on GEM will enhance the Group's profile and the Placing will expand the Group's capital base for future growth and development. The net proceeds of the Placing, after deducting related expenses (assuming the Over-allotment Option is not exercised) are estimated to be approximately HK$14.7 million based on an issue price of HK$0.33 per Share, being the low point of the stated price range. The Directors consider that the net proceeds of the Placing will be sufficient to finance the business of the Group. The Directors presently intend to use such net proceeds in the following manner:

Set out below is a table summarising the approximate timing of the use of the net proceeds of the Placing:

	Latest Practicable Date to 30th June, 2003	For the six months ending 31st December, 2003	For the six months ending 30th June, 2004	For the six months ending 31st December, 2004	For the six months ending 30th June, 2005	For the six months ending 31st December, 2005	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Upgrading Group's product	500	500	500	500	0	0	2,000
Marketing and development of HanVoice Server	125	800	575	500	0	0	2,000
General promotion and marketing	500	1,500	1,000	1,500	750	750	6,000
Repayment of loans *(Note)*	1,000	659	0	0	0	0	1,659
General working capital uses	1,500	522	522	522	0	0	3,066
	3,625	3,981	2,597	3,022	750	750	14,725

Note: Being HK$1.0 million to Timeless Strategy and HK$0.7 million to Metrolink.

To the extent that the net proceeds of the Placing are not immediately applied for the above purposes, it is the present intention of the Directors to place such net proceeds on short term deposits with financial institutions in Hong Kong. In the event there is any material modification to the use of proceeds as described above, the Company will issue an announcement regarding the change. Marketing and production is a key part of the Group's Business Plan and will receive the single largest amount of fund. The fund will be spent on marketing staff and advertising equally.

A major constraint on the growth of small companies is frequently access to working capital. Therefore it is reasonable for the Group to have a significant requirement for working capital. The Group intends to open offices in Beijing, Shanghai and Chendu and working capital is likely to be required to finance the initial operation and set up costs of the offices. In the case of the Group, a major item in working capital is likely to be salaries for additional staff. Such additional staff would probably increase the growth rate of the Group however, they should be regarded as a variable cost, i.e. one that does not have to be incurred if funds are not available.

If the Issue Price is not set at HK$0.33, the net proceeds will be increased or accordingly and the amount allocated for the respective uses described above will be increased proportionally. The Directors believe that such deviations will not have any material impact on the Business Plan.

Should the Over-allotment Option be exercised in full, the Company will receive additional net proceeds of approximately HK$3.7 million based on the low-point of the stated price range of HK$0.33 per Share. The Directors will allocate this additional amount proportionally to the respective uses described above to facilitate the implementation of the Business Plan. If the maximum price of HK$0.45 is achieved the Company will raise approximately HK$21.9 million net. If the Over-allotment Option is exercised, the net proceeds at HK$0.45 per Share will be approximately HK$27 million.

The Business Plan may be scaled up depending on factors such as market conditions, technology trends and financial resources available to the Group. In the event that there is any material modification to the use of proceeds from the Placing as stated above, the Company will issue an announcement via the GEM Website.

Listing Expenses

The total expenses relating to the Placing are estimated to be approximately HK$10.2 million. The estimate of such expenses includes a fee of approximately HK$1.6 million in aggregate to Firstmax Investment Limited ("Firstmax"). Firstmax and its sole shareholder, Ms. Dora Ho are independent third parties to the Company, the shareholders of the Company and, or, its associates. The Group appointed Firstmax to provide principally the following services:

(a) to provide business and corporate development service to the Group, including assisting the Group to formulate its business strategies and corporate structure, providing accounting services to the Group, so as to improve its performance;

(b) to identify, introduce and assist in the coordination of professionals including the underwriters, lawyers, accountants, investment banks for the purpose of assisting the Company to go public in suitable markets;

(c) to identify and introduce public relations advisers and assist with public relations; and

(d) to give advice on the reorganisation of corporate structure and accounting policies of the Group.

BASES AND ASSUMPTIONS

The business objectives of the Group stated above are based on the following bases and assumptions:

General assumptions

1. The Group is not materially adversely affected by any change in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong or any of the countries in which the Group carries on business or, intends to operate and expand its business.

2. The Group is not materially adversely affected by any change in the bases or rates of taxation in Hong Kong or in any other places in which any member of the Group operates or is incorporated.

3. The Group is not materially adversely affected by any change in interest rates or exchange rates from those currently prevailing.

Specific assumptions

1. The Group is not adversely affected by any of the risk factors set out in the section headed "Risk factors" in this prospectus.

2. The business objectives for any of the specified periods have been stated on the basis that they may have to be revised or adjusted by the Group from time to time in the light of factors such as changes in market conditions, market response to particular products and whether the Group has successfully achieved its stated business objectives in the preceding period(s). It has also been assumed that the Group does not experience any significant delay in achieving its stated business objectives in any of the specified periods.

3. The Group does not encounter any significant difficulty in the design and production of any of its products.

4. The Group does not encounter any significant problem or disruption adversely affecting its operations or business objectives in any ways, including but not limited to:

   - infringement of the Group's patents; and

   - the Group being involved in future litigation with respect to intellectual property rights and proprietary rights which disrupts the Group's business operation.

5. There will be continued growth in the Internet market both globally and in the PRC, Japan, South Korea and Taiwan.

6. A reasonable level of economic growth being sustained in the economy in Hong Kong, the PRC and other target markets.

DIRECTORS

Executive Directors

Mr. Mo Wai Ming, Lawrence, Chief Executive Officer, age 43

Mr. Mo is the chairman of the board. Prior to founding KanHan Technologies Inc., Lawrence was Managing Director of the Hong Kong branch of a Taiwan based software technology company, DynaLab Inc. which was engaged in the development and sales of solutions on local language computing for Chinese, Japanese, Korean and for electronic and Internet publishing. Mr. Mo is an expert in Chinese, Japanese and Korean language font technology for PC and professional publishing market. As the chief executive, Mr. Mo has overall responsibility for the operations and performance of the Group.

Mr. Mo founded his first company in 1989 from which Microsoft licensed the Chinese font technology in 1991 for its Chinese Windows 3.0 product for screen display and printing. That company was acquired in 1991 by DynaLab Taiwan Inc. of which Lawrence spent the last 9 years helped grow DynaLab business in Japan, China and International market. During this nine-year tenure in DynaLab, he was responsible for the strategic planning and new business development of the organization.

In his last three years at DynaLab he managed a operations team working in the Japanese, Taiwan, China and Hong Kong markets doing product research and development, product localization, foreign OEM technology management and business plan development for these markets for electronic publishing products. In his dual role as the country manager for both Hong Kong and Shanghai, DynaLab Hong Kong succeeded in becoming the dominant Chinese solution supplier to both the Windows and Macintosh market place.

Prior to 1989, Mr. Mo worked for 6 years in Digital Equipment Corporation's Hong Kong operation in various sales and sales management positions with the last job as the Large Projects Manager for Hong Kong. He won the Decathlon award for being the outstanding salesperson three times. Before that, he was an application programmer in a local software house for 18 months since his return to Hong Kong from University of Toronto, Canada with a degree in Science majoring in Computer Science in 1982.

As well as font technology, Mr. Mo has been involved in product and business development for a number of software technologies serving professional publishing and portable document applications for Asian languages. He is the inventor of HanWeb Font Technology. As an expert in Chinese computing, he was appointed a member of the Hong Kong SAR Government's Chinese Language Interface Advisory Committee in May 1999. Mr. Mo founded the Group in September 1999.

Ms. Wai Lai Yung, age 45

Ms. Wai has been a director of the KanHan (BVI) since 7th November, 2000, responsible for company secretarial work. Ms Wai is a certified public accountant and an associate member of the Hong Kong Society of Accountants. She is a director of Yorkshire Capital Limited which provides business consultancy and accounting services to the Group. She was employed by Yorkshire Capital Limited in 1993. Ms. Wai was employed full time by Yorkshire Capital Limited and devoted approximately 5% of her time to the Group as company secretary and executive Director. In the future, she is expected to devote approximately 20% of her time to the Group. She is involved in the daily operations of the Group.

Mr. Lee Chi Ming, age 46

Mr. Lee has been working in the Information Technology industry for over 24 years. Since 1992, he has worked as the Asia Pacific head for several major multinational IT vendors. Mr. Lee worked as the vice president of sales and marketing department of Asia Pacific of Advanced Micro Devices, a US company from 1999 until August 2002, and was responsible for developing and directing the sales and marketing strategies and activities. Prior to 1999, he worked at Compaq Computer, where he held positions including the director of network and systems integration services, managing director for the East Asia Group division. He was a director of the Asia group in Madge Networks Asia Limited. He was appointed as director of the Group in October 2002.

Mr. Lee graduated from the University of Alberta, Canada, with a bachelor's degree in computer science in 1980.

Mr. Sun Kam Fai, Zacky, age 40

Mr. Sun, is the Qualified Accountant and Company Secretary of the Company and is responsible for overseeing the financial performance of the Group. He is a Certified Public Accountant, a fellow of the Association of the Chartered Certified Accountants, an Associate of the Australian Society of Certified Public Accountants and an Associate of Hong Kong Society of Accountants. He was appointed as director of the Group in October 2002. From July 2000 to October 2001, Mr. Sun was employed by Far East Gateway Limited as a business solutions director. He was previously employed by Man Sang International Limited as financial controller from March 1999 to July 2000.

Non-executive Director

Mr. Yuen Ka Lok, Ernest, age 39

Mr. Yuen is the non-executive director of the Company, Mr. Yuen is a solicitor and a partner of Messrs. Yuen & Partners. He has over 10 years of extensive experience in general litigation and commercial work. Mr. Yuen received his Bachelor's degree of Commerce from University of Toronto in 1984. Mr. Yuen is a member of the Law Society of Hong Kong. He was appointed as director of the Group in 29th July, 2002.

Independent Non-executive Directors

Mr. Lai Chau Ming, age 50

Mr. Lai has been a non-executive director since 1996 of Man Sang Holdings, Inc.. Mr. Lai served from 1972 to 1996, latterly as a senior manager of Sun Hung Kai & Co. Limited in stockbroking. Mr. Lai has over 30 years' experience in investment, financial management and brokerage. Mr. Lai is currently employed as an Associate Director of the sales department of an international brokerage firm since July 1996.

Mr. Ho Siu Kau, age 39

Mr. Ho is a certified public accountant in Hong Kong and is currently a partner in an audit firm, namely Ho, Sneddon, Chui. Prior to his joining Ho, Sneddon, Chui, Mr. Ho was an auditor at PriceWaterhouse (now known as PriceWaterhouseCoopers) from 1988 to 1994. Mr. Ho is experienced in audit and accounting. Mr. Ho graduated from Hong Kong Polytechnic in 1987 and is a member of FCCA and HKSA.

DIRECTORS' REMUNERATION

Each of the executive Directors has entered into a service contract with the Company on 1st January, 2003 for an initial term of one year commencing from 1st January, 2003 which may be terminated by either party thereto at the expiration of 12 months from its commencement giving to the other party not less than one month's notice in writing. Under the service contracts, the initial aggregate basic annual salaries/fees, annual bonuses and annual allowances payable by the Company to the executive Directors and other Directors are approximately HK$1,500,000. Details of the terms of the service contracts and the Company's policies concerning remuneration of executive Directors are set forth under "Particulars of service contracts" in Appendix V to this prospectus. The aggregate emoluments paid to the executive Directors for the two years ended 31st December, 2000, 2001 and the seven months ended 31st July, 2002 amounted to approximately HK$432,000, HK$1,312,000 and HK$707,000, respectively.

SENIOR MANAGEMENT

Mr. Tsang Yiu Kwan, Odie, product manager, age 32

Mr. Tsang is the product manager of the Company. He joined the Group in November 2000 and is responsible for product quality control, networking and system administration. Mr. Tsang graduated from The Boston Conservatory in Boston, USA with a master's degree. He was awarded a scholarship for overseas studies from Composers and Authors Society of Hong Kong Ltd. Prior to joining the Company he worked in the Excel Computer Wholesale, Inc. in US for three years from 1997 to 2000 specializing in networking.

Mr. Tso Yuk, language technology development manager, age 27

Mr. Tso is the language technology development manager of the Company responsible for language customization and research. He joined the Group in July 2000. He graduated from the Hong Kong Baptist University with a degree on English Language and Literature in 1999. He specialised in Linguistics, which gives him a sound academic background for his role in the Group. Prior to his employment with the Group, he worked for Stareastnet.com as the marketing executive from 1999 to 2000. Mr. Tso also has almost one and a half years of broadcasting experience as a presenter in Radio Television Hong Kong.

Mr. Szeto Wai, business development manager, age 31

Mr. Szeto is the Business Development Manager of the Company. He joined the Group in May 2000 and he is responsible for the sales and marketing of the Company's products including new business and sales channel development. Mr. Szeto graduated from the City University of Hong Kong with a degree in Accountancy. He also received formal training on film production with a certificate from Hong Kong Directors' Guild. Mr. Szeto has marketing and sales experience in Internet and communication solution in serving companies like Tricom and Linkage Online. Prior to joining the Company, Mr. Szeto was the Marketing and Sales Manager for Stareastnet.com in sales and marketing department from 1999 to 2000.

Ms. Lau Shui Ying, administration manager, age 44

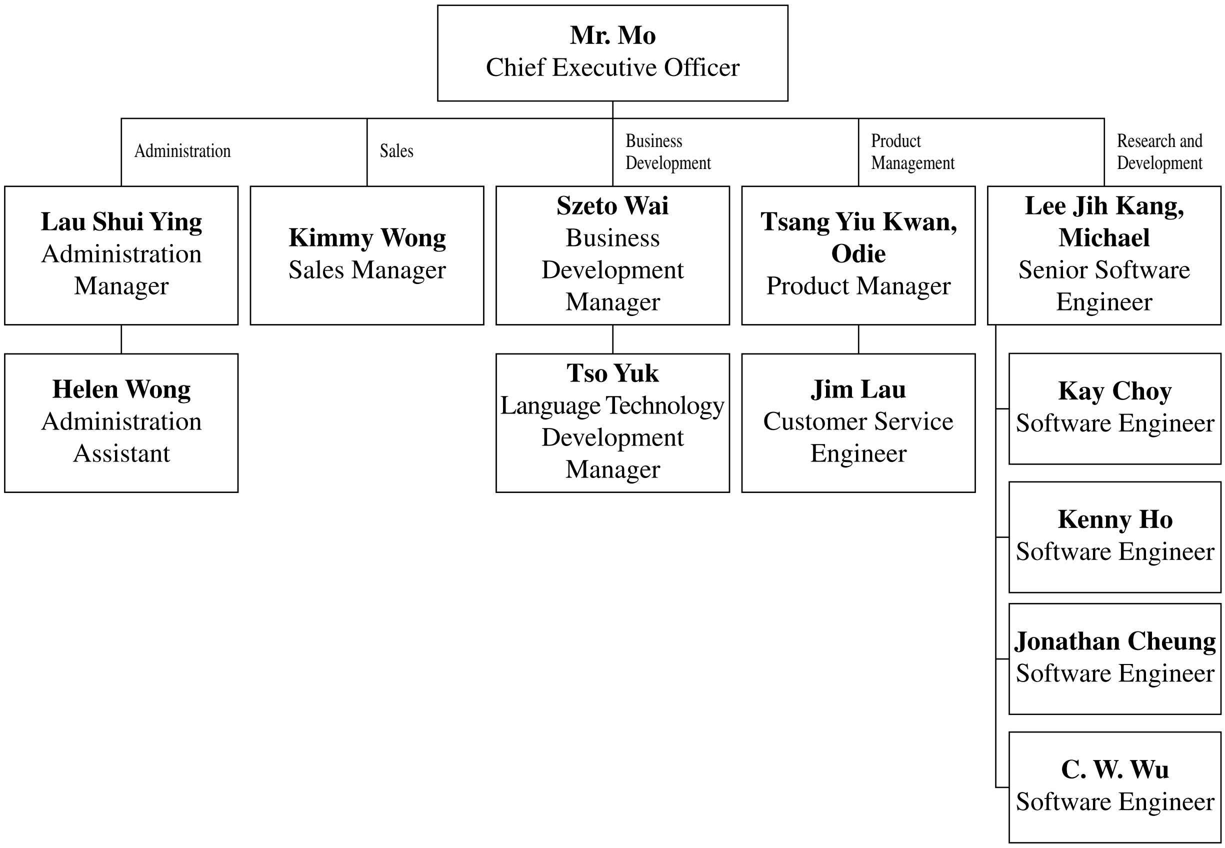
Ms. Lau is the administration manager of the Company. She joined the Group in January 2000 and she is responsible for general administration, human resources, accounting and financial control. Ms. Lau graduated from Heriot-Watt University, U.K. with a master degree in business administration. Ms. Lau has over 15 years of experience in various management discipline including product quality control, quality system development, process engineering and project management. Prior to joining the Company, she was product manager of Motorola Semiconductors Hong Kong Limited. Ms. Lau has ample experience in ISO9000, QS9000 and software quality control.

Mr. Lee Jih Kang, Michael, senior software engineer, age 27

Mr. Michael Lee is the senior software engineer of the Group. He joined the Group in March 2000. He is responsible for supervising software development projects of the Company in addition to participating in the design and development of these projects. Mr. Lee graduated from the University of Toronto, Canada with a bachelor degree in applied science in 1998. Prior to joining the Company in March 2000, he worked for Premiere Technologies in Hong Kong as a technical support engineer from 1998 to 2000.

The following diagram shows the management structure of the Company.

Management Structure



AUDIT COMMITTEE

The Company has established an audit committee on 24th January, 2003 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules.

Functions of the Audit Committee

The duties of the audit committee include reviewing, in draft form, the Company's annual report and accounts, half-year report and quarterly reports and providing advice and comments thereon to the board of Directors. In this regard, members of the audit committee will liaise with the board of Directors, senior management and its qualified accountant, the Company's reporting accountants and auditors. The audit committee will also consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and give due consideration to any matters that have been raised by the Company's accountants, compliance officer or auditors. Members of the audit committee are also responsible for reviewing and supervising the Company's financial reporting process and internal control system.

The audit committee comprises two independent non-executive Directors, namely Mr. Ho Siu Kau and Mr. Lai Chau Ming. Mr. Ho Siu Kau is the chairman of the audit committee.

STAFF

As at the Latest Practicable Date, the Group had a workforce of 13 engaged in the following operations: 1 CEO, 5 core software engineers, 1 testing engineer, 1 product manager, 2 business development managers, 1 sales manager, 1 administrative manager and 1 administrative assistant.

THE GROUP'S RELATIONSHIP WITH STAFF

The Group has not faced any difficulty in recruiting suitable employees and has not experienced any disruption of its normal business operations due to major labour disputes in the past. The Directors consider that the Group has a good relationship with its employees.

REMUNERATION POLICY

The Company's policies concerning remuneration of executive Directors are:

(a) the amount of remuneration is determined on the basis of the relevant Director's experience, responsibility, workload and the time devoted to the Group;

(b) non-cash benefits may be provided to the Directors under their remuneration package; and

(c) the Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of their remuneration package.

As an incentive to the sales and marketing personnel of the Group to generate more business, the sales staff of the Group is entitled to discretionary bonuses as determined by the Directors. They are provided with on-the-job training by the sales manager and software engineers in both marketing and technical aspects. Most of the non-sales staff receive a fixed salary.

BENEFIT SCHEMES

The Group has implemented a provident fund scheme for its staff in Hong Kong with a mandatory provident fund provider in Hong Kong and is required to make monthly contributions to the mandatory provident scheme at a monthly rate of 5% of the basic salaries and wages payable to its staff in Hong Kong.

In accordance with the relevant provisions of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Group may be required to provide for long service payments to its employees in Hong Kong. As at the Latest Practicable Date, the Group had no obligation for long service payments to its employees in Hong Kong pursuant to the Employment Ordinance.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme for the benefit of the full time employees and Directors of the Group. The principal terms of the Share Option Scheme are set out in the subsection headed "Share option scheme" of Appendix V to this prospectus. The Directors believe that the Share Option Scheme will assist the Group in its recruitment and retention of high calibre professionals, executives and employees.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware and for the purpose of the SDI Ordinance, the following persons (assuming that the Over-allotment Option is not exercised) will be directly or indirectly entitled to exercise 10% or more of the voting power at the general meetings of the Company, or otherwise interested in 10% or more of the Shares in issue immediately following completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares:

Name of Shareholder	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares *('000)*	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares
Mr. Mo	180,008	37.01%
Ms. Wai Lai Yung *(Note)*	86,584	17.80%

Note: These Shares are attributable to Ms. Wai Lai Yung in respect of her 50% interest in Metrolink, Metrolink's 42.5% interest in ZMGI, her 100% interest in Golden Nugget and the Shares held by her directly.

SIGNIFICANT SHAREHOLDER

So far as the Directors are aware and for the purpose of the SDI Ordinance, the following persons (assuming that the Over-allotment Option is not exercised) will be directly or indirectly entitled to exercise 5% or more of the voting power at the general meetings of the Company, or otherwise interested in 5% or more of the Shares in issue immediately following completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares:

Name of Shareholder	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares *('000)*	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares
Timeless Strategy *(Note)*	33,520	6.89%

Note: Timeless Strategy is a wholly owned subsidiary of Timeless Software Limited (its shares are listed on GEM). Timeless Strategy is regarded as member of the public. It has no board representation and no management function in the Group.

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the Placing (assuming that the Over-allotment Option is not exercised) and the Capitalisation Issue (but without taking into consideration that such interest may be diluted by the Conversion Shares), the following persons are individually and/or collectively entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company and were able, as a practicable matter, to direct or influence the management of the Company or are persons referred to in Notes 1 or 2 to Rule 13.15(2) of the GEM Listing Rules and are therefore regarded as initial management shareholders (as defined in the GEM Listing Rules) of the Company:

	Category of Shareholders	Name of Shareholders	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares *('000)*	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares
1.	**Initial Management Shareholders:**			
(a)	Directors (including companies controlled by Director(s))	Mr. Mo *(Chief Executive Officer, Executive Director)*	180,008	37.01%
		ZMGI	40,432 *(Note 1)*	8.31%
		Golden Nugget	40,024 *(Note 2)*	8.23%
		Metrolink	44,048 *(Note 3)*	9.05%
		Ms. Wai Lai Yung *(Executive Director)*	86,584 *(Note 4)*	17.80%
		Mr. Lee Chi Ming *(Executive Director)*	1,432	0.29%
		Mr. Yuen Ka Lok, Ernest *(Non-executive Director of KanHan (BVI))*	1,432	0.29%
		Mr. Lai Kai Shing, Andy	44,048 *(Note 5)*	9.05%

Category of Shareholders		Name of Shareholders	Number of Shares held immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares *('000)*	Approximate percentage of shareholding immediately after completion of the Placing, the Capitalisation Issue and the issue of Conversion Shares
(b)	Senior Management (including companies controlled by Senior Management)	Mr. Sze To Wai	1,384	0.28%
		Mr. Tso Yuk	672	0.14%
		Mr. Tsang Yiu Kwan, Odie	1,048	0.22%
		Ms. Lau Shui Ying	1,384	0.28%
		Mr. Lee Jih Kang, Michael	1,384	0.28%
		Mr. Alexander Reid Hamilton *(resigned)*	2,896	0.60%
		Mr. Young Antonio Chun-Kwan *(resigned)* (the successor of Top Asia)	3,072	0.63%
		Mr. Shen Yu-Hsueh *(resigned)*	1,432	0.29%
(c)	Others	Sino Asia *(Note 6)*	6,680	1.37%
		Mr. Hung Kwok Wing	4,328	0.89%

Notes:

1. The issued share capital of ZMGI is beneficially owned as follows:

Name of Shareholder	Percentage of Shareholdings
Mr. Lee Chi Kong (a)	42.5%
Metrolink (b)	42.5%
Mr. Chan Chun Hung, Vincent	1.0%
Golden Nugget (c)	6.0%
Crystal Bright Investments Ltd. ("Crystal Bright") (d)	2.0%
Mr. Hung Kwok Wing (e)	3.0%
Mr. Young Antonio Chun Kwan (f)	3.0%
	100%

(a) Mr. Lee Chi Kong is deemed, by virtue of the SDI Ordinance, to be interested in the Shares on which ZMGI is interested, amounting to 40,432,000 Shares immediately after completion of the Placing and the Capitalisation Issue. He does not have time to act as a Director of the Company.

(b) Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung. Metrolink holds 42.5% shareholdings in ZMGI. Accordingly, Metrolink, Mr. Lai Kui Shing, Andy and Ms. Wai Lai Yung are deemed, by virtue of the SDI Ordinance, to be interested in the shares on which ZMGI is interested, amounting to 40,432,000 Shares immediately after completion of the Placing and the Capitalisation Issue. Metrolink, Mr. Lai Kui Shing, Andy and Ms. Wai Lai Yung are deemed to be Initial Management Shareholders.

(c) Golden Nugget is solely owned by Ms. Wai Lai Yung.

(d) Crystal Bright is beneficially owned solely by Mr. Chan Hoi Kwong, Paul.

(e) Hung Kwok Wing is a passive investor of ZMGI.

(f) Mr. Young Antonio Chun Kwan, is a passive investor of ZMGI.

2. Golden Nugget is solely owned by Ms. Wai Lai Yung. These Shares are attributable to Golden Nugget in respect of 40,024,000 Shares held by it directly.

3. These Shares are attributable to Metrolink in respect of its 42.5% interests in ZMGI (as referred to in Note 1(b)), and 3,616,000 Shares held by it directly.

4. These Shares are attributable to Ms. Wai Lai Yung in respect of her deemed 50% interest in Metrolink (as referred to in Note 1(b)) which holds 42.5% interests in ZMGI (as referred to in Note 1(b)), her 100% interest in Golden Nugget (as referred to in Note 1(c) and Note 2) and Shares held by her directly.

5. These Shares are attributable to Mr. Lai Kui Shing, Andy in respect of his 50% interest in Metrolink which in turn has 42.5% interests in ZMGI (as referred to in Note 1(b)).

6. Sino Asia is beneficially owned as to 50% by Mr. Cheung Wing Woo and as to 50% by Mr. Kwok Chi Ho. Sino Asia is deemed to be an Initial Management Shareholder by virtue of its being a shareholder of Cyber Systems Limited, which was the controlling shareholder of the Group prior to the Reorganisation.

UNDERTAKINGS

Significant Shareholder

The Significant Shareholder, Timeless Strategy, has given certain undertakings to the Company, the Sponsor (for itself and on behalf of the Underwriters) and the Stock Exchange that:

(a) save under the circumstances provided by rule 13.18 of the GEM Listing Rules, it will not sell, transfer or otherwise dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its direct or indirect interest in the Relevant Securities (including the Conversion Shares) for a period of 6 months from the Listing Date (the "6 Months Moratorium Period"); and

(b) comply with Rule 13.19 of the Listing Rules which requires that if it pledges or charges any direct or indirect interest in the Relevant Securities (including the Conversion Shares) at any time during the 6 Months Moratorium Period, he/it must inform the Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules and having pledged or charged any interest in the Relevant Securities, it must inform the Company immediately in the event that it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

Initial Management Shareholder

Each of the Initial Management Shareholders has undertaken to the Company, the Sponsor (for itself and on behalf of the Underwriters) and the Stock Exchange that:

(a) save under the circumstances provided by rule 13.18 of the GEM Listing Rules, he/she/it will not sell, transfer or otherwise dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or enter into any agreement to dispose of) any of its/his direct or indirect interest in the Relevant Securities for a period of 12 months from the Listing Date (the “12 Months Moratorium Period”) and

(b) comply with Rule 13.19 of the Listing Rules which requires that if he/she/it pledges or charges any direct or indirect interest in the Relevant Securities at any time during the 12 Months Moratorium Period, he/it must inform the Company immediately thereafter, disclosing the details specified in Rule 17.43(1) to (4) of the GEM Listing Rules and having pledged or charged any interest in the Relevant Securities, he/she/it must inform the Company immediately in the event that he/she/it becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of securities affected.

Each of the Initial Management Shareholders and the Company has undertaken to and covenanted with the Sponsor (for itself and on behalf of the Underwriters) that the Company and its subsidiaries will not, during a period of 6 months from the Listing Date, (save as permitted under Rules 17.29(1) and (2) of the GEM Listing Rules or pursuant to the Placing, the Capitalisation Issue, the Over-allotment Option, the grant of any option under the Share Option Scheme or the issue of Shares upon the exercise of the Over-allotment Option or any option granted under the Share Option scheme), issue or agree to issue any Shares or securities in the Company or any such subsidiaries or grant or agree to grant any options, warrants or other rights carrying the rights to subscribe for, or otherwise convert into, or exchange for any securities of the Company or any such subsidiaries.

Each of Mr. Lee Chi Kong, Metrolink, Mr. Chan Chun Hung Vincent, Golden Nugget, Crystal Bright, Mr. Hung Kwok Wing and Mr. Young Antonio Chun Kwan has undertaken to the Company, the Sponsor and the Stock Exchange that it/he/she will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any interests in ZMGI during the 12 Months Moratorium Period.

Each of Mr. Cheung Wing Woo and Mr. Kwok Chi Ho has undertaken to the Company, the Sponsor and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any interests in Sino Asia during the 12 Months Moratorium Period.

Each of Ms. Wai Lai Yung and Mr. Lai Kui Shing, Andy has undertaken to the Company, the Sponsor and the Stock Exchange that she/he will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any interests in Metrolink during the 12 Months Moratorium Period.

Ms. Wai Lai Yung has undertaken to the Company, the Sponsor and the Stock Exchange that she will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any interests in Golden Nugget during the 12 Months Moratorium Period.

Mr. Chan Hoi Kwong, Paul has undertaken to the Company, the Sponsor and the Stock Exchange that he will not dispose of (or enter into any agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any interests in Crystal Bright during the 12 Months Moratorium Period. Timeless Software undertakes to the Company and the Stock Exchange that it will not dispose of (or enter into any agreement to dispose of) any interests in Timeless Strategy during the 12 Months Moratorium Period. Timeless Strategy undertakes to the Stock Exchange and the Company not to dispose of any Shares during the 12 Months Moratorium Period.

Pre-IPO Shareholders

The Pre-IPO Shareholders consist of the employees (other than directors and senior management), consultants, individual and corporate shareholders. Each of the Pre-IPO Shareholders is independent of and not connected with the shareholders, the directors, subsidiaries or any connected persons of the Company and their investments and interest in the Company were not funded by any connected persons. Each of them undertakes to the Company and the Stock Exchange that he/she/it will not dispose of (or enter into any agreement to dispose of) his/her/its relevant securities during the 12 Months Moratorium Period.

ESCROW ARRANGEMENTS

Each of the Significant Shareholder, the Initial Management Shareholders and the Pre-IPO Shareholders has undertaken to the Company, the Sponsor (for itself and on behalf of the Underwriters) and the Stock Exchange that it shall place in escrow with an escrow agent acceptable to the Stock Exchange, his/her/its Relevant Securities during the relevant Moratorium Period on terms acceptable to the Stock Exchange.

Moratorium Periods

Information on the length of moratorium periods for the Initial Management Shareholders, the Significant Shareholders and the Pre-IPO Shareholders is given on pages 69 to 72.

The share capital of the Company issued and to be issued, fully paid or credited as fully paid, immediately after completion of the Placing and Capitalisation Issue (assuming that the Over-allotment Option is not exercised and taking into consideration of the 6,432,000 Shares to be issued under the 3% Note).

Authorised:		*HK$*
2,000,000,000		20,000,000

Issued and to be issued, fully paid or credited as fully paid:

11,622,500	Shares in issue as at the date of this prospectus	116,225
60,000,000	Shares to be issued pursuant to the Placing	600,000
408,377,500	Shares to be issued pursuant to the Capitalisation Issue	4,083,775
6,432,000	Shares to be issued pursuant to the 3% Note	64,320
486,432,000	Shares	4,864,320

Minimum Public Float

Pursuant to Rule 11.23(1) of the GEM Listing Rules, at the time of listing and at all times thereafter, the Company must maintain the “minimum prescribed percentage” of its issued share capital in the hands of the public which, in the case of the Company, is not less than 25%.

Assumptions

This table assumes that the Placing becomes unconditional. It takes no account of any Shares which may be issued pursuant to the exercise of the Over-allotment Option and any Shares which may be allotted and issued upon the exercise of options which have been or may be granted under the Share Option Scheme, or which may be allotted and issued under the general mandate to allot, issue and deal with Shares (see below), or which may be purchased by the Company pursuant to the share repurchase mandate (see below).

Ranking

The Placing Shares will rank pari passu in all respects with all Shares in issue or to be issued as mentioned in this prospectus and, in particular, will qualify for all dividends or other distributions declared, paid or made on the Shares in respect of a record date after the date of this prospectus except the Capitalisation Issue.

Share Option Scheme

The Company has conditionally adopted the Share Option Scheme. A summary of the principal terms of the Share Option Scheme is set out in the subsection headed "Share Option Scheme" in Appendix V to this prospectus.

Under the Share Option Scheme, options to subscribe for Shares may be granted to the Directors and full-time employees of the Group provided that the aggregate nominal value of Shares in respect of which options may be granted under the Share Option Scheme and any other outstanding schemes of the Company shall not exceed, when aggregated with any Shares pursuant to any other share option schemes of the Company, 30% of the aggregate nominal value of all the issued Shares from time to time (excluding (a) Shares which may be issued pursuant to the exercise of options granted under the Share Option Scheme and any other schemes of the Company and (b) any pro rata entitlements to further Shares issued in respect of those Shares mentioned in (a)).

General mandate to allot and issue Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to allot, issue and deal with Shares or securities convertible into shares in the capital of the Company with a total nominal value of not more than the sum of:

(i) 20% of the aggregate nominal amount of Shares in issue immediately following the completion of the Placing and the Capitalisation Issue (including any Shares as may be issued pursuant to the exercise of the Over-allotment Option); and

(ii) the aggregate nominal amount of Shares repurchased by the Company under the authority referred to in the paragraph headed "General mandate to purchase Shares" below.

This mandate is in addition to the power of the Directors to allot, issue or deal with Shares under a rights issue, scrip dividend scheme or similar arrangement, or on the exercise of options granted under the Share Option Scheme.

This mandate will expire:

(i) at the conclusion of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by any applicable law or its articles of association to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the section headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

General mandate to purchase Shares

Subject to the Placing becoming unconditional, the Directors have been granted a general unconditional mandate to exercise all the powers of the Company to purchase Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the Shares in issue immediately following the completion of the Placing and the Capitalisation Issue (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option).

This mandate only relates to purchases made on the Stock Exchange, or on any other stock exchange on which the Shares are listed (and which are recognised by the Securities and Futures Commission and the Stock Exchange for this purpose), and which are in accordance with all applicable laws and the requirements of the GEM Listing Rules. A summary of the relevant GEM Listing Rules is set out in the paragraph headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

This mandate will expire:

(i) at the conclusion of the Company's next annual general meeting; or

(ii) at the end of the period within which the Company is required by any applicable law or its articles of association to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Company's shareholders in general meeting,

whichever occurs first.

For further details of this general mandate, see the subsection headed "Repurchase by the Company of its own securities" in Appendix V to this prospectus.

TRADING RECORD

The following is a summary of the combined results of the Group for the period from the 1st January, 2000 to 31st July, 2002, prepared on the basis that the current structure of the Group had been in place throughout the year under review. The summary should be read in conjunction with the accountants' report set out in Appendix I to this prospectus.

Combined income statements

	Year ended 31st December, 2000 HK$	Year ended 31st December, 2001 HK$	Seven months ended 31st July, 2002 HK$
Turnover *(Note 1)*	415,620	2,447,692	689,705
Direct costs	(122,714)	(197,721)	(392,613)
Gross profit	292,906	2,249,971	297,092
Other operating income	199,971	44,291	42
Research and development expenses	(2,685,000)	(2,067,413)	(100,440)
Administrative expenses	(2,952,478)	(5,011,568)	(2,224,967)
Selling and distribution expenses	(164,095)	(626,605)	(51,703)
Loss from operations	(5,308,696)	(5,411,324)	(2,079,976)
Interest on borrowings wholly repayable within five years	(15,782)	(22,515)	(86,750)
Loss before taxation	(5,324,478)	(5,433,839)	(2,166,726)
Taxation	—	—	—
Loss for the year/period	(5,324,478)	(5,433,839)	(2,166,726)
Accumulated losses brought forward	—	(5,324,478)	(10,758,317)
Accumulated losses carried forward	(5,324,478)	(10,758,317)	(12,925,043)
Loss per share — Basic *(Note 2)*	1.41 cents	1.38 cents	0.52 cents

Note 1: Turnover for the seven months ended 31st July, 2002 included an amount of approximately HK$236,000 representing sales of licensed software to Timeless Software Limited. This amount was not yet settled as at the Latest Practicable Date but is expected to be set off against the 8% Note.

Note 2: The calculation of loss per Share is based on the loss attributable to shareholders for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002 and the portion of the 420,000,000 Shares issued under the Reorganisation and the Capitalisation Issue attributable to the share capital raised during the two years ended 31st December, 2001 and the seven months ended 31st July, 2002.

Rule 7.03(1) of the GEM Listing Rules requires that in the case of a new applicant the accountants' report must include the results of the issuer or, if the issuer is a holding company, the consolidated results of the issuer and its subsidiaries covering at least the two financial years immediately preceding the issue of the listing document.

Rule 11.10 of the GEM Listing Rules requires that a new applicant must have an accountants' report prepared in accordance with Chapter 7 of the GEM Listing Rules covering at least two financial years immediately preceding the issue of the listing document.

As the financial year of the Group ends on 31st December and this prospectus includes the combined results of the Group covering the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002, the Directors consider full compliance with Rules 7.03(1) and 11.10 of the GEM Listing Rules in respect of the financial year immediately preceding the date of this prospectus ended 31st December, 2002, to be unduly burdensome. The Company has therefore applied for a waiver from strict compliance with such GEM Listing Rules from the Stock Exchange. The Stock Exchange has granted such waiver to the effect that the accountants' report set out in Appendix I to this prospectus covers only the two financial years ended 31st December, 2001 and the seven months ended 31st July, 2002. The Directors confirm that they have performed sufficient due diligence on the Group to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position of the Group since 31st July, 2002, and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

Paragraph 27 of the Third Schedule to the Companies Ordinance requires, inter alia, a statement to be included in the prospectus as to the gross trading income or sales turnover (as may be appropriate) of the Company during the three preceding years including an explanation of the method used for the computation of such income or turnover.

Paragraph 31 of the Third Schedule to the Companies Ordinance requires the report by the auditors of the Company set out in the prospectus to include financial information of the Company for three financial years immediately preceding the issue of the prospectus.

Pursuant to section 5(3) of the Companies Ordinance (Exemption of companies and prospectus from compliance with provision notice) (L.N.76 of 2001), all references to "3 preceding years", "3 financial years" and "3 years" in paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance are substituted by a reference to "2 preceding years", "2 financial years" and "2 years" respectively for a prospectus issued in relation to an application for listing of securities on GEM.

In the circumstances, an application has been made to the Securities and Futures Commission of Hong Kong for a Certificate of Exemption from strict compliance with paragraphs 27 and 31 of the Third Schedule to the Companies Ordinance in relation to the inclusion of the accountants' report for the full year ended 31st December, 2002 in the prospectus and a Certificate of Exemption has been granted by the Securities and Futures Commission of Hong Kong.

Pursuant to Rule 11.11 of the GEM Listing Rules, the latest financial period reported on by the reporting accountants must not have ended more than six months before the date of the listing document. As the latest financial period currently reported in the accountants' report set out in Appendix I to this prospectus is for the seven months ended 31st July, 2002, the prospectus must be dated on or before 31st January, 2003 in order to comply with the six-month period as set out in Rule 11.11 of the GEM Listing Rules. Given that the date of this prospectus is 13th February, 2003, it is 13 days beyond the six-month period as set out in Rule 11.11 of the GEM Listing Rules.

The Company has sought and obtained from the Stock Exchange a waiver from strict compliance with the requirement of Rule 11.11 of the GEM Listing Rules. The Directors confirmed that they have performed sufficient due diligence on the Group to ensure that, up to the Latest Practicable Date, there has been no material adverse change in the financial or trading position of the Group since 31st July, 2002 and there is no event which would materially affect the information shown in the accountants' report set out in Appendix I to this prospectus.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the combined financial statements of the Group and related notes set out in Appendix I. The Group's business models for its current and future products are still at an emerging stage and the turnover and income potential from many of the Group's products is unproven. The Group's lack of operating history means that an analysis of the combined historic financial statements in relation to the Group may not be meaningful. As a result, the Group's past results of operations do not reflect its future prospects and period-to-period comparisons of its operating results should not be relied on as an indication of future performance. References below to "fiscal 2000" and "fiscal 2001" are to the years ended, and as at, 31st December, 2000 and 2001, respectively.

Overview

The Group experienced significant growth during the two financial years ended 31st December, 2001. The turnover increased from approximately HK$416,000 in fiscal 2000 to approximately HK$2,448,000 in fiscal 2001, representing an increase of approximately 489%. Because fiscal 2000 was only the Group's first full year of operation, turnover in that year was only HK$415,620, which is a comparatively small amount. It follows that a sharp increase in turnover in fiscal 2001, in relative terms, should be expected since fiscal 2000 formed a low base compared with fiscal 2001. As disclosed in the ABP section, marketing of the Group's product in the PRC started in fiscal 2001 and not in fiscal 2000 and this factor contributed to the increase in turnover. For the seven months ended 31st July, 2002, the turnover of the Group recorded approximately HK$690,000.

For the two years ended 31st December, 2000 and 31st December, 2001, and the seven months ended 31st July, 2002, approximately 100%, 81% and 94% respectively of the Group's turnover were derived from sales made in the Hong Kong market with the remaining balance attributable to sales made in international markets including United States of America, Taiwan and the PRC.

The gross profit margin for the two years ended 31st December, 2001 and the seven months ended 31st July, 2002 were approximately 70%, 92% and 43% respectively. The net losses for the same periods were approximately HK$5,324,000, HK$5,434,000 and HK$2,167,000 respectively.

In the active business pursuits period the Company had a small number of customers and therefore a small number of debtors, causing the debtor turnover period to fluctuate as debts were settled after varying periods of credit.

Except for the year ended 31st December, 2001 there was approximately HK$93,000 bad debt expenses, there was no provision for doubtful debts for the year ended 31st December, 2000 and the seven months ended 31st July, 2002. The debtors' turnover period was 324, 1 and 133 days respectively. Therefore, debtors' turnover period has improved since 2000. The Group has a policy of allowing an average credit period of 30 days to its trade customers.

The creditor turnover has increased because, as the company trading record has grown so its creditors have been prepared to give it longer periods of credit.

The creditors' turnover period for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002 were 0, 37 and 104 days respectively.

Results of operations

For the year ended 31st December, 2000

Turnover of the Group for the financial year ended 31st December, 2000 was approximately HK$416,000 with a gross profit margin of approximately 70%. Net loss attributable to shareholders for the year ended 31st December, 2000 was approximately HK$5,324,000.

For the year ended 31st December, 2001

Turnover of the group for the financial year ended 31st December, 2001 increased to HK$2,448,000 of which 81% and 10% were derived from sales in Hong Kong and the US respectively, representing an increase of approximately 489% from that of the previous year. The increase was due to an increase in the number of customers. In 2001 sales of Internet software increased by a multiple of 5.6 as the Group's marketing effort by its agents and Mr. Mo started to have an effect and more time was devoted to marketing by Mr. Mo. There was in addition a modest amount of income from maintenance and rental and subscription contracts. Gross profit margin was approximately 92%, representing a slight increase as compared to the 70% gross profit margin in fiscal 2000. The increase was due to an increase in sales with a very stable direct costs which mainly comprised of amortization expenses of development expenditure.

Research and development expenses declined as the Group's software product was developed further and required less spending on research and development. Administrative expenses increased as the number of staff and customers increased over the period.

Other operating income decreased mainly because interest income was reduced as bank balances declined. While research and development expenses declined slightly, owing to the software being at a more advanced stage of development. Selling and distribution expenses increased as more exhibition expense incurred to order to increase sales volume. The increase in administrative expenses was caused by the requirement to hire approximately 5 more staff to deal with the flow of customer orders. A 70% increase in administrative expenses brought about a loss from operations of HK$5.4 million, similar to the loss from operations of HK$5.3 million in the previous year.

Net loss attributable to shareholders for the year ended 31st December, 2001 was approximately HK$5,434,000, representing an increase of 2% from that of the previous year.

For the seven months ended 31st July, 2002

The business of the Group is considered by the Directors to be seasonal. Most of its sales, to date, have been government departments and total sales to them accounted for approximately 48%, 45% and 33% for the two years ended 31st December, 2001 and the seven months ended 31st July, 2002. Purchase negotiations tend to start in April which is the beginning of the government's financial year and to be concluded in the second half of the financial year. Billing frequently occurs in the second half of the financial year.

Turnover of the Group for the seven months ended 31st July, 2002 was approximately HK$690,000, representing a decrease of approximately 57% from that of previous year for the same period. The Directors expect that turnover of the Group for the year ending 31st December, 2002 will exceed the turnover in 2001 and turnover in the seven months to 31st July, 2002 to be approximately 8% of turnover for 2002.

Turnover declined as fewer sales contracts were completed in the first seven months of the year. Gross profit declined because direct costs did not fall proportionately to turnover and the Directors consider the reason for this variation is that the Company's sales tend to be weighted more to the second half of the year. The reduction of the profit margin is due to a decrease of sales orders while the monthly direct costs, which included salaries costs for maintenance staff (HK$196,000 for 2 staff) and the amortization of defined expenditure (an increase of HK$31,000 mainly due to new project "Hanphone"), are increased as the Group prepared for growth in the second half of the year. The Group's software product had been developed to a greater extent causing a decline in research and development expenses.

The decrease in selling and distribution expenses in the year 2002 is attributable to a contract for advertising on websites with an advertising agent, which expired in the first quarter of the year ended 31st December, 2002.

The decrease in administrative expenses was caused by the decrease in staff cost, rent and rates, and overseas travelling. Since the sales agents in PRC having become more active in promoting the Group's products in the PRC and therefore fewer business trips are required for employees to travel from Hong Kong to the PRC. The Company became profitable as its product was purchased by customers.

The Directors expect that the gross profit margin in the year to 31st December, 2002 will be similar to the gross profit margin in 2001.

Taxation

The Group principally conducts its business in Hong Kong and is thus subject to Hong Kong profits tax at the rate of 16%.

No provision for Hong Kong profits tax was made as the companies within the Group had no assessable profits in Hong Kong for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002.

INDEBTEDNESS

Borrowings

As at the close of business on 30th November, 2002 (being the latest practical date for the purpose of this statement of indebtedness prior to printing of the prospectus), the Group had outstanding borrowings of approximately HK$6.51 million and comprising short-term borrowings of approximately HK$2.54 million and long-term borrowings of approximately HK$3.97 million. The short-term borrowings included advances from two independent third parties, namely: Mr. Ho Lap Yiu and Mr. Richard S. Myers of approximately HK$0.1 million and HK$0.05 million, respectively, the 8% Note of approximately HK$1 million and HK$1.39 million bank overdraft. The advances from third parties both bore interest at 5% per annum. The 8% Note was issued to Timeless Strategy with a face amount of HK$1 million with maturity date of 31st March, 2003. The conversion rights in the 8% Note have been abandoned by Timeless Strategy pursuant to the 2nd Supplemental Agreement between the parties dated 17th January, 2003 and the 8% Note will be fully repaid on 31st March, 2003. The Group's bank overdraft facility was secured by a personal guarantee given by Mr. Mo and a property held by a company controlled by Mr. Mo. On 22nd January, 2003, the Group settled all the outstanding indebtedness under this bank overdraft facility which has been cancelled before listing.

The long-term borrowings represented the 3% Note of approximately HK$1.8 million, a loan from Metrolink of approximately HK$0.66 million and financial assistance from the government of approximately HK$1.51 million. The 3% Note was issued with a face amount of HK$1.8 million, which will be converted to 6,432,000 Shares before listing. The loan from Metrolink bears interest at the rate of 12% per annum and is repayable on 31st December, 2003 from proceeds of the placing. The financial assistance from the government was provided by The Innovation and Technology Fund ("ITF"). The financial assistance is non-interest bearing and repayable to ITF when revenue is generated from a specific product.

The principal amount of the 8% Note of HK$1.0 million together with accrued interest thereon will be paid by the Group on 31st March, 2003. The Group shall be entitled to set off such outstanding indebtedness to the extent of the outstanding accounts receivable of approximately HK$236,000 owing from Timeless Software Limited (the holding company of Timeless Strategy).

Security

As at 30th November, 2002, all borrowings are not secured on any asset of the Group.

Debt securities

As at 30th November, 2002, the Group had no debt securities.

Mortgages and charges

As at 30th November, 2002, the Group had no mortgages or charges.

Contingent liabilities

As at 30th November, 2002, the Group had no material contingent liabilities.

Disclaimer

Save as aforesaid or otherwise disclosed herein, and apart from any intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 30th November, 2002.

Save as disclosed below under the heading of "Borrowings and banking facilities", the Directors have confirmed that there has been no material change in the indebtedness and contingent liabilities of the Company and its subsidiaries since 30th November, 2002.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group has historically relied on shareholder loans for its liquidity and capital requirements. Following completion of the Placing, the Group expects the net proceeds raised by the Placing will be sufficient to meet the future operating and capital expenditure cashflow requirements until the operations of the Group become mature and are capable of generating positive cashflows. It is also expected that the Group may raise bank borrowings should the need arise.

Borrowings and banking facilities

As at the close of business on 30th November, 2002, the Group had bank overdraft of HK$1.39 million, amount due to its shareholders of approximately HK$3.46 million, government loan of approximately HK$1.51 million and short term loans of HK$0.15 million from independent third parties, namely: Mr. Ho Lap Yiu and Mr. Richard S. Myers.

The Group has repaid the outstanding bank overdraft by internally generated cash flow of HK$4,200,000 received from debtors in January 2003 and this bank overdraft facility has been cancelled before listing.

Dividend policy

The Directors expect that future interim and final dividends will be paid in or about April and September of each year. Interim dividends will normally represent approximately one-third of the expected total dividends for each year. The declaration, payment and amount of future dividends, if any, will be subject to the discretion of the Directors and will depend upon, among other factors, the Group's results of operations, available cash flow and financial conditions of the Group, operating and capital requirements and other relevant factors.

PROPERTY INTERESTS

Property interests licensed/rented by the Group in Hong Kong

The Group currently leases a ground floor unit at Tech Centre, No. 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong from an independent third party not connected with any connected person (as defined in the GEM Listing Rules) as its principal place of business in Hong Kong.

The Group also leases a residential unit at Belmont Court, No. 10 Kotewall Road, Mid-levels West, Hong Kong from Comeasy Communications Limited, which is a connected party (as defined in the GEM Listing Rules) as director's quarter.

Please note that the lease of the residential unit has been renewed for a further term of 2 years with effect from 1st September, 2002 at a monthly rent of HK$40,000, inclusive of rates, utilities, maintenance and management charges and one full-time domestic helper. Comeasy is a property holding company and its business does not compete with those of the Group.

Property Valuation

BMI Appraisals Limited, an independent valuer, valued the property interests of the Group as at 31st December, 2002. The texts of its letter, summary of values and valuation certificates of such property interests are set out in Appendix III to this prospectus.

DISTRIBUTABLE RESERVES

As the Company was incorporated on 10th October, 2002, there were no reserves available for distribution to the shareholders of the Company as at 31st July, 2002.

WORKING CAPITAL

The Directors are of the opinion that, taking into account the internally generated resources of the Group and the estimated net proceeds from the issue of Shares under the Placing, the Group has sufficient working capital for its present requirements.

FOREIGN EXCHANGE RISK

Since most of the income and expenditure of the Group prior to the Latest Practicable Date were denominated in Hong Kong dollars, and most of the assets and liabilities as at the Latest Practicable Date were denominated in Hong Kong dollars, the Directors are of the view that the Group is not significantly exposed to any foreign currency exchange risk.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, the Group was not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

ADJUSTED NET TANGIBLE ASSETS

The following pro forma statement of adjusted net tangible assets of the Group is prepared based on the audited combined net assets of the Group as at 31st July, 2002 as shown in the accountants' report, the text of which is set out in the accountants' report in Appendix I to this prospectus, and adjusted as follows:

	Based on the Placing Price of HK$0.33	**Based on the Placing Price of HK$0.45**
	HK$'000	*HK$'000*
Audited combined net liabilities of the Group as at 31st July, 2002 as set out in the accountants' report in Appendix I	(2,792)	(2,792)
Less: Development expenditure	(2,443)	(2,443)
Adjusted net liabilities of the Group after excluding intangible assets	(5,235)	(5,235)
Unaudited combined profit for the four months ended 30th November, 2002 based on the Group's management accounts	2,892	2,892
Exercise of the 3% Note	1,800	1,800
Estimated net proceeds from the Placing (assuming that the Over-allotment Option is not exercised)	14,725	21,925
Adjusted net tangible assets	14,182	21,382
Adjusted net tangible assets value per Share — in HK$ *(Note)*	0.03	0.04

Note: The adjusted net tangible asset value per Share has been arrived at after making the adjustments set out under the paragraph "Adjusted net tangible assets" in the section headed "Financial information" in this prospectus and on the basis of a total of 486,432,000 Shares in issue and to be issued as mentioned herein, but takes no account of any Shares which may be issued upon the exercise of any options which may be granted under the Over-allotment Option.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Group since 31st July, 2002, being the date to which the latest audited financial statements of the Group were made up.

PROFIT ESTIMATE

The Directors estimate that, in the absence of unforeseen circumstances and on the bases and assumptions set out in Appendix II to this prospectus, the combined profit after taxation, but before extraordinary items of the Group for the year ended 31st December, 2002 will not be less than HK$3.6 million. The profit for the year ended 31st December, 2002 is estimated to have increased as compared to the result of 31st December, 2001 because the Group has been awarded a multi-million dollar contract from the Hong Kong SAR Government. The Directors are not aware of any extraordinary items which have arisen or are likely to arise for the year ended 31st December, 2002.

On the basis of such profit estimate and 420,000,000 Shares in issue and to be issued for the year ended 31st December, 2002, the estimated earnings per Share will amount to approximately 0.9 cents, representing a prospective price/earnings multiple of approximately 38.5 times and 52.5 times based on the minimum and the maximum Issue Price, respectively.

The texts of the letters from the auditors and reporting accountants of the Company and from the Sponsor, in respect of the profit estimate are set out in Appendix II to this prospectus.

UNDERWRITING ARRANGEMENTS AND EXPENSES

Underwriters:

South China Securities Limited
KGI Capital Asia Limited
Whole Win Securities Limited
First Shanghai Capital Ltd.
Toyo Securities Asia Ltd.
First Asia Finance Group Limited
OpenOffering Capital Limited
Sinomax Securities Limited
Horwath Capital Asia Limited

Underwriting Agreement

Pursuant to the Underwriting Agreement, the Company is offering the Placing Shares for subscription by way of Placing, subject to the terms and conditions of this prospectus. Subject, among other things, to listing of and the permission to deal in the Shares in issue and to be issued pursuant to the conversion of the 3% Note, the exercise of options granted under the Share Option Scheme and the Over-allotment Option, being granted by the GEM Listing Committee, and the fulfillment of certain other conditions as set out in the Underwriting Agreement, the Underwriters have severally agreed to procure placees for the Placing Shares and have agreed to subscribe or procure subscribers for any Placing Shares not taken up by placees under the Placing which have not been subscribed for or placed pursuant to the Placing.

Grounds for termination

The obligations of the Underwriters to subscribe, or procure subscribers are subject to termination if certain events, including force majeure, shall occur prior to 6:00 p.m. on the date immediately prior to the Listing Date. The Sponsor (on behalf of the Underwriters) is entitled to terminate the Underwriters' obligations under the Underwriting Agreement with immediate effect by giving written notice to the Company at any time prior to such time if the following events shall have occurred:

1. *there should develop, occur or come into effect any of the followings:*

   (i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, any acts of government, riots, public disorder, strikes, lock-outs, fire, explosion, flooding, epidemic, civil commotion, acts of war, acts of God, terrorism, escalation of hostilities involving Hong Kong, the PRC or any other jurisdiction relevant to any member of the Group, accident or interruption or delay in transportation); or

   (ii) any material change in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory or market conditions and matters (including any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange) and/or occurrence of any disasters; or

(iii) any new law or regulation or material change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority in Hong Kong, the BVI, the Cayman Islands or any other jurisdictions relevant to the Company and its subsidiaries; or

(iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the US or by the European Union (or any member thereof) or the PRC; or

(v) any material change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, the BVI, the Cayman Islands or any other jurisdiction relevant to any member of the Group; or

(vi) any litigation or claim of material importance to the business, financial or operation of the Group being instigated by any third party against any member of the Group; or

which in the sole and reasonable opinion of the Sponsor (for itself and on behalf of the Underwriters), be materially adverse to or materially affect the Group or its prospects and/or the Placing or the success thereof or which makes it inadvisable or inexpedient to proceed with the Placing.

2. *there comes to the notice of the Sponsor:*

(i) that any statement considered by the Sponsor (for itself and on behalf of the Underwriters) to be material, contained in this prospectus was when any of such documents were issued, or has become, untrue, incorrect or misleading in any material respect; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom, considered by the Sponsor (for itself and on behalf of the Underwriters), be material; or

(iii) any breach of any of the warranties contained in the Underwriting Agreement, considered by the Sponsor (for itself and on behalf of the Underwriters) to be material; or

(iv) any event, act or omission which gives or is likely to give rise to any material liability of the Company and/or the executive Directors; or

(v) any material breach of any of the obligations imposed upon any party to the Underwriting Agreement (other than on any of the Underwriters); or

(vi) any adverse change in the business or in the financial or trading position of any member of the Group which is material in the context of the Placing.

Commission

The Underwriters will receive a commission of 7% on the Issue Price per Share, out of which they will, as the case may be, pay any sub-underwriting commissions. The Sponsor will, in addition, receive a documentation fee. The underwriting commission, documentation fee, Stock Exchange listing fees and trading fee, transaction levy, legal and other professional fees together with applicable printing and other expenses relating to the Placing are estimated to amount to approximately HK$10.2 million in aggregate based on an issue price of HK$0.33 per share and assuming that the Over-allotment Option is not exercised, and are payable as to 50% by the Company and as to 50% by the Vendors.

Underwriters' interest in the Company

Save for its obligations under the Underwriting Agreement and the Sponsor's interests as disclosed in the section headed "Sponsor's Interests" in this prospectus, none of the Underwriters has any shareholding interest in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Sponsor's interests

Except as otherwise disclosed herein, neither South China nor any of its associates expects to have accrued any material benefits as a result of the successful outcome of the Placing, other than the following:

(i) in taking up underwriting obligations under the Underwriting Agreement;

(ii) by way of underwriting commissions by South China and/or its fellow subsidiaries, holding companies or affiliates by acting as one of the underwriters to the Placing;

(iii) an advisory fee payable to South China as the sponsor of the Placing;

(iv) in relation to a sponsor agreement dated 13th February, 2003 entered into between South China and the Company (the "Sponsor's Agreement") pursuant to which South China has been appointed as sponsor of the Company under paragraph 6.50 to 6.58 of the GEM Listing Rules for the remainder of the financial year of the Company ending 2003 and for the period of two years thereafter commencing from 25th February, 2003, pursuant to which the Company shall pay an agreed fee to South China for the provision of relevant services;

(v) certain fellow subsidiaries, holding companies or affiliates of South China, whose ordinary businesses involve the trading of and dealing in securities (including derivatives), may derive commission from the trading and dealing in the securities (including derivatives) of the Company; and

(vi) certain of the holding companies, fellow subsidiaries or affiliates of South China may purchase or sell securities of the Company or hold them for investment purposes.

DETERMINING THE ISSUE PRICE

The Issue Price is expected to be fixed on or about 14th February, 2003, or on a date which is no later than 21st February, 2003 pursuant to the Price Determination Agreement.

The Sponsor, may with the consent of the Company reduce the Issue Price to a price below the range stated in this prospectus (which is HK$0.33 to HK$0.45 per Share) (the "Indicative Price Range") on or before 21st February, 2003. In such case, notice of reduction in the Issue Price will be published on the GEM Website (in English and Chinese) not later than the morning of 21st February, 2003.

If South China and the Company are unable to reach agreement on the Issue Price on or before 21st February, 2003, the Placing will not become unconditional and will not proceed.

An announcement of the Issue Price is expected to be published on the GEM Website on or about 21st February, 2003.

THE PLACING

The Company and the Vendors are initially offering 120,000,000 Placing Shares under the Placing. Pursuant to the Placing, it is expected that the Underwriters, on behalf of the Company and the Vendors will conditionally place the Placing Shares at the Issue Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.007% transaction levy. The amount payable for one board lot of the Placing Shares together with 1% brokerage, 0.005% trading fee and 0.007% transaction levy will be in the range of HK$3,333 to HK$4,545 provided that the Issue Price is between HK$0.33 to HK$0.45 per Share. The Placing is arranged by South China and fully underwritten by the Underwriters subject to the terms and conditions of the Underwriting Agreement and this prospectus.

The Placing is subject to the same conditions as stated in the paragraph headed "Conditions of the Placing" below.

All of the Placing Shares initially offered by the Company and the Vendors are to be placed with selected professional, institutional and other investors. Professional, institutional and other investors generally include high net worth individuals and brokers, dealers and fund managers, whose ordinary course of business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Allocation of Placing Shares to investors pursuant to the Placing is based on a number of factors including the level of demand and whether or not it is expected that the relevant investor is likely to buy further Shares, or hold or sell its Shares, after the listing of the Shares on GEM. Such allocation is generally intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its shareholders as a whole.

CONDITIONS OF THE PLACING

Acceptance of all applications for the Placing Shares is conditional upon:

1. **Listing**

   The GEM Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus; and

2. **Underwriting agreement**

   The obligations of the Underwriters under the Underwriting Agreement becoming unconditional, and not being terminated, prior to allotment and issue of the Placing Shares. Details of the Underwriting Agreement, its conditions and grounds for termination, are set out in the section headed "Underwriting" of this prospectus.

If these conditions are not fulfilled on or before the 30th day from the date of this prospectus, all application monies will be returned, without interest. The Underwriters include South China Securities Limited, KGI Capital Asia Limited, Whole Win Securities Limited, First Shanghai Capital Ltd., Toyo Securities Asia Ltd., First Asia Finance Group Limited, OpenOffering Capital Limited, Sinomax Securities Limited and Horwath Capital Asia Limited.

OVER-ALLOTMENT OPTION

Pursuant to the Underwriting Agreement, the Company has granted to South China Securities, for and on behalf of the Underwriters, a right (but not an obligation) to exercise the Over-allotment Option, which is exercisable no earlier than the Price Determination Date and will expire at 5:00 p.m. on the 30th day from the date of this prospectus, or if that day is not a business day, the business day immediately before such day to require the Company to issue up to an aggregate of 12 million additional Shares, representing 10% of the number of Shares initially available under the Placing. These Shares will be issued at the Issue Price for the purpose of covering over-allocations in the Placing, if any.

In order to facilitate settlement of over-allocations in connection with the Placing pending exercise of the Over-allotment Option, a stock borrowing arrangement has also been entered into between Mr. Mo and South China Securities.

Pursuant to this arrangement, the Group has agreed that, if so requested by South China Securities, Mr. Mo will lend to the placees up to 12 million Shares on the following terms:

(i) the borrowed Shares will only be used to settle over-allocations in the Placing; and

(ii) the same number of Shares must be returned to Mr. Mo and redeposited with the escrow agent acceptable to the Stock Exchange no later than three business days following the earlier of (a) the date on which the Over-allotment Option is exercised in full and (b) the last day on which the Over-allotment Option may be exercised.

South China Securities may also cover such over-allocations by, among other means, purchasing Shares in the secondary market or by a combination of purchases in secondary market and exercise of the Over-allotment Option either in part or in full. Any such secondary market purchases will be made in compliance with all applicable laws, rules and regulations.

Stabilisation

In connection with the Placing, South China Securities may over-allot up to an aggregate of 12 million additional Shares (such over-allocations may be covered by exercising the Over-allotment Option in full or in part, at any time up to 30 days from the date of this prospectus or by purchasing Shares in the secondary market) and/or effect transactions which stabilise or maintain the market price of the Shares at levels other than those which might otherwise prevail but which are not higher than the Issue Price. Any such over-allocation purchase transactions will be made in compliance with all applicable laws.

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid or purchase the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the initial public issue prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements.

In Hong Kong, such stabilisation activities on the Stock Exchange are restricted to cases where the underwriters purchase shares in the secondary market genuinely and solely for the purpose of covering over-allocation in the relevant offer. Such transactions, if commenced, may be discontinued at any time. Should stabilising transactions be effected in connection with the distribution of the Placing Shares, they will be done at the absolute discretion of South China Securities. The stabilisation price to cover the over-allocation will not normally be higher than the Issue Price. Relevant provisions of the Securities Ordinance prohibit market manipulation in the form of pegging or stabilising the price of securities in certain circumstances.

COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on GEM is expected to commence on 25th February, 2003.

The Shares will be traded in board lots of 10,000 Shares.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of and permission to deal in the Shares on GEM and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on GEM or on any other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

CCASS participants should note, however, that in the event that the Placing is terminated in accordance with the section headed "Conditions of the Placing" at any time after the deposit of the Placing Shares into CCASS, the Shares will cease to be eligible securities and appropriate action will be required to be taken to withdraw such ineligible securities from CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this prospectus, received from the auditors and reporting accountants of KanHan Technologies Group Limited, Deloitte Touche Tohmatsu.

德勤‧關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

13th February, 2003

The Directors
KanHan Technologies Group Limited
South China Capital Limited

Dear Sirs,

We set out below our report on the financial information regarding KanHan Technologies Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the two years ended 31st December, 2001 and the seven months ended 31st July, 2002 (the "Relevant Periods") for inclusion in the prospectus of the Company dated 13th February, 2003 (the "Prospectus").

The Company was incorporated and registered as an exempted company in the Cayman Islands under the Companies Law (Revised) of the Cayman Islands on 10th October, 2002 . Pursuant to a group reorganisation, as more fully explained in the paragraph headed "Group reorganisation" in Appendix V to the Prospectus (the "Reorganisation"), the Company has become the holding company of the Group on 13th November, 2002.

As at the date of this report, the Company has the following subsidiaries, which are both private limited companies.

Name of company	Place and date of incorporation	Issued and fully paid up share capital	Attributable equity interest held by the Group	Principal activities
KanHan Technologies Inc. ("KanHan (BVI)")	British Virgin Islands 21st September, 1999	Ordinary shares US$116,225	100%	Investment holding
KanHan Technologies Limited ("KanHan (HK)")	Hong Kong 8th October, 1999	Ordinary shares HK$200,000	100%	Provision of communications software platform

KanHan (BVI) is held by the Company directly. KanHan (HK) is held by the Company indirectly.

No audited financial statements have been prepared for the Company as the Company was incorporated subsequent to 31st July, 2002 and has not carried on any business, except for the transactions relating to the Reorganisation referred to herein. For the purpose of this report, we have, however, reviewed all the relevant transactions since its date of incorporation to the date of this report.

We have acted as auditors of KanHan (BVI) and KanHan (HK) for the Relevant Periods except that the financial statements of KanHan (BVI) for the period from 21st September, 1999 to 31st December, 2000 and the financial statements of KanHan (HK) for the period from 8th October, 1999 to 31st December, 2000, were audited by Messrs. K.C. Oh & Company, Certified Public Accountants, Hong Kong.

The financial information of the Group for the Relevant Periods (the "Financial Information") set out in this report has been prepared from the audited financial statements (the "Underlying Financial Statements") of the companies now comprising the Group, on the basis set out in note 1 of Section I below.

We have examined the Underlying Financial Statements for the Relevant Periods, or since the respective date of incorporation to 31st July, 2002, where this is a shorter period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31st December, 2000, 31st December, 2001 and 31st July, 2002 and of the combined results and cash flows of the Group for the Relevant Periods.

I. FINANCIAL INFORMATION

Combined income statements

	Notes	**Year ended 31st December, 2000**	**Year ended 31st December, 2001**	**Seven months ended 31st July, 2002**
		HK$	*HK$*	*HK$*
Turnover	3	415,620	2,447,692	689,705
Direct costs		(122,714)	(197,721)	(392,613)
Gross profit		292,906	2,249,971	297,092
Other operating income	4	199,971	44,291	42
Research and development expenses	5	(2,685,000)	(2,067,413)	(100,440)
Administrative expenses		(2,952,478)	(5,011,568)	(2,224,967)
Selling and distribution expenses		(164,095)	(626,605)	(51,703)
Loss from operations	6	(5,308,696)	(5,411,324)	(2,079,976)
Interest on borrowings wholly repayable within five years		(15,782)	(22,515)	(86,750)
Loss before taxation		(5,324,478)	(5,433,839)	(2,166,726)
Taxation	7	—	—	—
Loss for the year/period		(5,324,478)	(5,433,839)	(2,166,726)
Accumulated losses brought forward		—	(5,324,478)	(10,758,317)
Accumulated losses carried forward		(5,324,478)	(10,758,317)	(12,925,043)
Loss per share — Basic	9	1.41 cents	1.38 cents	0.52 cents

Combined balance sheets

	Notes	At 31st December, 2000	At 31st December, 2001	At 31st July, 2002
		HK$	*HK$*	*HK$*
NON-CURRENT ASSETS				
Property, plant and equipment	11	236,650	607,170	323,939
Development expenditure	12	1,134,952	1,917,211	2,443,171
		1,371,602	2,524,381	2,767,110
CURRENT ASSETS				
Trade and other receivables	13	470,503	175,285	317,143
Amount due from a related company	14	22,230	35,610	41,930
Bank balances and cash		2,336,058	322,364	189,074
		2,828,791	533,259	548,147
CURRENT LIABILITIES				
Trade and other payables	15	272,934	1,045,614	917,648
Amounts due to related parties	16	25,358	69,250	124,250
Bank overdrafts, unsecured		54,298	50,649	—
Short term loan	17	—	—	100,000
8% convertible note	18	—	—	1,000,000
		352,590	1,165,513	2,141,898
NET CURRENT ASSETS (LIABILITIES)		2,476,201	(632,254)	(1,593,751)
TOTAL ASSETS LESS CURRENT LIABILITIES		3,847,803	1,892,127	1,173,359
NON-CURRENT LIABILITIES				
3% convertible note	19	—	1,800,000	1,800,000
Financial assistance from government	20	—	1,279,000	1,506,900
Loans from a shareholder	21	—	—	658,958
		—	3,079,000	3,965,858
		3,847,803	(1,186,873)	(2,792,499)
CAPITAL AND RESERVES				
Share capital	22	796,468	819,989	834,714
Reserves		3,051,335	(2,006,862)	(3,627,213)
		3,847,803	(1,186,873)	(2,792,499)

Combined statements of changes in equity

	Share capital	Non-distributable reserve *(note)*	Accumulated losses	Total
	HK$	*HK$*	*HK$*	*HK$*
At 1st January, 2000	13,950	—	—	13,950
Issue of shares	782,518	8,375,813	—	9,158,331
Loss for the year	—	—	(5,324,478)	(5,324,478)
At 31st December, 2000 and 1st January, 2001	796,468	8,375,813	(5,324,478)	3,847,803
Issue of shares	23,521	375,642	—	399,163
Loss for the year	—	—	(5,433,839)	(5,433,839)
At 31st December, 2001 and 1st January, 2002	819,989	8,751,455	(10,758,317)	(1,186,873)
Issue of shares	14,725	546,375	—	561,100
Loss for the period	—	—	(2,166,726)	(2,166,726)
At 31st July, 2002	834,714	9,297,830	(12,925,043)	(2,792,499)

Note: The non-distributable reserve of the Group represents share premium arising from issue of shares by KanHan (BVI) prior to the Reorganisation.

Combined cash flow statements

	Note	Year ended 31st December, 2000 *HK$*	2001 *HK$*	Seven months ended 31st July, 2002 *HK$*
NET CASH USED IN OPERATING ACTIVITIES	25	(5,482,736)	(3,761,360)	(1,835,278)
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to development expenditure		(1,257,666)	(1,388,933)	(695,223)
Purchase of property, plant and equipment		(292,706)	(369,106)	(13,390)
Interest received		158,369	36,206	42
Sales proceeds from disposal of property, plant and equipment		—	17,500	—
NET CASH USED IN INVESTING ACTIVITIES		(1,392,003)	(1,704,333)	(708,571)
CASH FLOWS FROM FINANCING ACTIVITIES				
Interest paid		(15,782)	(22,515)	(86,750)
Proceeds from issue of shares		9,158,331	399,163	561,100
Proceeds from issue of convertible notes		—	1,800,000	1,000,000
Proceeds from financial assistance from government		—	1,279,000	227,900
Loan from a shareholder		—	—	946,958
Proceeds from a short term loan		—	—	100,000
Repayment to a shareholder		—	—	(288,000)
NET CASH FROM FINANCING ACTIVITIES		9,142,549	3,455,648	2,461,208
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,267,810	(2,010,045)	(82,641)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD		13,950	2,281,760	271,715
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD		2,281,760	271,715	189,074
ANALYSIS OF THE CASH AND CASH EQUIVALENTS				
Bank balances and cash		2,336,058	322,364	189,074
Bank overdrafts		(54,298)	(50,649)	—
		2,281,760	271,715	189,074

Notes to the financial information

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The combined income statements, combined statements of changes in equity, and combined cash flow statements include the results and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation, where this is a shorter period. The combined balance sheets of the Group as at 31st December, 2000, 31st December, 2001 and 31st July, 2002 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence at those dates.

All significant intra-group transactions, cash flows and balances have been eliminated on combination.

As explained in (a) and (d) of Section VI, the Group was awarded a contract by the Hong Kong Special Administrative Region Government (the "Hong Kong SAR Government") amounting to approximately HK$4.2 million and obtained a new bank overdraft facility of HK$1,600,000 subsequent to 31st July, 2002. In addition, as further explained in note 19, a 3% convertible note with a face amount of HK$1.8 million will be converted to share capital of the Company on the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The directors have represented that on this basis they are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. Accordingly, the financial information has been prepared on a going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information set out in this report has been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing the financial information set out in this report and which conform with accounting principles generally accepted in Hong Kong are as follows:

Revenue recognition

Sales of licensed software are recognised when goods are delivered and the right to use the licence is established.

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

Software rental income and subscription income from software application are derived from providing software application to customers. The income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

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

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold improvements	20%
Furniture, fixtures and office equipment	20%
Computer equipment	33⅓%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the combined income statements.

Development expenditure

Expenditure on research activities is recognised as an expense in the year/period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life when the project is completed and put into commercial use.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the year/period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods/years. A reversal of an impairment loss is recognised as income immediately.

Taxation

The charge for taxation is based on the results for the year/period as adjusted for items that are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the combined income statements.

Operating leases

Rentals payable under operating lease are charged to the combined income statements on a straight line basis over the term of the relevant lease.

Retirement benefit scheme

The contributions payable in respect of the Group's Mandatory Provident Fund Scheme (the "MPF Scheme") are charged as an expense as they fall due.

3. TURNOVER

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

	Year ended 31st December, 2000	Year ended 31st December, 2001	Seven months ended 31st July, 2002
	HK$	*HK$*	*HK$*
Sales of licensed software	415,620	2,319,092	545,963
Software maintenance	—	112,100	103,242
Software rental and subscription income	—	16,500	40,500
	415,620	2,447,692	689,705

4. OTHER OPERATING INCOME

	Year ended 31st December, 2000	Year ended 31st December, 2001	Seven months ended 31st July, 2002
	HK$	*HK$*	*HK$*
Exchange gain	4,517	2,472	—
Interest income	158,369	36,206	42
Sundry income	37,085	5,613	—
	199,971	44,291	42

5. RESEARCH AND DEVELOPMENT EXPENSES

	Year ended 31st December, 2000	Year ended 31st December, 2001	Seven months ended 31st July, 2002
	HK$	*HK$*	*HK$*
Research and development costs expensed	2,685,000	2,067,413	100,440
Amortisation of development expenditure	122,714	103,270	180,339
Impairment on development expenditure	—	45,951	—
	2,807,714	2,216,634	280,779
Less: amount included in direct costs	(122,714)	(149,221)	(180,339)
	2,685,000	2,067,413	100,440

6. LOSS FROM OPERATIONS

	Year ended 31st December, 2000	Year ended 31st December, 2001	Seven months ended 31st July, 2002
	HK$	*HK$*	*HK$*
Loss from operations has been arrived at after charging:			
Directors' remuneration *(note 10)*	431,637	1,312,000	707,000
Other staff costs	1,339,495	3,013,125	1,540,435
Total staff costs	1,771,132	4,325,125	2,247,435
Less: amount capitalised in development expenditure	(287,872)	(1,347,950)	(691,184)
	1,483,260	2,977,175	1,556,251
Auditors' remuneration	25,000	55,000	—
Bad debts written off	—	92,880	—
Depreciation	56,056	365,881	142,398
Less: amount capitalised in development expenditure	—	(40,389)	(11,076)
	56,056	325,492	131,322
Loss on disposal of property, plant and equipment	—	113,047	154,223

7. TAXATION

No provision for Hong Kong Profits Tax has been made for the Relevant Periods as the companies comprising the Group incurred tax losses in Hong Kong during the Relevant Periods.

Details of the deferred taxation asset not recognised are set out in note 24.

8. DIVIDEND

No dividend has been paid or declared by the Company or by any of its subsidiaries since their respective dates of incorporation.

9. LOSS PER SHARE

The computation of the basis loss per share for the Relevant Periods is based on the portion of the 420,000,000 shares issued under the Reorganisation attributable to the share capital raised during the Relevant Periods.

Diluted loss per share is not presented as the conversion of the Company's outstanding convertible notes since their exercise would result in a decrease in loss per share.

10. DIRECTORS' AND EMPLOYEES' REMUNERATION

Directors

Details of emoluments paid by the Group to the directors during the Relevant Periods are as follows:

	Year ended 31st December,		Seven months ended 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Fees	—	—	—
Salaries and other allowances	430,637	1,300,000	700,000
Retirement benefits scheme contributions	1,000	12,000	7,000
	431,637	1,312,000	707,000

Analysed into:

	Year ended 31st December,		Seven months ended 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Director A	431,637	1,312,000	707,000
Director B	—	—	—
Director C	—	—	—
Director D	—	—	—
Director E	—	—	—
Director F	—	—	—
Director G	—	—	—
	431,637	1,312,000	707,000

The above emoluments included operating lease rentals of HK$160,000, HK$480,000 and HK$280,000 paid for a director's quarter for the year ended 31st December, 2000, the year ended 31st December, 2001 and the seven months ended 31st July, 2002, respectively.

The remuneration of each of the directors were within the following bands:

	Number of directors		
	Year ended 31st December,		Seven months ended 31st July,
	2000	**2001**	**2002**
Nil to HK$1,000,000	7	6	7
HK$1,000,001 to HK$1,500,000	—	1	—
	7	7	7

During the Relevant Periods, no emoluments were paid by the Group to these directors as an inducement to join or upon joining the Group or as compensation for loss of office. No director waived his emoluments during the Relevant Periods.

Employees

The five highest paid individuals of the Group for each of the Relevant Periods included one director, details of his remuneration are set out above. The emoluments of the remaining four individuals, which fall within the band of nil to HK$1,000,000, for each of the Relevant Periods, are as follows:

	Year ended 31st December,		Seven months ended 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Salaries and other allowances	892,655	1,438,000	627,950
Retirement benefit scheme contributions	3,450	45,750	25,950
	896,105	1,483,750	653,900

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture, fixtures and office equipment	Computer equipment	Total
	HK$	*HK$*	*HK$*	*HK$*
COST				
At 1st January, 2000	—	—	—	—
Additions	139,450	129,898	23,358	292,706
At 31st December, 2000 and 1st January, 2001	139,450	129,898	23,358	292,706
Additions	179,000	167,476	22,630	369,106
Transfer from development expenditure	—	—	497,842	497,842
Disposals	(136,750)	(59,765)	—	(196,515)
At 31st December, 2001 and 1st January, 2002	181,700	237,609	543,830	963,139
Additions	—	4,000	9,390	13,390
Disposals	(179,000)	(22,649)	—	(201,649)
At 31st July, 2002	2,700	218,960	553,220	774,880
DEPRECIATION				
At 1st January, 2000	—	—	—	—
Provided for the year	26,751	22,588	6,717	56,056
At 31st December, 2000 and 1st January, 2001	26,751	22,588	6,717	56,056
Provided for the year	60,606	55,757	249,518	365,881
Eliminated on disposals	(53,560)	(12,408)	—	(65,968)
At 31st December, 2001 and 1st January, 2002	33,797	65,937	256,235	355,969
Provided for the period	9,265	26,611	106,522	142,398
Eliminated on disposals	(41,667)	(5,759)	—	(47,426)
At 31st July, 2002	1,395	86,789	362,757	450,941
NET BOOK VALUE				
At 31st December, 2000	112,699	107,310	16,641	236,650
At 31st December, 2001	147,903	171,672	287,595	607,170
At 31st July, 2002	1,305	132,171	190,463	323,939

12. DEVELOPMENT EXPENDITURE

	HK$
COST	
At 1st January, 2000	—
Additions	1,257,666
At 31st December, 2000 and 1st January, 2001	1,257,666
Additions	1,429,322
Transfer to property, plant and equipment	(497,842)
At 31st December, 2001 and 1st January, 2002	2,189,146
Additions	706,299
At 31st July, 2002	2,895,445
AMORTISATION AND IMPAIRMENT	
At 1st January, 2000	—
Provided for the year	122,714
At 31st December, 2000 and 1st January, 2001	122,714
Provided for the year	103,270
Impairment during the year	45,951
At 31st December, 2001 and 1st January, 2002	271,935
Provided for the period	180,339
At 31st July, 2002	452,274
NET BOOK VALUE	
At 31st December, 2000	1,134,952
At 31st December, 2001	1,917,211
At 31st July, 2002	2,443,171

13. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 30 days to its trade customers. The following is an aged analysis of accounts receivable at the respective balance sheet dates:

	At 31st December,		At 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
0-30 days	—	3,600	14,760
30-60 days	—	—	5,943
60-90 days	154,800	—	229,988
Over 90 days	214,380	—	—
	369,180	3,600	250,691
Deposit, prepayments and other receivables	101,323	171,685	66,452
	470,503	175,285	317,143

14. AMOUNT DUE FROM A RELATED COMPANY

Name of related company	At 31st December,		At 31st July,
	2000	**2001**	**2002**
	HK$	*HK$*	*HK$*
Cyber Systems Limited ("Cyber Systems")	22,230	35,610	41,930

Cyber Systems was the ultimate holding company of KanHan (BVI) prior to the Reorganisation. The amount was settled subsequent to 31st July, 2002.

The amount was unsecured, non-interest bearing and repayable on demand.

15. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the respective balance sheet dates:

	At 31st December,		At 31st July,
	2000	2001	2002
	HK$	*HK$*	*HK$*
Trade payables — 60-90 days	—	—	39,750
Other payables and accrued charges	272,934	1,045,614	877,898
	272,934	1,045,614	917,648

16. AMOUNTS DUE TO RELATED PARTIES

Name of related party	At 31st December,		At 31st July,
	2000	2001	2002
	HK$	*HK$*	*HK$*
Metrolink Holdings Limited ("Metrolink")	—	69,250	44,250
Mr. Hung Kwok Wing ("Mr. Hung")	—	—	80,000
Mr. Mo Wai Ming, Lawrence ("Mr. Mo")	25,358	—	—
	25,358	69,250	124,250

As at 31st July, 2002, Metrolink and Mr. Hung each owned less than 10% interest in KanHan (BVI). Mr. Mo is a director of the Company and has an indirect controlling interest in the Company.

All the amounts are unsecured and repayable on demand. Except for the amount due to Mr. Hung which carried interest at 12% per annum, all the amounts are interest-free. The loan from Mr. Hung was settled subsequent to 31st July, 2002.

17. SHORT TERM LOAN

The amount was advanced by an independent third party. It was unsecured, interest bearing at 5% per annum and repayable on 31st January, 2003. The amount was settled subsequent to 31st July, 2002.

18. 8% CONVERTIBLE NOTE

On 22nd April, 2002, a 8% convertible note with a face amount of HK$1 million and a maturity date of 31st March, 2003 (the "8% Note") was issued by KanHan (BVI) to Timeless Strategy Limited ("Timeless Strategy"), a shareholder who has a less than 10% interest in KanHan (BVI). Pursuant to the terms of the 8% Note, Timeless Strategy had the right to convert the principal amount of the 8% Note together with accrued interest thereon into shares of KanHan (BVI) (the "Conversion Right") anytime prior to its maturity date. On 17th January, 2003, KanHan (BVI) and Timeless Strategy entered into a supplemental deed pursuant to which Timeless Strategy has agreed to abandon its Conversion Right and the 8% Note will be repayable on 31st March, 2003.

19. 3% CONVERTIBLE NOTE

On 3rd August, 2001, a 3% convertible note with a face amount of HK$1.8 million and a maturity date of 3rd August, 2003 (the "3% Note") was issued by KanHan (BVI) to Timeless Strategy. Pursuant to the terms of the 3% Note, the 3% Note was partly repayable in cash and partly convertible into shares of KanHan (BVI) based on a pre-determined formula should there be capital injections into KanHan (BVI). On 9th October, 2002, KanHan (BVI) and Timeless Strategy entered into a deed, pursuant to which Timeless Strategy agreed that on the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited it would convert the entire principal amount of the 3% Note together with accrued interest thereon into 6,432,000 new shares of HK$0.01 each in the Company.

20. FINANCIAL ASSISTANCE FROM GOVERNMENT

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

In the opinion of the directors, the funding will not be repaid to the ITF within the next twelve months from 31st July, 2002. Accordingly, the balance is classified as a non-current liability.

21. LOANS FROM A SHAREHOLDER

These are unsecured loans from Metrolink. The loans were interest bearing at 12% per annum and were repayable between April 2002 and August 2002 (the "Due Dates"). If the loans were not repaid on the relevant Due Dates, interest would be charged at 24% per annum on the amount outstanding as from the relevant Due Dates. On 1st August, 2002, a supplementary agreement was entered into between the Group and Metrolink such that the Due Dates were extended to 31st December, 2003 (the "Extended Due Date"). The interest rate was also changed to 8% per annum for the period from 1st August, 2002 to the Extended Due Date.

22. SHARE CAPITAL

For the purpose of this report, the balance of share capital represents the issued and fully paid share capital of KanHan (BVI) as at the respective balance sheet dates. The movements of this share capital for each of the Relevant Periods are as follows:

	Number of Shares	Amount	Shown in the financial statements
		US$	*HK$*
Ordinary shares of US$1 each at 1st January, 2000	1,800	1,800	13,950
Share subdivision *(note i)*	178,200	—	—
Ordinary share of US$0.01 each after subdivision	180,000	1,800	13,950
Issue of shares *(note ii)*	10,097,000	100,970	782,518
Ordinary shares of US$0.01 each at 31st December, 2000 and 1st January, 2001	10,277,000	102,770	796,468
Issue of shares *(note ii)*	303,500	3,035	23,521
Ordinary shares of US$0.01 each at 31st December, 2001 and 1st January, 2002	10,580,500	105,805	819,989
Issue of shares *(note ii)*	190,000	1,900	14,725
At 31st July, 2002	10,770,500	107,705	834,714

Notes:

(i) On 23rd February, 2000, each of the issued and unissued shares of US$1 each in the capital of KanHan (BVI) was sub-divided into 100 shares of US$0.01 each.

(ii) For the year ended 31st December, 2000, the year ended 31st December, 2001 and the seven months ended 31st July, 2002, KanHan (BVI) issued and allotted 10,097,000, 303,500 and 190,000 shares of US$0.01 each, respectively, at prices ranging from US$0.01 to US$1.33 per share to provide additional working capital to KanHan (BVI). These shares ranked pari passu with the then existing shares of KanHan (BVI) in all respects.

23. SHARE OPTION SCHEMES

Pursuant to the share option scheme (the "Old Scheme") adopted by KanHan (BVI) on 7th November, 2000, the directors of KanHan (BVI) may at its discretion, grant options to eligible employees (including directors) and consultants of KanHan (BVI) from 30th November, 2000 to 30th November, 2003 to subscribe for shares in KanHan (BVI). Options under the Old Scheme was to be granted at a consideration of HK$1 with an exercise price of US$1 per share. Options granted are exercisable within 3 years from the date of grant.

Details of the options granted under the Old Scheme during the Relevant Periods are as follow:

	Directors	Other employees and consultants	Total
	(Number of KanHan (BVI) Shares)		
At 1st January, 2000	—	—	—
Granted during the year	160,000	860,000	1,020,000
At 31st December, 2000 and 1st January, 2001	160,000	860,000	1,020,000
Granted during the year	—	220,000	220,000
At 31st December, 2001 and 31st July, 2002	160,000	1,080,000	1,240,000

On 24th January, 2003, a new share option scheme was adopted by the Company (the "New Scheme"), pursuant to which the directors of the Company may at their discretion, grant options to employees, executive directors and independent non-executive directors of the Company and its subsidiaries to subscribe for shares in the Company at a price of not less than the highest of (i) the closing price of the Company's share on the date of grant; (ii) the average closing price of the Company's share for the five trading days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. Options granted are exercisable within 10 years from the date of grant.

Upon adoption of the New Scheme, no further options will be granted under the Old Scheme. As at 13th February, 2003, 1,190,000 options in KanHan (BVI) shares granted under the Old Scheme, none of which was exercised, were cancelled.

24. DEFERRED TAXATION ASSET NOT RECOGNISED

At the respective balance sheet dates, the major components of the deferred taxation assets (liabilities) not recognised in the financial statements are as follows:

	At 31st December, 2000	At 31st December, 2001	At 31st July, 2002
	HK$	*HK$*	*HK$*
Tax effect of timing differences attributable to:			
Taxation losses available to set off future profits	638,194	2,112,052	2,516,035
Development expenditure claimed as tax deductible expense	(210,827)	(221,339)	(113,008)
Excess of tax allowance over depreciation	(13,181)	(59,587)	(40,300)
	414,186	1,831,126	2,362,727

The amount of potential deferred taxation credit (charge) for the Relevant Periods is as follows:

	Year ended 31st December, 2000	Year ended 31st December, 2001	Seven months ended 31st July, 2002
	HK$	*HK$*	*HK$*
Tax effect of timing difference attributable to:			
Taxation losses arising	638,194	1,473,858	403,983
Development expenditure claimed as tax deductible expense	(210,827)	(10,512)	108,331
Differences between tax allowance and depreciation	(13,181)	(46,406)	19,287
	414,186	1,416,940	531,601

25. RECONCILIATION OF LOSS BEFORE TAXATION TO NET CASH USED IN OPERATING ACTIVITIES

	Year ended 31st December, 2000 HK$	Year ended 31st December, 2001 HK$	Seven months ended 31st July, 2002 HK$
Loss before taxation	(5,324,478)	(5,433,839)	(2,166,726)
Adjustment for:			
Depreciation	56,056	325,492	131,322
Amortisation of development expenditure	122,714	103,270	180,339
Interest income	(158,369)	(36,206)	(42)
Interest expense	15,782	22,515	86,750
Loss on disposal of property, plant and equipment	—	113,047	154,223
Impairment of development expenditure	—	45,951	—
Operating loss before working capital changes	(5,288,295)	(4,859,770)	(1,614,134)
(Increase) decrease in trade and other receivables	(470,503)	295,218	(141,858)
Increase in amounts due from related companies	(22,230)	(13,380)	(6,320)
Increase (decrease) in trade and other payables	272,934	772,680	(127,966)
Increase in amounts due to related parties	25,358	43,892	55,000
Net cash used in operating activities	(5,482,736)	(3,761,360)	(1,835,278)

26. OPERATING LEASE COMMITMENTS

	Year ended 31st December, 2000 HK$	Year ended 31st December, 2001 HK$	Seven months ended 31st July, 2002 HK$
Minimum lease payments under operating lease during the year/period	378,536	758,252	404,054

As at the respective balance sheet dates, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises and a director's quarter which fall due as follows:

	At 31st December, 2000 HK$	At 31st December, 2001 HK$	At 31st July, 2002 HK$
Within one year	951,394	405,750	124,745
In the second to fifth year inclusive	364,800	—	320,640
	1,316,194	405,750	445,385

Leases and rentals are generally fixed throughout the lease period.

27. RETIREMENT BENEFITS SCHEME

The employees of the Company and its subsidiaries operating in Hong Kong have joined a MPF scheme established under the Hong Kong Mandatory Provident Fund Ordinance in December 2000. The assets of the MPF scheme are held separately from those of the Group, in funds under the control of a trustee.

The cost of the Group's retirement benefits scheme was HK$8,285, HK$120,698 and HK$69,647 for the year ended 31st December, 2000, the year ended 31st December, 2001 and the seven months ended 31st July, 2002, respectively.

28. RELATED PARTY TRANSACTIONS

In addition to those disclosed in notes 14, 16, 18, 19 and 21, the Group entered into the following significant transactions with related parties during each of the Relevant Periods:

		Year ended 31st December,		Seven months ended 31st July,
Name of company	**Nature of transactions**	**2000**	**2001**	**2002**
		HK$	*HK$*	*HK$*
Comeasy Communication Limited ("Comeasy")	Rental expenses paid	160,000	480,000	280,000
Metrolink	Interest expenses paid on advances	—	—	34,515
Mr. Hung	Interest expenses paid on advances	—	—	735
Timeless Strategy and its affiliate	Interest expenses paid on convertible notes	—	22,500	51,500
Timeless Strategy and its affiliate	Sales of licensed software	—	—	235,913
Timeless Strategy and its affiliate	Research and development expenses paid	2,625,000	1,400,000	—

Mr. Mo has a beneficial interest in Comeasy.

The directors of the Company have confirmed that the above-mentioned transactions were conducted in the Group's ordinary course of business and on normal commercial terms and that these transactions will continue following the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

II. SEGMENT INFORMATION

Business segments

As the Group is solely engaged in the development of server-based language technologies during the Relevant Periods, the assets and revenue of the Group as at the respective balance sheet dates and during the Relevant Periods were solely deployed in and derived from this business segment. Accordingly, segmental information analysis by business segment is not necessary.

Geographical segments

The Group's operations are located in Hong Kong. The Group reports its primary segment information by geographical location of its customers who are principally located in Hong Kong, United States of America ("USA"), Taiwan and the People's Republic of China (the "PRC"). Segment information about these geographical markets is presented below:

	Revenue, excluding interest income			Net loss for the year/period		
	Year ended 31st December,		Seven months ended 31st July,	Year ended 31st December,		Seven months ended 31st July,
	2000	2001	2002	2000	2001	2002
	HK$	*HK$*	*HK$*	*HK$*	*HK$*	*HK$*
Hong Kong	415,620	1,983,220	651,582	292,906	1,730,138	280,670
USA	—	250,776	—	—	230,519	—
Taiwan	—	131,266	—	—	120,663	—
The PRC	—	82,430	34,523	—	75,771	14,871
Others	—	—	3,600	—	—	1,551
	415,620	2,447,692	689,705			
Segment results				292,906	2,157,091	297,092
Other revenue				199,971	44,291	42
Unallocated corporate expenses				(5,801,573)	(7,612,706)	(2,377,110)
Loss from operations				(5,308,696)	(5,411,324)	(2,079,976)
Interest on borrowings wholly repayable within five years				(15,782)	(22,515)	(86,750)
Net loss for the year/period				(5,324,478)	(5,433,839)	(2,166,726)

The assets and liabilities of the Group at the respective balance sheet dates were physically located in Hong Kong and substantially employed at the head office level in Hong Kong. Accordingly, no analysis of the Group's assets and liabilities, capital additions and depreciation is presented.

III. NET LIABILITIES OF THE COMPANY

The Company was incorporated on 10th October, 2002 and became the holding company of the Group on 13th November, 2002 pursuant to the Reorganisation. Had the Reorganisation been completed on 31st July, 2002, the net liabilities of the Company at that date would have been HK$2,792,499.

IV. ULTIMATE HOLDING COMPANY

As at 31st July, 2002, the ultimate holding company of KanHan (BVI) was Cyber Systems, a company incorporated in the British Virgin Islands with limited liability.

V. DIRECTORS' REMUNERATIONS

Under the arrangement currently in force, the aggregate remuneration payable to the directors of the Company for the year ended 31st December, 2002 is approximately HK$1.3 million.

VI. SUBSEQUENT EVENTS

The following events took place subsequent to 31st July, 2002:

(a) In September 2002, the Group was awarded a contract of approximately HK$4.2 million from the Hong Kong SAR Government to provide it with licensed software and related services.

(b) On 25th September, 2002, the issued share capital of KanHan (BVI) was increased to US$116,225 by allotting 852,000 shares at US$0.01 each. These share rank pari passu with the then existing shares in issues in an expense.

(c) On 9th October, 2002, KanHan (BVI) and Timeless Strategy entered into a deed, pursuant to which Timeless Strategy agreed that on the listing of the Company's shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited it would convert the entire principal amount of the 3% Note together with accrued interest thereon into 6,432,000 new shares of HK$0.01 each in the Company.

(d) In October 2002, the Group obtained a new bank overdraft facility of HK$1,600,000, secured by a personal guarantee of Mr. Mo and a property held by a company controlled by Mr. Mo. On 22nd January, 2003, the Group settled all the outstanding indebtedness under this bank overdraft facility and it has been cancelled before listing.

(e) The companies now comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, details of which are set out in the paragraph headed "Group Reorganisation" in Appendix V to the Prospectus.

(f) On 15th November, 2002, KanHan (BVI) and Timeless Strategy entered into a deed, pursuant to which Timeless Strategy had the right to convert the unsettled portion of the 8% Note together with the accrued interest at a conversion price equal to 85% of the initial public offering price of the Company. On 17th January, 2003, a second supplemental deed was entered between the parties whereby Timeless Strategy has agreed to abandon its Conversion Right and the 8% Note will be repayable on 31st March, 2003.

(g) On 24th January, 2003, written resolutions were passed to give effect to the transactions which are set out in the paragraph headed "Special general meeting of the Company held on 24th January, 2003" in Appendix V to the Prospectus.

VII. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31st July, 2002.

Yours faithfully,
DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong

The estimate of the profit after taxation but before extraordinary items for the year ended 31st December, 2002 is set out in the section headed "Financial information — Profit estimate" in this prospectus.

1. **Bases**

The estimate of the profit after taxation but before extraordinary items of the Group for the year ended 31st December, 2002 prepared by the Directors is based on the audited financial statements of the Group for the seven-month period ended 31st July, 2002, unaudited management accounts of the Group for the four-month period ended 30th November, 2002 and an estimate of the results of the Group for the remaining one-month period ended 31st December, 2002. The estimate has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set out in Appendix I to the prospectus.

2. **Comfort letters**

Set out below are texts of letters received by the Directors from the Group's auditors and reporting accountants, Deloitte Touche Tohmatsu, and from South China Capital Limited, the sponsor, in connection with the profit estimate of the Group for the year ended 31st December, 2002, for the purpose of incorporation in this prospectus.

(I) *Letter from Deloitte Touche Tohmatsu*

德勤•關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

Deloitte Touche Tohmatsu

13th February, 2003

The Directors
KanHan Technologies Group Limited
South China Capital Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the estimate of the combined profit after taxation of KanHan Technologies Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31st December, 2002, for which the directors of the Company are solely responsible, as set out in the prospectus dated 13th February, 2003 issued by the Company (the "Estimate"). The Estimate is prepared based on the audited results of the Group for the seven months ended 31st July, 2002, the results shown in the unaudited management accounts of the Group for the four months ended 30th November, 2002, and an estimate of the results for the remaining one month of the financial year ended 31st December, 2002.

In our opinion, the Estimate, so far as the accounting policies and calculations are concerned has been properly compiled on the basis described in Appendix II, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants' report dated 13th February, 2003.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants

(II) *Letter from South China Capital Limited*

South China Capital Limited 南華融資有限公司

28/F., Bank of China Tower, No. 1 Garden Road, Central, Hong Kong.
Tel: 2820 6333 Telex: 69208 SCSL Fax: 2523 9269

13th February, 2003

The Directors
KanHan Technologies Group Limited

Dear Sirs,

We refer to the estimate of the profit after taxation but before extraordinary items of KanHan Technologies Group Limited (the "Company") for the year ended 31st December, 2002 (the "Estimate") as set out in the prospectus of the Company dated 13th February, 2003.

We have discussed with you the bases upon which the Estimate has been made. We have also considered the letter dated 13th February, 2003 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Estimate has been made.

On the basis of the foregoing, the bases made by you and the accounting policies and calculations reviewed by Deloitte Touche Tohmatsu, we have formed the opinion that the Estimate, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
South China Capital Limited
Howard Gorges
Director

The following is a text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this prospectus received from BMI Appraisals Limited, an independent valuer, in connection with its valuations as at 31st December, 2002 of the property interests of the Group.

BMI APPRAISALS LIMITED
邦盟滙駿評估有限公司

Suite 1405-06 Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong
Tel: (852) 2802 2191 Fax: (852) 2802 0331
Email: info@bmi-appraisals.com Website: http://www.bmi-appraisals.com

13th February, 2003

The Directors
KanHan Technologies Group Limited
Unit 006 on Ground Floor
Tech Centre
72 Tat Chee Avenue
Kowloon Tong
Kowloon
Hong Kong

Dear Sirs,

We refer to your instructions for us to value the property interests of KanHan Technologies Group Limited (the "Company") and its subsidiaries (together referred to as the "Group") located in Hong Kong. We confirm that we have carried out inspections, made relevant enquiries and obtained such further information, as we consider necessary for the purpose of providing you with our opinion of the open market values of the property interests as at 31st December, 2002.

Basis of Valuation

Our valuations of the property interests are our opinion of the open market value which we would define as intended to mean "the best price at which the sale of an interest in a property might reasonably be expected to have been completed unconditionally for cash consideration on the date of valuation, assuming:

(a) a willing seller;

(b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of the price and terms and for the completion of the sale;

(c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;

(d) that no account is taken of any additional bid by a prospective purchaser with a special interest; and

(e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion.”

Valuation Methodology

In valuing the property interests, which are licensed / rented and occupied by the Group, we are of the opinion that they have no commercial value due to the prohibitions against subletting and/or assignment contained in the tenancy agreements or otherwise due to the lack of marketable and substantial profit rents.

Title Investigation

We have not searched the title of the properties and have not scrutinized the original title documents to verify ownership or to ascertain the existence of any amendments, which do not appear on the copies handed to us. However, we have been given a copy of the tenancy agreements of the properties rented by the Group. All documents have been used for reference only.

Valuation Assumptions and Considerations

Our valuations has also been made on the assumption that the property interests are sold in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to affect the values of the property interests.

We have inspected the properties externally and where possible, the interior of the properties. In the course of our inspections, we did not note any serious defects. However, no structural survey has been conducted nor has any tests been carried out on any of the services provided in the properties. We are, therefore, unable to report whether the properties are free from rot, infestation or any other structural defects.

In the course of our valuations, we have relied to a considerable extent on the information given by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenures, particulars of occupancy, floor areas and other relevant information.

Dimensions, measurements and areas included in the valuation certificates are based on information contained in the tenancy agreements and other documents provided to us and are therefore only approximations.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group and we have relied on your confirmation that no material facts have been omitted from the information so supplied.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties or for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature, which could affect their values.

Our valuations have been prepared in accordance with the Hong Kong Guidance Notes on the Valuation of Property Assets (2nd Edition) published by the Hong Kong Institute of Surveyors.

Our valuations have been prepared under the generally accepted valuation procedures and in compliance with the Rules governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Remarks

Unless otherwise stated, all money amounts stated are in Hong Kong Dollars.

Our Summary of Values and the Valuation Certificates are attached herewith.

Yours faithfully,
For and on behalf of
BMI APPRAISALS LIMITED
Tony C.H. Cheng
BSc. MUD MRICS AHKIS MCIArb AFA MIIM
Director

Note: Tony C.H. Cheng is a Chartered Surveyor who has over 10 years' experience in valuations of properties in Hong Kong, the People's Republic of China and the Asia-Pacific region.

SUMMARY OF VALUES

No.	Property	Open Market Value in existing state as at 31st December, 2002 *HK$*
	Property interests licensed / rented and occupied by the Group in Hong Kong	
1.	Unit 006 on Ground Floor, Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong	No Commercial Value
2.	Unit 7A, Belmont Court, No. 10 Kotewall Road, Mid-levels West, Hong Kong	No Commercial Value
	Total:	**Nil**

VALUATION CERTIFICATE

Property interest licensed and occupied by the Group in Hong Kong

No.	**Property**	**Description and tenure**	**Particulars of occupancy**	**Open Market Value in existing state as at 31st December, 2002** *HK$*
1.	Unit 006 on Ground Floor, Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong	The property comprises an office unit located on the ground floor of a 7-storey office building plus 2 levels of basement car parks. The building was completed in about 1994. The gross floor area of the property is approximately 1,670 sq.ft.. The property has been licensed by the Group from a Hong Kong Science and Technology Parks Corporation under an incubation licence dated 20th March, 2002 for a licence period of 3 years from 15th March, 2002 to 14th March, 2005 at licence fees of HK$ 6,960 for the 1st year, HK$13,360 for the 2nd year and HK$13,360 for the 3rd year respectively. The licence fees are inclusive of management fee.	The property is currently occupied by the Group for office uses.	No Commercial Value

Note: The licensee of the property is KanHan Technologies Limited, which is an indirect wholly-owned subsidiary of the Group.

VALUATION CERTIFICATE

Property interest rented and occupied by the Group in Hong Kong

No.	Property	Description and tenure	Particulars of occupancy	Open Market Value in existing state as at 31st December, 2002 *HK$*
2.	Unit 7A, Belmont Court, No. 10 Kotewall Road, Mid-levels West, Hong Kong	The property comprises one residential unit located on 7th floor of a 12-storey residential building completed in about 1967. The gross floor area of the property is approximately 2,200 sq.ft.. The property has been rented by the Group from Comeasy Communications Limited under a tenancy agreement dated 1st September, 2002 for a term of 2 years from 1st September, 2002 at a monthly rent of HK$40,000 inclusive of rates, utilities, maintenance, management charges and other relevant outgoings. Under the said tenancy agreement, the property is permitted to be occupied for residential uses.	The property is currently occupied by the Group as director's quarter.	No Commercial Value

Note: The tenant of the property is KanHan Technologies Limited, which is an indirect wholly-owned subsidiary of the Group.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 10th October, 2002 under the Companies Law (2002 Revision) of the Cayman Islands (the "Companies Law"). The Company's constitutional documents consist of its Memorandum of Association (the "Memorandum") and the Articles of Association (the "Articles").

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, *inter alia*, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (which includes acting as an investment company), and that the Company shall have and be capable of exercising any and all of the powers at any time or from time to time exercisable by a natural person or body corporate, irrespective of any question of corporate benefit, as set forth in Section 27(2) of the Companies Law whether as principal, agent, contractor or otherwise whatever may be and since the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.

(b) By special resolution the Company may alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 24th January, 2003. The following is a summary of certain provisions of the Articles:

(a) Directors

(i) *Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law, the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Board may determine). Subject to the Companies Law, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and the Memorandum and Articles, any share may, with the sanction of a special resolution, be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed.

The Board of Director of the Company (the "Board") may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law, the Articles and, where applicable, the rules of any stock exchange of the Relevant Territory (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the Board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such considerations and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others whose registered addresses are in any particular territory or territories where, in the absence of a registration statement or other special formalities, this is or may, in the opinion of the Board, be illegal or impracticable. However, no member affected as a result of the foregoing shall be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

While there are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries, the Board may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting, but if such power or act should be and is regulated by the Company in general meeting, such regulation shall not invalidate any prior act of the Board which would have been valid if such regulation had not been made.

(iii) *Compensation or payments for loss of office*

In accordance with the Articles, payments to any present Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and provision of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Disclosure of interest in contracts with the Company or with any of its subsidiaries*

With the exception of the office of auditor of the Company, a Director may hold any other office or place of profit with the Company in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the Board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Unless otherwise provided by the Articles, the Board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement of proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the Board at which the question of entering into the contact or arrangement is first taken into consideration, if he knows his interest then exists, or in any other circumstance, at the first meeting of the Board after he knows that he is or has become so interested.

A Director shall not be entitled to vote (nor shall he be counted in the quorum in relation thereto) on any resolution of the Board in respect of any contract or arrangement or other proposal in which he is to his knowledge materially interested but this prohibition shall not apply to any of the following proposed contracts or arrangements, namely:

(aa) the giving of any security or indemnity to the Director in respect of money lent or obligations incurred or undertaken by him at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director has himself assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director is or is to be interested as a participant in the underwriting or sub-underwriting of the offer;

(dd) any proposal concerning any other company in which he is interested only, whether directly or indirectly, as an officer or executive or a member or in which the Director together with any of his associates (as defined by the rules, where applicable, of any stock exchange of the Relevant Territory (as defined in the Articles)) is beneficially interested in five percent or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest is derived);

(ee) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to Directors and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director as such any privilege or advantage not accorded to the employees to which such scheme or fund relates; or

(ff) any proposal in which the Director is interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

(vi) *Remuneration*

The Directors shall be entitled to receive, as ordinary remuneration for their services, such sums as shall from time to time be determined by the Board, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as the Board may agree or failing agreement, equally, except that in such event any Director holding office for only a portion of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all traveling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any Board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid such special or extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the Board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The Board may establish, either on its own or jointly in concurrence or agreement with other companies (being subsidiaries of the Company or with which the Company is associated in business), or may make contributions out of the Company's monies to, such schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or former Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and former employees of the Company and their dependents or any class or classes of such persons.

In addition, the Board may also pay, enter into agreements to pay or make grants of revocable or irrevocable, whether or not subject to any terms or conditions, pensions or other benefits to employees and former employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or former employees or their dependents are or may become entitled under any such scheme or fund as mentioned above. Such pension or benefit may, if deemed desirable by the Board, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) *Retirement, appointment and removal*

At any time or from time to time, the Directors shall have the power to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board subject to any maximum number of Directors, if any, as may be fixed by the Articles. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

At each annual general meeting, one third of the Directors (other than the managing Director or joint managing Directors or chairman) for the time being will retire from office by rotation. However, if the number of Directors is not a multiple of three, then the number nearest to but not greater than one third shall be the number of retiring Directors. The Directors who shall retire in each year will be those who have been longest in the office since their last re-election or appointment but as between persons who become or were last re-elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification nor is there any specified upper or lower age limit for Directors either for accession to the Board or retirement therefrom.

A Director may be removed by a special resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two.

In addition to the foregoing, the office of a Director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office or head office of the Company for the time being or tendered at a meeting of the Board whereupon the Board resolved to accept such resignation;

(bb) if he dies or becomes of unsound mind as determined pursuant to an order made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Board resolved that his office be vacated;

(cc) if, without special leave, he is absent from meetings of the Board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the Board resolved that his office is vacated;

(dd) if he becomes bankrupt of has a receiving order made against him or suspends payment or compounds with his creditors generally;

(ee) if he is prohibited from being a director by law;

(ff) if he ceased to be a director by virtue of any provision of law or is removed from office pursuant to the Articles;

(gg) if he has been validly required by the stock exchange of the Relevant Territory (as defined in the Articles) to cease to be a director and the relevant time period for application for review of or appeal against such requirement has lapsed and no application for review or appeal has been filed or is underway against such requirement; and

(hh) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office.

From time to time the Board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the Board may determine and the Board may revoke or terminate any of such appointments. The Board may also delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the Board thinks fit, and from time to time it may also revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, comply with any regulations that may from time to time be imposed upon it by the Board.

(viii) *Borrowing powers*

Pursuant to the Articles, the Board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

(ix) *Register of Directors and Officers*

Pursuant to the Companies Law and the Articles, the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within 30 days of any change in such directors or officers.

(x) *Proceedings of the Board*

Subject to the Articles, the Board may meet anywhere in the world for the dispatch of business and may adjourn and otherwise regulate their meetings as they think fit. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(b) **Alterations to the Constitutional Documents**

The Memorandum and Articles of the Company may only be rescinded, altered or amended, and the name of the Company may only be changed by the Company in general meeting by special resolution.

(c) **Variation of rights of existing shares of classes of shares**

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be a person or persons to together holding (or representing by proxy) not less than one-third in nominal value of the issued shares of that class. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(d) **Alteration of capital**

The Company may, by an ordinary resolution of its members, if so authorised by the Articles, alter the conditions of its Memorandum of Association to: (a) increase its share capital by new shares of such amount as it thinks expedient provided that an exempted company having no shares of a fixed amount may increase its share capital by such number of shares without nominal or par value, or may increase the aggregate consideration for which such shares may be issued, as it thinks expedient; (b) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares; (c) convert all or any of its paid-up shares into stock, and reconvert that stock into paid-up shares of any denomination; (d) subdivide its shares or any of them, into shares of an amount smaller than that fixed by the Memorandum so, however, that in the subdivision the proportion between the amount paid and the amount, if any, unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; and (e) cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled or, in the case of shares without nominal or par value diminish the number of shares into which its capital is divided.

Reduction of share capital — subject to the Companies Law and to confirmation by the court, a company limited by shares may, if so authorised by its Articles of Association, by special resolution, reduce its share capital in any way, cancel any shares which have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled.

Share certificates — unless its articles of association otherwise provide, a Cayman company may determine whether or not to issue share certificate to its members. The Companies Law prohibits the issue of bearer shares to any person other than an authorised recognised custodian defined in the Companies Law. The requirement on all service providers to implement appropriate due diligence procedures on the identity of a client in order to "know your client" as result of proceeds of crime legislation mandates that special procedures should be followed when issuing bearer shares.

(e) **Special resolution — majority required**

In accordance with the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than 21 days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given. However, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than 21 clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within 15 days of being passed.

An "ordinary resolution", by contrast, is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) **Voting rights (generally and on a poll) and right to demand a poll**

Subject to any special rights, restrictions or privileges as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share registered in his name in the register of members of the Company at the date of such meeting but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need use all of his votes or cast all the votes he does use in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(aa) the chairman of the meeting; or

(bb) at least two members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(cc) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(dd) a member or members present in person or in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Should a recognized clearing house (as defined in the Articles) or its nominee(s), be a member of the Company, such a person or persons may be authorised as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised in accordance with this provision shall be entitled to exercise the same powers on behalf of the recognised clearing house (as defined in the Articles) or its nominee(s), as if such person were the registered holder of the shares of the Company held by that clearing house or its nominee(s), including the rights to vote individually on a show of hands.

(g) **Annual general meetings**

The Company must hold an annual general meeting each year, other than in the year of incorporation. Such meeting must be held within not more than 15 months after the holding of the last preceding annual general meeting, or such longer period as may be authorised by the Stock Exchange at such time and place as may be determined by the Board.

(h) **Accounts and audit**

The Board shall cause true accounting records to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters as required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounts and books of the Company shall be kept at the registered office or at such other place or places as the Board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any account or book or document of the Company except as may be permitted by the Companies Law or other law or authorised by the Board or the Company in general meeting.

Beginning with the first annual general meeting and at every subsequent annual general meeting of the Company, the Board shall cause to be laid before the Company balance sheets and profit and loss accounts (including every document required by law to be annexed thereto), together with a printed copy of the Board's report and a copy of the auditors' report not less than 21 days before the date of the meeting. Copies of these documents shall be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles, not less than 21 days' before the date of the meeting.

Pursuant to the provisions of the articles, the Company shall appoint auditor(s) and the terms and tenure of such appointment and their duties at all times regulated. The auditors' remuneration shall be fixed by the Company in general meeting or in such other manner as may determined by the members.

The auditors shall audit the financial statements of the Company in accordance with generally accepted auditing principles ("GAAP"). The auditor shall make a written report thereon in accordance with GAAP standards and such report shall be submitted to the members in general meeting. The GAAP standards referred to herein may be those of Hong Kong, the International Accounting Standards or of such other country or jurisdiction as may be permitted by the stock exchange of the Relevant Territory (as defined in the Articles). In such event, the financial statements and the report of the auditor shall disclose this fact and name such country or jurisdiction.

(i) **Notices of meetings and business to be conducted thereat**

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution must (except in the circumstances set out above in sub-paragraph (f)) be called by at least 21 days' notice in writing, and any other extraordinary general meeting shall be called by at least 14 days' notice. The notice must specify the time, place and agenda of the meeting, and particulars of the resolution(s) to be considered at that meeting, and, in the case of special business, the general nature of that business. Furthermore, notice of every general meeting shall be given to all members of the Company other than those who, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company.

Although a meeting of the Company may be is called by shorter notice than as specified above, such meeting may be deemed to have been duly called if it is so agreed:

(aa) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(bb) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 percent in nominal value of the issue shares giving that right.

All business transacted at an extraordinary general meeting shall be deemed special business and all business shall also be deemed special business where it is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(i) the declaration and sanctioning of dividends;

(ii) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(iii) the election of directors in place of those retiring;

(iv) the appointment of auditors and other officers;

(v) the fixing of the remuneration of the directors and of the auditors;

(vi) the granting of any mandate or authority of the directors to offer, allot grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20% in nominal value of its existing issued share capital (or such other percentage as may from time to time be set out in the rules of the stock exchange of the Relevant Territory (as defined in the Articles) and the number of any securities repurchased by the Company since the granting of such mandate; and

(vii) the granting of any mandate or authority to the Board to repurchase securities in the Company.

(j) **Transfer of shares**

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in such other form (or such other from prescribed by the stock exchange of the Relevant Territory (as defined in the Articles) as the Board may approve and which may be under hand or, if the transferor or transferee is a recognised clearing house (as defined in the Articles) or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the Board may approve from time to time.

Execution of the instrument of transfer shall be by or on behalf of the transferor and the transferee provided that the Board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members of the Company in respect thereof. In addition, the Board may resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

Insofar as permitted by any applicable law the Board may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on any branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The Board may, in its absolute discretion, and without assigning any reason, decline to register a transfer of any share (not being a fully paid up share) to a person of whom it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The Board may decline to recognize any instrument of transfer unless a fee of such maximum sum as the Stock Exchange may determine to be payable or such lesser sum as the Board may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanies by the relevant share certificate(s) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other persons on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any stock exchange of the Relevant Territory (as defined in the Articles), at such times and for such periods as the Board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year as further described in sub-paragraph 2(q) of this Appendix.

(k) **Power of the Company to purchase its own shares**

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirement imposed from time to time by any stock exchange of the Relevant Territory (as defined in the Articles).

(l) **Power of any subsidiary of the Company to own shares in the Company**

There are no provisions in the Articles relating to the ownership of shares in the Company by a subsidiary.

(m) **Dividends and other methods of distribution**

Subject to the Companies Law and the Articles, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board.

The Articles provide that dividends may be declared and paid out of the profits of the Company, realized or unrealized, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide:

(aa) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid, however, no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share; and

(bb) all dividends shall be apportioned and paid rateably in accordance with the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Where the Board or the Company in general meeting has resolved that a dividend should be paid or declared on the share capital of the Company, the Board may resolve:

(i) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or

(ii) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the Board may think fit.

Upon the recommendation of the Board the Company may by ordinary resolution in respect of any one particular dividend of the Company determine that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, bonus or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, but in the case of joint holders, shall be addressed to the holder whose name stands first in the register of members of the Company in respect of the shares at his address as appearing in the register, or addressed to such person and at such addresses as the holder or joint holder may in writing so direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one or two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the Board or the Company in general meeting has resolved that a dividend be paid or declared the Board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(n) **Proxies**

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy.

(o) **Calls on shares and forfeiture of shares**

The Board may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Board shall fix from the day appointed for the payment thereof to the time of actual payment, but the Board may waive payment of such interest wholly or in part. The Board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Board may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Board may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve not less than 14 days' notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made, such place being either the registered office of the Company, or some other place at which calls of the Company are usually made payable. The notice shall also state that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Board shall in its discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(p) **Inspection of the corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. However, the members of the Company will have such rights as may be set forth in the Articles. The Articles provide that for so long as any part of the share capital of the Company is listed on a stock exchange in Hong Kong, any member may inspect any register of members of the Company maintained in Hong Kong without charge and require the provision to him of copies or extracts thereof in all respects as if the Company were incorporated under and is subject to the Companies Ordinance (Cap. 32 of the Laws of Hong Kong).

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or outside the Cayman Islands, as its directors may, from time to time, think fit. The Companies Law does not require that the Company make any returns of members to the Registrar of Companies in the Cayman Islands. Accordingly, the names and addresses of the members are not a matter of public record in the Cayman Islands.

(q) **Quorum for meetings and separate class meetings**

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman which shall not be treated as part of the business of the meeting.

Except as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorized representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

See sub-paragraph (c) above for the quorum needed for a separate general meeting of the members of a separate class of shares of the Company.

(r) **Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles concerning the rights of minority members in relation to fraud or oppression. However, certain remedies may be available to members of the Company under Cayman law, as summarized in paragraph 3(f) of this Appendix.

(s) **Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

(aa) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, then the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and

(bb) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed to that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which out to have been paid up, at the commencement of the winding up on the shares held by them respectively.

In the event that the Company is wound up (whether the liquidation is voluntary or authorised by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of member as the liquidator shall think fit, but so that no member shall be compelled to accept any shares or other property in respect of which there is a liability.

(t) **Untraceable members**

In accordance with the Articles, the Company is entitled to sell any of the shares of a member who is untraceable or shares to which a person is entitled by virtue of transmission on death, bankruptcy or operation of law if:

(i) all cheques or warrants. being not less than three in total number, for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years;

(ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and

(iii) the Company has caused an advertisement to be published in accordance with the rules of the stock exchange of the Relevant Territory (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the stock exchange of the Relevant Territory (as defined in the Articles), has elapsed since such advertisement and the stock exchange of the Relevant Territory (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(u) **Subscription rights reserve**

Pursuant to the Articles provided that it is not prohibited by and is otherwise in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company was incorporated in the Cayman Islands as an exempted company on 10th October, 2002 subject to the Companies Law of the Cayman Islands. Certain provisions of Cayman company law are set out below but does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of the Cayman Companies Law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Company Operations

As an exempted company, the Company must conduct its operations mainly outside the Cayman Islands. Moreover, the Company is required to file an annual return each year with the Register of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorized share capital.

(b) Share Capital

In accordance with the Companies Law, a Cayman company may issue ordinary, preference or redeemable shares or any combination thereof. The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums or shares of that company allotted pursuant to any arrangements in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation, the following:

(i) paying distributions or dividends to members;

(ii) paying up unissued shares of the company to be issued to members of fully paid bonus shares;

(iii) in the redemption and repurchase of shares (in accordance with the detailed provisions of section 37 of the Companies Law);

(iv) writing-off the preliminary expenses of the company;

(v) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(vi) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

Notwithstanding the foregoing, the Companies Law provides that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

It is further provided by the Companies Law that, subject to confirmation by the court, a company limited by shares or a company limited by guarantee and having a share capital may, if authorized to do so by its articles of association, by special resolution reduce its share capital in any way.

The Articles include certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) **Financial assistance to purchase shares of a company or its holding company**

There are no statutory prohibitions in the Cayman Islands on the granting of financial assistance by a company to another person for the purchase of, or subscription for, its own, its holding company's or a subsidiary's shares. Therefore, a company may provide financial assistance provided the directors of the company when proposing to grant such financial assistance discharge their duties of care and acting in good faith, for a proper purpose and in the interests of the company. Such assistance should be on an arm's-length basis.

(d) **Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorized by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a member. In addition, such a company may, if authorized to do so by its articles of association, purchase its own shares, including any redeemable shares. Nonetheless, if the articles of association do not authorize the manner of purchase, a company cannot purchase any of its own shares without the manner of purchase first being authorized by an ordinary resolution of the company. A company may not redeem or purchase its shares unless they are fully paid. Furthermore, a company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. In addition, a payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A Cayman Islands company may be able to purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. Thus there is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases. The directors of a company may under the general power contained in its memorandum of association be able to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) **Dividends and distributions**

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's Memorandum and Articles, the payment of dividends and distributions out of the share premium account (see sub-paragraph 2 (n) of this Appendix for further details).

(f) **Protection of minorities and shareholders' suits**

It can be expected that the Cayman Islands courts will ordinarily follow English caselaw precedents (particularly the rule in the case of *Foss v. Harbottle* and the exceptions thereto) which permit a minority member to commence a representative action against or derivative actions in the name of the company to challenge:

(i) an act which is *ultra vires* the company or illegal;

(ii) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company; and

(iii) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

Where a company (not being a bank) is one which has a share capital divided into shares, the court may, on the application of members thereof holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine the affairs of the company and, at the direction of the court, to report thereon.

Moreover, any member of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

In general, claims against a company by its members must be based on the general laws of contract or tort applicable in the Cayman Islands or be based on potential violation of their individual rights as members as established by a company's memorandum and articles of association.

(g) **Disposal of assets**

There are no specific restrictions in the Companies Law on the power of directors to dispose of assets of a company, although it specifically requires that every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interest of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) **Accounting and auditing requirements**

Section 59 of the Companies Law provides that a company shall cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect to which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company.

Section 59 of the Companies Law further states that proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) **Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) **Taxation**

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the company has obtained an undertaking from the Governor-in-Council:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the company or its operations: and

(2) in addition, that no tax be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the company:

   (i) on or in respect of the shares, debentures or other obligations of the company; or

   (ii) by way of withholding in whole or in part of any relevant payment as defined in section 6(3) of the Tax Concessions Law (1999 Revision).

The undertaking for the company is for a period of twenty years from 12th November, 2002.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not a party to any double tax treaties.

(k) **Stamp duty on transfers**

There is no stamp duty payable in the Cayman Islands on transfers of shares of Cayman Islands companies save for those which hold interests in land in the Cayman Islands.

(l) **Loans to directors**

The Companies Law contains no express provision prohibiting the making of loans by a company to any of its directors.

(m) **Inspection of corporate records**

The members of the company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's Articles.

(n) **Register of members**

A Cayman Islands exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. The Companies Law contains no requirement for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(o) **Winding up**

A Cayman Islands company may be wound up either by (i) an order of the court or (ii) voluntarily by a special resolution of its members. The court also has authority to order winding up in a number of specified circumstances including where, in the opinion of the court, it is just and equitable that such company be so wound up.

A voluntary winding up of a company occurs where the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or where the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no further executive action may be carried out without his approval.

A company is placed in liquidation either by an order of the court or by a special resolution of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and discharge the company's liability to them, ratably if insufficient assets exist to discharge the liabilities in full, and settle the list of contributories ("members") and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

When the affairs of a company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This general meeting shall be called by Public Notice or such other means as the Registrar of Companies may direct.

For the purpose of the conducting the proceedings in winding up a company and assisting the court, there may be appointed one or more persons to be called an Official Liquidator or Official Liquidators; and the court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons that one are appointed to such office, the court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the court.

(p) **Reconstructions**

Reconstructions and amalgamations are governed by specific statutory provisions under the Companies Law whereby such arrangements may be approved by a majority in number representing 75% in value of members or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the courts. Whilst a dissenting member would have the right to express to the court his view that the transaction for which approval is being sought would not provide the members with a fair value for their shares, nonetheless the courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting member would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of their shares) ordinarily available, for example, to dissenting members of a United States corporation.

(q) **Take-overs**

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90% of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting members to transfer their shares on the terms of the offer. A dissenting member may apply to the court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting member to show that the court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority members.

(r) **Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, save to the extent any such provision may be held by the court to be contrary to public policy, for example, where a provision purports to provide indemnification against the consequences of committing a crime.

4. GENERAL

Appleby Spurling & Kempe, the Company's legal advisors on Cayman Islands law, have sent to the company a letter of advice which summarises certain aspects of the Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VI. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

FURTHER INFORMATION ABOUT THE COMPANY AND ITS SUBSIDIARIES

1. INCORPORATION OF THE COMPANY

(A) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 10th October, 2002. The Company has established a place of business in Hong Kong, which is its address for service, at Unit 006, G/F., Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong and was registered on 15th November, 2002 with the Registrar of Companies in Hong Kong as an oversea company in Hong Kong under Part XI of the Companies Ordinance of Hong Kong with Mr. Mo appointed as the agent of the Company for the acceptance of service of process in Hong Kong at Unit 006, G/F., Tech Centre, 72 Tat Chee Avenue, Kowloon Tong, Kowloon, Hong Kong on behalf of the Company. As the Company is incorporated in the Cayman Islands, its operations are subject to Cayman Islands laws, a summary of certain relevant parts of its constitution and certain relevant aspects of the Companies Laws is set out in Appendix IV to this prospectus.

(B) At the date of incorporation of the Company, its authorized share capital was HK$390,000 divided into 39,000,000 Shares of HK$0.01 each.

2. CHANGES IN SHARE CAPITAL OF THE COMPANY

(A) On 15th January, 2003, written resolutions of the sole shareholder of the Company were passed pursuant to which the authorized share capital of the Company was increased from HK$390,000 divided into 39,000,000 Shares to HK$20,000,000 divided into 2,000,000,000 Shares by the creation of an additional 1,961,000,000 Shares to rank pari passu with the existing Shares in all respects.

(B) On 15th January, 2003, an aggregate of 11,622,500 Shares (including the Shares already issued to Mr. Mo nil paid at par as referred to in Paragraph 4 below) were allotted and issued, credited as fully paid to the then shareholders of KanHan (BVI) (details set out in Paragraph 4).

(C) Subject to the listing approval of the Company having been granted in principle, Timeless Strategy will convert the whole (but not part) of the principal amount of HK$1.8 million under the 3% Note and the accrued interest thereon into Shares of the Company at the conversion price (being 85% of the Issue Price) prior to the Listing Date. The principal terms of the 3% Note are set out in note 19 to the Accountants' report in Appendix I to this prospectus.

(D) Immediately following completion of the Placing, the Capitalization Issue and the issue of Conversion Shares but without taking into account any Shares which may be issued pursuant to the exercise of the Over-allotment Option, or the options which may be granted under the Share Option Scheme, the authorized share capital of the Company will be HK$20,000,000 divided into 2,000,000,000 Shares of which 486,432,000 Shares will be issued fully paid or credited as fully paid, and 1,513,568,000 Shares will remain unissued.

In the event that the Over-allotment Option is exercised in full, the authorized share capital of the Company will be HK$20,000,000 divided into 2,000,000,000 Shares of which 498,432,000 Shares will be issued fully paid or credited as fully paid, and 1,501,568,000 Shares will remain unissued. Other than pursuant to the conversion of the Convertible Notes, the exercise of the Over-allotment Option, or the options which may be granted under the Share Option Scheme, there is no present intention to issue any of the authorized but unissued share capital of the Company and, without the prior approval of the members at general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

(E) Save as disclosed herein and in Paragraphs 1, 3 and 4 of this Appendix, there has been no alteration in the share capital of the Company since its incorporation.

3. SPECIAL GENERAL MEETING OF THE COMPANY HELD ON 24TH JANUARY, 2003

At a special general meeting of the Company held on 24th January, 2003, resolutions of the shareholders of the Company were passed, pursuant to which, inter alia:

(A) the Company adopted its existing articles of association;

(B) conditional on the share premium account being credited as a result of the issue of the new Shares pursuant to the Placing, the Directors were authorized to capitalize HK$4,083,775 standing to the credit of the share premium account of the Company by applying such sum in paying up in full at par 408,377,500 Shares for allotment and issue to holder(s) of Shares (other than the Conversion Shares) whose name(s) appear(s) on the register of members of the Company at the close of business on 23rd January, 2003 (or as they may direct) in proportion (as nearly as possible without involving fractions) to their then shareholdings in the Company (the "Capitalization Issue");

(C) conditional on the GEM Listing Committee granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein (including any Shares which may fall to be issued pursuant to the conversion of the Convertible Notes, the exercise of the options granted under the Share Option Scheme and the Over-allotment Option) and on the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not being terminated in accordance with the terms of the Underwriting Agreement or otherwise, in each case on or before the day falling 30 days after the date of this prospectus, the Placing and the Over-allotment Option were approved and the Directors were authorized to allot and issue the Placing Shares;

(D) conditional on the GEM Listing Committee granting approval of the Share Option Scheme and any options which may be granted thereunder and the listing of and permission to deal in any Shares which may fall to be issued pursuant to the exercise of any such option, the rules of the Share Option Scheme, the principal terms of which are set out in paragraph 14 of this Appendix V, were approved and adopted and the Directors were authorized to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme and to take all such steps as they consider necessary or desirable to implement the Share Option Scheme;

(E) conditional on the GEM Listing Committee granting listing of the Shares, the Directors were authorised to allot and issue the Conversion Shares to Timeless Strategy;

(F) a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than by way of rights issue, scrip dividend schemes or similar arrangements in accordance with the articles of association of the Company, or pursuant to the grant of options under the Share Option Scheme or which may be granted under the Share Option Scheme or under the Placing or the Capitalisation Issue or upon the exercise of the Over-allotment Option, Shares with an aggregate nominal amount of not exceeding the sum of (a) 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Placing and the Capitalisation Issue and the exercise (if any) of the Over-allotment Option and (b) the nominal amount of the share capital of the Company which may be purchased by the Company pursuant to the authority granted to the Directors as referred to in paragraph (G) below, until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable laws to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

(G) a general unconditional mandate ("Repurchase Mandate") was given to the Directors to exercise all powers of the Company to purchase Shares with an aggregate nominal amount of not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue and to be issued immediately following the Placing and the Capitalization Issue and the exercise (if any) of the Over-allotment Option until the conclusion of the next annual general meeting of the Company, or the date by which the next annual general meeting of the Company is required by the articles of association of the Company or any applicable law to be held, or the passing of an ordinary resolution by shareholders of the Company revoking or varying the authority given to the Directors, whichever occurs first;

(H) the reorganization agreement, relating to the corporate reorganization as described in Paragraph 4 was approved;

(I) the form and substance of each of the service agreements made between the executive Directors and the Company was approved; and

(J) the form and substance of each of the letters of appointment between the independent non-executive Director and the Company was approved.

4. GROUP REORGANIZATION

On 10th October, 2002, one subscriber share of HK$0.01 of the Company was taken up nil paid by Mr. David S. Walker and Mr. David S. Walker transferred such subscriber share to Mr. Mo on 13th October, 2002. On 13th November, 2002, the Company allotted and issued 99,999 Shares nil paid at par to Mr. Mo. The companies comprising the Group underwent a reorganization to rationalise the Group's structure in preparation for the listing of the Shares on GEM as a result of which, the Company became the holding company of the Group. The corporate reorganization involved the following:

The reorganization involved the transfer to the Company by Cyber Systems Limited ("Cyber Systems"), Timeless Strategy, ZMGI, Metrolink, certain Directors, certain senior management of the Group and other pre-IPO shareholders (consisting mainly of employees other than Directors and senior management of the Group, consultants and other individual and corporate shareholders) an aggregate of 11,622,500 shares in KanHan (BVI), being its entire issued share capital , in consideration of and in exchange for which the Company (i) allotted and issued 11,522,500 shares credited as fully paid; as to 8,900,000 Shares to the shareholders of Cyber Systems as directed by Cyber Systems (5,975,000 Shares to Mr. Mo, 1,350,000 Shares to ZMGI, 1,350,000 Shares to Golden Nugget, 225,000 Shares to Sino Asia), 15,000 Shares to ZMGI, 750,000 Shares to Timeless Strategy, 122,500 Shares to Metrolink, 165,000 Shares to certain Directors, 367,000 Shares to certain senior management and 1,203,000 Shares to other pre-IPO shareholders and (ii) a sum of HK$1,000, being part of the amount credited to the share premium account of the Company to be applied to pay up in full at par the 100,000 nil paid Shares issued to Mr. Mo.

5. CHANGES IN SHARE CAPITAL OF SUBSIDIARIES

The subsidiaries of the Company are listed in the accountants' report set out in Appendix I to this prospectus. KanHan (HK) is a wholly owned subsidiary of KanHan (BVI) since its incorporation.

Save as disclosed herein, in Paragraph 4 of this Appendix V and in the paragraph headed "Development of the Group" in the section headed "Development of the Group and Active Business Pursuit" in this prospectus, there has been no alteration in the share capital of any of the subsidiaries of the Company within the two years immediately preceding the date of this prospectus.

6. REPURCHASE BY THE COMPANY OF ITS OWN SECURITIES

This paragraph includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(A) GEM Listing Rules

The GEM Listing Rules permit companies with a primary listing on GEM to repurchase their securities on GEM subject to certain restrictions, the most important of which are summarized below:

(I) *Shareholders' Approval*

All proposed repurchases of securities (which must be fully paid up in the case of shares) by a company listed on GEM must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

Note: A general purchase mandate was given to the Directors on 24th January, 2003 as referred to in paragraph 3(G).

(II) *Source of Funds*

Repurchase must be funded out of funds legally available for the purpose in accordance with the Company's memorandum and articles of association and the applicable laws of the Cayman Islands. A listed company may not repurchase its own securities on the GEM for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time. Under Cayman Islands laws, any repurchase by the Company may be made out of profits of the Company or out of the proceeds of a fresh issue of shares made for the purposes of the repurchase or, if authorized by its articles of association and subject to the Companies Law, out of capital and, in case of any premium payable on the repurchase, out of profits of the Company or from sums standing to the credit of the share premium account of the Company or, if authorized by its articles of association and subject to the Companies Law, out of capital.

(III) *Connected Parties*

A company is prohibited from knowingly repurchasing securities on the Stock Exchange from a "connected person", that is, a director, chief executive or substantial shareholder or management shareholder of the Company or any of its subsidiaries or any of their respective associates (as defined in the GEM Listing Rules) and a connected person shall not knowingly sell his securities to the company, on GEM.

(B) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its shareholders for the Directors to have general authority from the shareholders to enable the Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made if the Directors believe that such repurchases will benefit the Company and its shareholders.

(C) **Funding of repurchases**

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with its memorandum and articles of association, the GEM Listing Rules and the applicable laws of the Cayman Islands.

On the basis of the current financial position of the Group as disclosed in this prospectus and taking into account the current working capital position of the Group, the Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Group as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Group or the gearing levels which in the opinion of the Directors are from time to time appropriate for the Group.

The exercise in full of the Repurchase Mandate, on the basis of 486,432,000 Shares in issue immediately after the listing of the Shares on GEM (assuming the Over-allotment Option is not exercised), would result in up to 48,643,200 Shares repurchased by the Company during the period in which the Repurchase Mandate remains in force.

In the event the Over-allotment Option is exercised in full, 498,432,000 Shares will be in issue immediately after the listing of the Shares on GEM. The exercise in full of the Repurchase Mandate on such basis would result in up to 49,843,200 Shares being repurchased by the Company during the period in which the Repurchase Mandate remains in force.

(D) **General**

None of the Directors or, to the best of their knowledge having made all reasonable enquiries, any of their associates currently intends to sell any Shares to the Company or its subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules and the applicable laws of the Cayman Islands.

If, as a result of a repurchase of Shares, a shareholder's proportionate interest in voting rights of the Company is increased, such increase will be treated as an acquisition for the purpose of the Hong Kong Code on Takeovers and Mergers ("Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

No connected person (as defined in the GEM Listing Rules) of the Company has notified the Company that he has a present intention to sell Shares to the Company, or has undertaken not to do so if the Repurchase Mandate is exercised.

7. REGISTRATION UNDER PART XI OF THE COMPANIES ORDINANCE

The Company has established its head office and a principal place of business in Hong Kong for the purpose of registration under Part XI of the Companies Ordinance at Unit 006, G/F., Tech Centre, 72 Tat Chee Avenue, Kowloon, Hong Kong. The Company submitted an application to the Registrar of Companies in Hong Kong to be registered as an oversea company under Part XI of the Companies Ordinance. The application contained a notice of appointment of Mr. Mo, being Director, as the agent of the Company for the acceptance of service of process in Hong Kong. On 15th November, 2002, the Company was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance and Mr. Mo was appointed as agents of the Company for the acceptance of service of process in Hong Kong.

FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

8. SUMMARY OF MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this prospectus and are or may be material:

(A) an agreement dated 15th January, 2003 made among (i) the shareholders of KanHan (BVI) as vendor (ii) the Company as purchaser and (iii) Mr. Mo as warrantor in relation to the acquisition by the Company of the entire issued share capital of KanHan (BVI) in consideration of (a) the allotment and issue, credited as fully paid, of 11,522,500 Shares to the shareholders of KanHan (BVI) in proportion to their then shareholdings in KanHan (BVI) and (b) the crediting as fully paid at par of the 100,000 nil paid Shares held by Mr. Mo;

(B) the 3% Note (as defined on pages 23 and 24);

(C) Confirmatory Deed dated 9th October, 2002 relating to the 3% Note between KanHan (BVI) as borrower and Timeless Strategy as lender whereby Timeless Strategy agreed to convert the principal amount of HK$1.8 million and the accrued interests thereon at the conversion price (a price amounting to 85% of the Issue Price) into the Shares of the Company within 30 days after the GEM Listing Committee having informed the Company that it has in principle agreed to grant the listing of and permission to deal in the Shares;

(D) the 8% Note (as defined on pages 23 and 24);

(E) Supplemental Deed dated 15th November, 2002 relating to the 8% Note between KanHan (BVI) as borrower and Timeless Strategy as Lender whereby Timeless Strategy has the right to convert the unsettled portion of the 8% Note together with the accrued interest at a conversion price equal to 85% of the Issue Price of the Shares on the maturity date of 31st March, 2003. As varied by the 2nd Supplemental Deed dated 17th January, 2003 between the parties, Timeless Strategy agreed to abandon all its conversion rights in the 8% Note unconditionally and irrevocably upon the Shares are permitted to deal in the GEM;

(F) a deed of indemnity dated 13th February, 2003 executed by Mr. Mo, Golden Nugget and ZMGI in favour of the Company for itself and as trustee for its subsidiaries stated therein containing certain indemnities in favour of the Group containing, amongst other things, indemnities in respect of estate duty and, taxation and other liabilities more particularly referred to in Paragraph 15 of this Appendix V;

(G) the Underwriting Agreement;

(H) an assignment dated 9th October, 2002, entered into between KanHan (BVI) as assignor and Mr. Mo as assignee whereby KanHan (BVI) has assigned the Invention and Patent Application (as defined in the assignment) to Mr. Mo absolutely and free of encumbrances;

(I) an assignment dated 9th October, 2002, entered into between Mr. Mo as assignor and KanHan (HK) as assignee whereby Mr. Mo has assigned the Invention, Patent and Patent Applications (as defined in the assignment) to KanHan (HK) absolutely and free of encumbrances;

(J) a deed of termination dated 9th October, 2002, entered into between KanHan (BVI) and Timeless Software Limited, the holding company of Timeless Strategy whereby the two sales agreements one dated 28th February, 2000 and the other dated 1st July, 2000 in which KanHan (BVI) had retained Timeless Software Limited to develop and support its portal was terminated free of any claims and liabilities against each other. As a result, KanHan (BVI) shall not be obliged to pay the outstanding service charges in the sum of HK$1.3 million to Timeless Software Limited under the two sales agreements whereas all payments made by KanHan (BVI) to Timeless Software Limited pursuant to the two sales agreements are not refundable by Timeless Strategy;

(K) a business consultancy agreement dated 7th January, 2002 entered into between KanHan (BVI) and Firstmax Investment Limited ("Firstmax"), an independent third party to the Group, whereby Firstmax was engaged to provide, inter alia, business and corporate development service to the Group, including assisting the Group to formulate its business strategies and corporate structure, providing accounting services to the Group, to identify, introduce and assist in the coordination of professionals, to identify and introduce public relations advisers to the Group and to advise the Group on its re-organization of corporate structure and accounting policies. In consideration for the services rendered by Firstmax, the Group agrees to pay a sum of HK$1,600,000 upon successful initial public offer of the Company; and

(L) a non-competition deed dated 24th January, 2003 entered into between the Company and Mr. Mo whereby Mr. Mo undertakes that he will not directly or indirectly carry on any business in Hong Kong, PRC, Taiwan and/or Macau which may be in competition with the business of the Group save for the circumstances mentioned in the deed;

(M) a sponsor's agreement dated 13th February, 2003 entered into between the Company and the Sponsor pursuant to which the Company appointed the Sponsor as the continuing sponsor to the Company for the purpose of the GEM Listing Rules;

(N) loan agreements dated 29th January, 2002, 26th March, 2002 and 9th July, 2002 entered into between KanHan (HK) and Metrolink whereby KanHan (HK) as borrower and Metrolink as lender for the unsecured loans of HK$220,000, HK$310,000 and HK$160,000 respectively, with interest bearing at a rate of 12% per annum; and

(O) supplemental deed dated 1st August, 2002 entered into between KanHan (HK) and Metrolink pursuant to which the due date for repayment of the outstanding loan amount was extended to 31st December, 2003 and the interest rate for the outstanding loan amount was reduced to 8% per annum with effect from 1st August, 2002.

9. INTELLECTUAL PROPERTY RIGHTS OF THE GROUP

(A) Registered Patents

As at the Latest Practicable Date, the Group had registered the following patents:

Title of Inventions	Place of registration	Date of registration	Registration number	Date of expiry
Internet-based Font Server (known as HanWeb Font Technology)	Hong Kong	17th May, 2000	HK1024380	17th May, 2008

As at the Latest Practicable Date, the Group has applied for registration of the following patents:

Title of Inventions	Place of application	Application number	Date of filing
Internet-based Font Server	US	09/537,042	28th March, 2000
Internet-based Font Server	PRC	00126309.9	28th August, 2000
Internet-based Font Server	Japan	2000-381275	15th December, 2000
Internet-based Font Server	Korea	10-2001-0014821	22nd March, 2001

(B) **Domain Name**

The Group has obtained non-exclusive licence to use the following domain name:

Domain Name	**Date of Registration**
www.kanhan.com.hk	1st September, 2000
www.kanhan.com.cn	28th September, 2000
www.kanhan.com.tw	27th November, 2000
www.kanhan.com	31st August, 1999

The contents on the websites do not form part of this prospectus.

10. DIRECTORS

Disclosure of interests of directors

Immediately following the completion of the Placing and the Capitalisation Issue (without taking into account of any Shares which may be subscribed by Directors under the Placing as may be permitted by the GEM Listing Rules and the Shares to be issued pursuant to the exercise of the Over-allotment Option), the interests of the Directors in the equity or debt securities of the Company and its associated corporations (within the meaning of the SDI Ordinance) which will have to be notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which such Directors are taken or deemed to have under section 31 of, Part I of the Schedule to, the SDI Ordinance) once the Shares are listed, or which will be required, pursuant to section 29 of the SDI Ordinance, to be entered in the register referred to therein or pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules relating to securities transactions by Directors which will be required to be notified to the Company and the Stock Exchange, once the Shares are listed, will be as follows:

Name of Directors	**Name of Company**	**Types of Interest**	**Number of Shares** *('000)*	**Number of Options**	**Shareholding Percentage** %
Mr. Mo	The Company	Personal	180,008	NIL	37.01%
Mr. Lee Chi Ming	The Company	Personal	1,432	NIL	0.29%
Ms. Wai Lai Yung	The Company	Personal/ Corporate	86,584 *(Note)*	NIL	17.80%
Mr. Yuen Ka Lok Ernest	The Company	Personal	1,432	NIL	0.29%

Note: These Shares are attributable to Ms. Wai Lai Yung in respect of her deemed 50% interest in Metrolink which holds 42.5% interest in ZMGI, her 100% interest in Golden Nugget and Shares held by her directly.

Save as disclosed in this prospectus, none of the Directors or their associates (as defined in the GEM Listing Rules) were engaged in any dealings with the Group during the two years preceding the date of this prospectus.

Particulars of service contracts

Each of Mr. Mo, Mr. Sun Kam Fai, Zacky, Mr. Lee Chi Ming and Ms. Wai Lai Yung being all the executive Directors, has entered into a service contract with the Company for an initial term of one year commencing from 1st January, 2003, and will continue thereafter until terminated by not less than one month's notice in writing served by either party on the other. Each of these executive Directors is entitled to the respective remuneration set out below. Approximately HK$1,300,000 as emoluments was paid to Mr. Mo only in respect of the financial year ended 31st December, 2002. Further information in relation to Directors' remuneration is set out in Appendix I to this prospectus. In addition, the executive Directors may/may not have a discretionary management bonus, the amount of which is to be determined by the Board of Directors, provided that the aggregate amount of the bonuses payable to all the executive Directors for any financial year of the Company may not exceed 15% of the consolidated profits attributable to shareholders of the Company (after payment of such management bonuses) in respect of that financial year of the Company. An executive Director may not vote on any resolution of the Directors regarding the amount of the management bonus payable to him.

The independent non-executive Directors have been appointed for a fixed term of one year. Save for the annual directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding their office as an independent non-executive Director.

Save as aforesaid, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation).

Directors' remuneration

(A) The Company's policies concerning remuneration of executive Directors are as follows:

   (I) the amount of remuneration payable to the executive Directors will be determined on a case by case basis depending on the experience, responsibility, workload and the time devoted to the Group by the relevant Director;

   (II) non-cash benefits may be provided to the Directors under their remuneration package; and

   (III) the executive Directors may be granted, at the discretion of the board of Directors, share options of the Company, as part of the remuneration package.

(B) During the year ended 31st December, 2002, the aggregate emoluments (other than shares of KanHan (BVI) issued to the Directors prior to the Reorganisation) paid by the Group to the Directors was approximately HK$1,300,000. Details of the Directors remuneration for the seven months ended 31st July, 2002 are set out in note 10 of the accountants' report set out in Appendix I to this prospectus.

(C) Under the arrangements currently in force, the aggregate emoluments payable by the Group to the Directors for the year ending 31st December, 2003 are estimated to be HK$1,500,000.

(D) The annual remuneration payable to each of the executive Directors under the service contracts (other than shares of KanHan (BVI) issued prior to the Reorganisation) for the year ending 31st December, 2003 are as follows:

Executive Director	**Remuneration for the year ending 31st December, 2003**
	HK$
Mr. Mo	1,300,000
Mr. Sun Kam Fai, Zacky	50,000
Mr. Lee Chi Ming	Nil
Ms. Wai Lai Yung	50,000
	1,400,000

(E) None of the Directors or any past directors of any member of the Group has been paid any sum of money for each of the two years ended 31st December, 2002 (i) as an inducement to join or upon joining the Company or (ii) for loss of office as a director of any member of the Group or of any other office in connection with the management of the affairs of any member of the Group.

(F) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two years ended 31st December, 2002.

(G) Save for directors' fees, none of the non-executive Directors is expected to received any other remuneration for holding their office as a non-executive Director.

11. SUBSTANTIAL SHAREHOLDER

So far as the Directors are aware, immediately following the completion of the Placing and the Capitalization Issue and without taking into account of Shares which may be taken up under the Placing or upon the exercise of the Over-allotment Option, the following persons will be directly or indirectly interested in 10% or more of the Shares then in issue.

Name	**Number or attributable number of Shares held immediately after the Placing, the Capitalization Issue and the issue of Conversion Shares**	**Approximate percentage shareholding or attributable percentage shareholding in the Company held immediately after the Placing, the Capitalization Issue and the issue of Conversion Shares**
	('000)	
Mr. Mo	180,008	37.01%
Ms. Wai Lai Yung	86,584 *(Note)*	17.80%

Note: These Shares are attributable to Ms. Wai Lai Yung in respect of her 50% interest in Metrolink, Metrolink's 42.5% interest in ZMGI, her 100% interest in Golden Nugget and the Shares held directly by her.

12. RELATED PARTY TRANSACTIONS

During the two years preceding the date of this prospectus, the Group had engaged in dealings with certain Directors and their associates as described in:

(a) note 28 to the accountants' report set out in Appendix I to this prospectus; and

(b) paragraph 4 of this Appendix.

13. DISCLAIMERS

Save as disclosed in this prospectus:

(I) and taking no account of any Shares which may be taken up or acquired under the Placing or upon the exercise of the Over-allotment Option or the options granted or which may be granted under the Share Option Scheme, the Directors are not aware of any person who immediately following the Placing and the Capitalization Issue will hold either directly or indirectly, or be beneficially interested in, Shares representing 10% or more of the share capital of the Company in issue and to be issued as mentioned in this prospectus;

(II) none of the Directors has for the purpose of section 28 of the SDI Ordinance or the GEM Listing Rules, nor is any of them taken to or deemed to have under section 31 of, or part 1 of the Schedule to, the SDI Ordinance, any interests in the securities of the Company or any associated corporations (within the meaning of the SDI Ordinance) or any interest which will have to be entered in the register to be kept by the Company pursuant to section 29 of the SDI Ordinance or which will be required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules once the Shares are listed on GEM;

(III) none of the Directors of the experts named in paragraph 21 of this Appendix has any direct or indirect interest in the promotion of, or has any direct or indirect interest in any assets acquired or disposed of by or leased to, any member of the Group within the two years immediately preceding the date of this prospectus, or which are proposed to the acquired or disposed of by or leased to any member of the Group nor will any Director apply for Shares either in his own names or in the name of a nominee;

(IV) none of the Directors or the experts named in paragraph 21 of this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole; and

(V) none of the experts named in paragraph 21 of this Appendix has any shareholding in any company in the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any company in the Group or is an officer or servant, or a partner of or in the employment of an officer or servant of the Group.

OTHER INFORMATION

14. SHARE OPTION SCHEME

Share Option Scheme

Share Option Scheme adopted by KanHan (BVI) on 7th November, 2000 (the "Old Scheme")

Pursuant to the Old Scheme, the directors and eligible employees and consultants of KanHan (BVI) may, at the discretion of KanHan (BVI)'s directors, subscribe for shares in KanHan subsidiaries in accordance with the terms of the Old Scheme from 30th November, 2000 to 30th November, 2003. Options under the Old Scheme were to be granted at a consideration of HK$1.00 with an exercise price of US$1.00 per share and an exercise period of 3 years from the date of the grant of the options.

Mr. Lee Yui Kwun (a computer software engineer and an ex-consultant of the Group) who had participated in the design phase of the HanWeb Publishing Server in the 4th quarter of 1999 and whose address is at Room 612, Sui Fu House, Siu Sai Wan Estate, Siu Sai Wan, Hong Kong, was granted the option on 30th November, 2000 to subscribe 50,000 shares of KanHan (BVI) (but Mr. Lee is not entitled to subscribe otherwise for the Shares) at a price of US$1.00 per share exercisable for a period of 3 years commencing on 30th November, 2000 for his contribution on the development of the HanWeb Publishing Server, which is still outstanding as at the Latest Practicable Date. Except for this option, all other options granted under the Old Scheme have been effectively terminated.

In the event that Mr. Lee Yui Kwun exercises the option in full under the Old Scheme, 50,000 shares in KanHan (BVI) credited as fully paid will be issued and allotted to Mr. Lee which represents 0.43% of the enlarged issued share capital of KanHan (BVI). As such, the aggregate of 11,622,500 shares in KanHan (BVI) held by the Company after the Reorganisation will represent 99.57% of the enlarged issued share capital of KanHan (BVI).

Share Option Scheme adopted by the Company on 24th January, 2003 (the "Share Option Scheme")

(A) **Summary of terms**

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by a resolution passed at a special general meeting of the Company held on 24th January, 2003:

(I) *Purposes of the scheme*

The purpose of the Share Option Scheme is to provide the eligible persons (as defined in sub-paragraph II) for the scheme a performance incentive for continuous and improved service with the Group and to enhance such persons' contribution to increase profits by encouraging capital accumulation and share ownership so as to proliferate the interest of the Company and its shareholders.

(II) *Who may join*

The Directors may, at its absolute discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

(a) any full time employee of the Company or any of its subsidiaries or associated companies (excluding any employee of the Group who is contracted to work for less than forty hours a week, excluding meal breaks); and

(b) any executive directors and non-executive directors of the Group.

Upon acceptance of the option, the grantee must pay HK$1 to the Company by way of consideration for the grant thereof.

(III) *Maximum number of Shares*

(a) The maximum number of Shares to be issued upon the exercise of any options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

(b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Share Option Scheme and any other share option scheme of the Group) to be granted under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 48,643,200 Shares, being 10% of the Shares in issue upon completion of the Placing, the Capitalization Issue and the issue of Conversion Shares ("Scheme Mandate Limit").

(c) Subject to (a) above but without prejudice to (d) below, the Company may issue a circular to its shareholders and seek approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the Share Option Scheme and any other share option scheme of the Group) previously granted under the Share Option Scheme and any other share option scheme of the Group will not be counted.

(d) Subject to (a) above and without prejudice to (c) above, the Company may issue a circular to its shareholders and seek separate shareholders' approval in general meeting to grant options beyond the Scheme Mandate Limit or, if applicable, the extended limit referred to in (c) above to participants specifically identified by the Company before such approval is sought.

(IV) *Maximum entitlement of each participant*

Subject to sub-paragraph (v), the total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option scheme of the Group (including both exercised or outstanding options) to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being ("Individual Limit"). Any grant of options in excess of the Individual Limit shall be subject to the approval of the shareholders of the Company at general meetings with the proposed grantee and his or her associates (as defined in the GEM Listing Rules) abstaining from voting.

(V) *Grant of options to connected persons*

(a) Any grant of options under the Share Option Scheme to a connected person (as defined in the GEM Listing Rules) must be approved by all the independent non-executive directors of the Company (excluding independent non-executive director who or whose associate is the proposed grantee of an option).

(b) Where options are proposed to be granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the issued Shares for the time being; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5 million;

such further grant of options must be approved by shareholders of the Company. The Company must send a circular to the shareholders. All connected persons of the Company must abstain from voting at such general meeting, except that any connected person may vote against the relevant resolution at the general meeting provided that his intention to do so has been stated in the circular. Any vote taken at the meeting to approve the grant of such options must be taken on a poll. Any change in the terms of options granted to a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates must be approved by the shareholders of the Company in general meeting.

(VI) *Time of acceptance and exercise of option*

An option may be accepted by a participant within 28 days from the date of the offer of grant of the option. The Share Option Scheme shall be effective only after the expiration of 12 months after the date on which the Shares commence trading on GEM.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period shall commence on a day following the expiration of 12 months after the date on which the Shares commence trading on GEM and the date upon which the offer for the grant of options is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof. Unless otherwise determined by the Directors and stated in the offer of the grant of options to a grantee, there is no minimum period required under the Share Option Scheme for the holding of an option before it can be exercised.

(VII) *Performance targets*

Unless the Directors otherwise determined and stated in the offer of the grant of options to a grantee, a grantee is not required to achieve any performance targets before any options granted under the Share Option Scheme can be exercise.

(VIII) *Subscription price for Shares*

The subscription price for Shares under the Share Option Scheme will be a price determined by the board of Directors, but shall be not less than the highest of (i) the closing price of Shares on GEM as stated in the Stock Exchange's daily quotations on the date of the offer of grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the Shares.

(IX) *Ranking of Shares*

(a) Shares allotted upon the exercise of any option will be subject to all the provisions of the articles of association of the Company and will rank pari passu in all respects with the fully paid Shares in issue on the date when the name of grantee is registered on the register of the members of the Company and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after that date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the date when the name of grantee is registered in the registered on the register of members. A Share allotted upon the exercise of an option shall not carry voting rights until the completion of the registration of the grantee as the holder thereof.

(b) Unless the context otherwise requires, references to "Shares" in the Share Option Scheme include references to shares in the ordinary equity share capital of the Company of such nominal amount as shall result from a subdivision, consolidation, re-classification or reduction of the share capital of the Company from time to time.

(X) *Restrictions on the time of grant of options*

No offer for grant of options shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced in accordance with the requirements of the GEM Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Directors for the approval of the Company's annual, half-year or quarter-year results, and (ii) the last date on which the Company must publish its annual, half-year or quarter-year results under the GEM Listing Rules, and ending on the date of the announcement of the results, no option may be granted.

(XI) *Period of the Share Option Scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on the date on which the Share Option Scheme becomes unconditional.

(XII) *Rights on ceasing employment*

If the grantee of an option is an employee and ceases to be an employee for any reason other than death, serious misconduct or other grounds referred to in sub-paragraph XX below before exercising his option in full, the option (to the extent not already exercised) will lapse on the date of cessation and will not be exercisable unless the Directors otherwise determine in which event the grantee may exercise the option (to the extent not already exercised) in whole or in part within such period as the Directors may determine following the date of such cessation, which will be taken to be the last day on which the grantee was at work with the Group whether salary is paid in lieu of notice or not.

(XIII) *Rights on death*

If the grantee of dies before exercising the option in full and his or her employment is not terminated by reason of serious misconduct, the personal representative is entitled to exercise the option (to the extent not already exercised) within 12 months from the date of death.

(XIV) *Rights on a general offer, a compromise or arrangement*

If a general offer by way of takeover is made to all holders of Shares with the terms of offer having been approved by holders of not less than nine-tenths in value of the Shares comprised in the offer within four months and such offer becomes or is declared unconditional prior to the expiry date of the relevant option, the grantee shall be entitled to exercise the option in full (to the extent not already exercised at any time thereafter and up to the close of such offer. If the general offer by way of scheme of arrangement is made to all holders of Shares having been approved by the necessary number of holders of Shares at the requisite meetings, the grantee may thereafter exercise the option (to the extent not already exercised) to its full extent or to the extent specified in such notice up to the record date for entitlements under such scheme of arrangement. In the event of a compromise between the Company and its shareholders or creditors being proposed, the Company shall give notice thereof to all grantees and the grantees may exercise the option (to the extent not already exercised) either to is full extent or to the extent specified in such notice.

(XV) *Rights on winding up*

In the event of an effective resolution being proposed for the voluntary winding-up of the Company during the option period, the grantee may, subject to the provisions of all applicable laws, by notice in writing to Company at any time prior to the date on which such resolution is passed, exercise his option (to the extent not already exercised) either to its full extent or to the extent specified in such notice in accordance with the provisions of the Share Option Scheme and shall accordingly be entitled, in respect of the Shares failing to be allotted and issued upon the exercise of his option, to participate in the distribution of the assets of the Company available in liquidation pari passu with the Shares in issue on the day prior to the date of such resolution.

(XVI) *Adjustment to the subscription price*

In the event of a capitalization issue, rights issue, subdivision or consolidation of Shares or reduction of capital of the Company whilst an option remains exercisable, such corresponding alterations (if any) certified by the auditors for the time being of or an independent financial adviser to the Company as fair and reasonable will be made to the number or nominal amount of Shares, the Subject matter of the Share Option Scheme and the option as far as unexercised and/or the option price of the option concerned, provided that (i) any adjustments shall give a grantee the same proportion of the issued share capital to which he was entitled prior to such alteration; (ii) the issue of Shares or other securities of the Group as consideration in a transaction may not be regarded as a circumstance requiring adjustment; and (iii) no alteration shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. In addition, in respect of any such adjustments, other than any made on a capitalization issue, such auditors or independent financial adviser must confirm to the Directors in writing that the adjustments satisfy the requirements of the relevant provision of the GEM Listing Rules.

(XVII) *Cancellation of option*

Any cancellation of options granted but not exercised must be subject to the consent of the relevant granted and the approval of the shareholders in general meeting.

(XVIII) *Termination of the Share Option Scheme*

The Company by ordinary resolution in general meeting or the Board may at any time terminate the Share Option Scheme and in such event no further options shall be offered but in all other respects the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options (to the extent not already exercised) granted prior to the termination or otherwise as may be required an accordance with the provisions of the Share Option Scheme. Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(XIX) *Rights are personal to the grantee*

An option is personal to the grantee and shall not be transferable or assignable.

(XX) *Lapse of option*

An option shall lapse automatically (to the extent not already exercised) on the earliest of:

(a) the expiry of the period;

(b) the expiry of the periods or dates referred to in paragraphs XII and XIII;

(c) subject to a court of competent jurisdiction not making an order prohibiting the offeror to acquire the remaining Shares in the general offer, the expiry of the period referred to in paragraph XV;

(d) subject to the scheme of arrangement becoming effective, the expiry of the period referred to in paragraph XIV;

(e) the date on which the grantee ceases to be an employee by reason of the termination of his or her employment on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangement or composition with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or in any circumstances entitling his or her employer at law to terminate his or her employment summarily;

(f) the date of the commencement of the winding-up of the Company;

(g) the date on which the grantee in any way sells, transfers, charges, mortgages, encumbers or creates any interest in favour of any third party over or in relation any option in breach of the Share Option Scheme; and

(h) the Share Option Scheme was conditionally adopted by the Company on 24th January, 2003.

As at the date of this prospectus, no option has been granted or agreed to be granted by the Company under the Share Option Scheme.

15. ESTATE DUTY, TAX AND OTHER INDEMNITIES

Each of Mr. Mo, Golden Nugget and ZMGI (the "Indemnifiers") has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the material contract referred to in paragraph 8 of in this Appendix) gives certain indemnities in connection with, amongst others, any estate duty which might be payable by any member of the Group under the Estate Duty Ordinance, Chapter 111 of the Laws of Hong Kong on or before the date on which the Placing becomes unconditional. The Indemnifiers have also given indemnities to the Group in respect of taxation which might be payable by the Company or any of its subsidiaries in respect of any income, profits or gains earned, accrued or received on or before the date on which the Placing becomes unconditional. The Indemnifiers will however, not be liable under the deed of indemnity for taxation where (1) provisions or allowance has been made for such taxation under the audited accounts of the Company or the audited accounts of any member of the Group; (2) the taxation arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date of the deed of indemnity; (3) the taxation or liability would not have arisen but for any act, transaction, omission or delay by any member of the Group voluntarily carried out after the date of the deed of indemnity (other than a pursuant to a legally binding commitment created on or before the date of the deed of indemnity) without the consent of any of the Indemnifiers, and otherwise than in the ordinary course of business; and (4) provision or reserve made for such taxation in the Accounts is established to be an over-provision or an excessive reserve.

The Directors have been advised that no material liability for estate duty under the laws of the Cayman Islands or the British Virgin Islands is likely to fall on the Company or any of its subsidiaries in the Cayman Islands or the British Virgin Islands being jurisdictions in which one or more of the companies comprising the Group are incorporated.

16. LITIGATION

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

17. SPONSOR

The Sponsors have made an application on behalf of the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and any Shares to be issued on the exercise of options granted under the Share Option Scheme.

18. PROMOTOR

(A) The Promoter of the Company is Mr. Mo.

(B) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no amount or other benefit has been paid, allotted or given or is proposed to be paid, allotted or given to the promoter in connection with the Placing or the related transactions described in this prospectus.

19. PRELIMINARY EXPENSES

The preliminary expenses of the Company are estimated to be approximately US$5,000 (equivalent to HK$39,000) and are payable by the Company.

20. QUALIFICATIONS OF EXPERTS

The following are the qualifications of the experts which have given their opinion or advice which is contained in this prospectus:

Name	Qualification
South China Capital Limited	Registered investment adviser
Appleby Spurling & Kempe	Cayman Islands attorneys-at-law
Deloitte Touche Tohmatsu	Certified public accountants
BMI Appraisals Limited	Professional property surveyors and valuers

21. CONSENTS OF EXPERTS

Each of South China Capital Limited, Deloitte Touche Tohmatsu, Appleby Spurling & Kempe and BMI Appraisals Limited have given and have not withdrawn their respective written consents to the issue of this prospectus with the inclusion of their reports and/or letters and/or valuation certificates and/or the references to their names in the form and context in which they are respectively included. Neither South China Capital Limited, Appleby Spurling & Kempe, Deloitte Touche Tohmatsu nor BMI Appraisals have any shareholding in any member of the Group (whether legally enforceable or not) to subscribe for securities in any member of the Group.

22. BINDING EFFECT

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

23. PARTICULARS OF THE VENDORS

Name	Description	Address	Cash consideration for the Sale Shares with Issue Price at HK$0.45	Cash consideration for the Sale Shares with Issue Price at HK$0.33	Number of Sale Shares
Mr. Mo	The Chief Executive Officer and the controlling shareholder of the Company	7A, Belmont Court, 10 Kotewall Road, Hong Kong	HK$17,784,000	HK$13,041,600	39,520,000

Name	Description	Address	Cash consideration for the Sale Shares with Issue Price at HK$0.45	Cash consideration for the Sale Shares with Issue Price at HK$0.33	Number of Sale Shares
ZMGI *(Note 1)*	a company incorporated in BVI with limited liability on 14th March, 2000 and an Initial Management Shareholder	Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	HK$3,996,000	HK$2,930,400	8,880,000
Golden Nugget *(Note 2)*	a company incorporated in BVI with limited liability on 29th February, 1996 and an Initial Management Shareholder	Tropic Isle Building, P.O. Box 438, Road Town, Tortola, British Virgin Islands	HK$3,952,800	HK$2,898,720	8,784,000
Sino Asia *(Note 3)*	a company incorporated in BVI with limited liability on 20th August, 2001 and an Initial Management Shareholder	TrusNet (British Virgin Islands) Limited, TrustNet Chambers, P.O. Box 3444, Road Town, Tortola, British Virgin Islands	HK$658,800	HK$483,120	1,464,000
Metrolink *(Note 4)*	a company incorporated in BVI with limited liability on 5th February, 1993 and an Initial Management Shareholder	P. O. Box 659, Road Town, Tortola, British Virgin Islands	HK$360,000	HK$264,000	800,000
Ms. Wai Lai Yung	An executive Director and initial management shareholder of the Company	Room 1315, Block L, Kornhill, Quarry Bay, Hong Kong	HK$248,400	HK$182,160	552,000
		Total:	HK$27,000,000	HK$19,800,000	60,000,000

Notes:

1. The issued share capital of ZMGI is beneficially owned as follows:

Name of Shareholder	**Percentage of Shareholdings**
Mr. Lee Chi Kong (a)	42.5%
Metrolink (b)	42.5%
Mr. Chan Chun Hung, Vincent	1.0%
Golden Nugget (c)	6.0%
Crystal Bright Investments Ltd. ("Crystal Bright") (d)	2.0%
Mr. Hung Kwok Wing (e)	3.0%
Mr. Young Antonio Chun Kwan (f)	3.0%
	100%

(a) Mr. Lee Chi Kong is an independent third party to the Group (save as his interest in ZMGI).

(b) Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung. Metrolink holds 42.5% shareholdings in ZMGI. Metrolink, Mr. Lai Kui Shing, Andy and Ms. Wai Lai Yung are deemed to be Initial Management Shareholders.

(c) Golden Nugget is solely owned by Ms. Wai Lai Yung.

(d) Crystal Bright is beneficially owned solely by Mr. Chan Hoi Kwong, Paul.

(e) Hung Kwok Wing is a passive investor of ZMGI.

(f) Mr. Young Antonio Chun Kwan, is a passive investor of ZMGI.

2. Golden Nugget is solely owned by Ms. Wai Lai Yung.

3. Sino Asia is beneficially owned as to 50% by Mr. Cheung Wing Woo and as to 50% by Mr. Kwok Chi Ho. Sino Asia is deemed to be an Initial Management Shareholder by virtue of its being a shareholder of Cyber Systems Limited, which was the controlling shareholder of the Group prior to the Reorganisation.

4. Metrolink is beneficially owned as to 50% by Mr. Lai Kui Shing, Andy and as to 50% by Ms. Wai Lai Yung.

24. MISCELLANEOUS

(A) Save as disclosed in this prospectus:

(I) within the two years preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or a consideration other than cash;

(II) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(III) within the two years preceding the date of this prospectus, no commissions, discounts, brokerages or other special terms have been granted in connection with the issue of sale of any share or loan capital of the Company or any of its subsidiaries;

(IV) within the two years preceding the date of this prospectus, no commission (except commission to sub-underwriters) has been paid or payable for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscription for any shares in or debentures of the Company or any of its subsidiaries; and

(V) since 31st July, 2002, there has been no material adverse change in the financial position of the Company or any of its subsidiaries.

(B) Save as disclosed in this prospectus, there are no founder, management or deferred shares in the Company or any of its subsidiaries.

(C) Subject to the provisions of the Companies Law, the principal register of members of the Company will be maintained in the Cayman Islands by Bank of Butterfield International (Cayman) Ltd. and a branch register of members of the Company will be maintained in Hong Kong by Standard Registrars Limited. Unless the Directors otherwise agree, all transfers and other documents of title of Shares must be lodged for registration with and registered by, the Company's branch share registrar in Hong Kong and may not be lodged in the Cayman Islands.

(D) None of the Sponsor and each of the professional parties involved in the Placing is interested beneficially or non-beneficially in any shares in any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any shares in any member of the Group.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered by the Registrar of Companies in Hong Kong, were the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus, copies of the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus and the statement of the Vendors including their names, addresses and descriptions.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of D. S. Cheung & Co. at 1910-1913, Hutchison House, 10 Harcourt Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and Articles of Association of the Company;

(b) the accountants' report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements of KanHan (BVI) and KanHan (HK) for the two years ended 31st December, 2001 and the audited financial statements of KanHan (BVI) for the seven months period ended 31st July, 2002;

(d) the letter and valuation certificate prepared by BMI Appraisals Limited in respect of the property interest of the Company, the text of which is set out in Appendix III to this prospectus;

(e) the letter of advice, prepared by Appleby Spurling & Kempe summarising certain aspects of Cayman Islands company law and taxation referred to in the section headed "General" in Appendix IV to this prospectus;

(f) the Companies Law;

(g) the rules of the Share Option Scheme;

(h) the material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix V to this prospectus;

(i) the service contracts referred to in the paragraph headed "Directors — Particulars of service contracts" in Appendix V to this prospectus;

(j) the written consents referred to in the paragraph headed "Consents of experts" in Appendix V to this prospectus; and

(k) the statement of the Vendors including their names, addresses and descriptions.