

kan han

看漢科技集團有限公司

KanHan Technologies Group Limited

(incorporated in the Cayman Islands with limited liability)

Dist to the Internet Technology
Bridging the Digital Divide

e-Procurement Learning Platform
eFaxOnline Service

IT Support Services

DIY Ring Tone

Third Quarterly Report

2005

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

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This report, for which the directors of KanHan Technologies Group Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to KanHan Technologies Group Limited. The directors, having made all reasonable enquiries, confirmed that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

THIRD QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of KanHan Technologies Group Limited (the "Company") would like to report the unaudited consolidated results of the Company and its subsidiaries (together, "the Group") for the three months and nine months ended 30 September 2005, together with the comparative figures for the corresponding periods in 2004 as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2005

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover	3	2,307	904	5,175	3,734
Direct costs		(1,770)	(434)	(3,153)	(1,331)
Gross profit		537	470	2,022	2,403
Other operating income		5	–	5	–
Research and development expenses		(286)	–	(856)	–
Administrative expenses		(1,008)	(1,658)	(3,203)	(4,523)
Selling and distribution expenses		(244)	(1,183)	(781)	(2,001)
Loss from operations		(996)	(2,371)	(2,813)	(4,121)
Taxation	4	–	–	–	–
Loss for the period		<u>(996)</u>	<u>(2,371)</u>	<u>(2,813)</u>	<u>(4,121)</u>
Loss per share – Basic	6	<u>0.14 cents</u>	<u>0.44 cents</u>	<u>0.45 cents</u>	<u>0.82 cents</u>

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2005

	Share capital HK\$'000	Share premium HK\$'000	Special* reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2004					
At 1 January 2004	4,864	11,836	10,084	(23,745)	3,039
Issue of shares under the placing	973	8,027	-	-	9,000
Share issue expenses	-	(540)	-	-	(540)
Loss for the period	-	-	-	(4,121)	(4,121)
At 30 September 2004	<u>5,837</u>	<u>19,323</u>	<u>10,084</u>	<u>(27,866)</u>	<u>7,378</u>
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2005					
At 1 January 2005	5,837	19,323	10,084	(32,695)	2,549
Issue of shares under the placing	1,167	1,518	-	-	2,685
Share issue expenses	-	(137)	-	-	(137)
Loss for the period	-	-	-	(2,813)	(2,813)
At 30 September 2005	<u>7,004</u>	<u>20,704</u>	<u>10,084</u>	<u>(35,508)</u>	<u>2,284</u>

* The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. at the date on which it was acquired by the Company and the nominal amount of the Company's shares issued as consideration pursuant to the Group Reorganisation as disclosed in note 1 to the Annual Report 2003.

Notes:

1. GENERAL

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

The Company is an investment holding company. The principal activity of its principal subsidiaries is provision of communications software platforms.

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared under the historical cost convention and in accordance with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRS") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the Group's results of operations and financial position.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2004.

3. TURNOVER

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

	Three months ended 30 September		Nine months ended 30 September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Sales of licensed software	216	486	2,004	2,759
Software maintenance	226	177	640	494
Software rental and subscription income	1,764	160	2,278	309
Putonghua learning platform	101	81	253	172
	<u>2,307</u>	<u>904</u>	<u>5,175</u>	<u>3,734</u>

4. TAXATION

No provision for taxation has been made as the Group had no assessable profits for the nine months ended 30 September 2005 (2004: Nil).

5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months and nine months ended 30 September 2005 respectively (2004: Nil).

6. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 30 September 2005 is based on the loss for the period of approximately HK\$996,000 (2004: HK\$2,371,000) and on the weighted average number of 700,458,400 shares (2004: 537,190,122 shares)

The computation of the basic loss per share for the nine months ended 30 September 2005 is based on the loss for the period of approximately HK\$2,813,000 (2004: HK\$4,121,000) and on the weighted average number of 624,769,829 shares (2004: 503,474,873 shares).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of operations

Turnover of the Group for the nine months ended 30 September 2005 amounted to approximately HK\$5,175,000 (2004: HK\$3,734,000), representing approximately a 39% increase as compared to that of the same period in 2004. The increase in sales was mainly attributable to the success in providing an e-commerce infrastructure to facilitate the trading business of medicines being commenced in June 2005.

The Group generated a net loss of HK\$2,813,000 representing 32% decrease in loss as compared to the last corresponding period. Such decrease largely results from the decrease in operating expenses, mainly in the areas of advertising and promotion expenses.

Business Review and Outlook

Software Sales Business

During the reported period, the HanPhone Interactive Voice Response (IVR) platform was chosen by Labour Department of Hong Kong SAR Government to provide the Employee Compensation Interview Booking Hotline service. The IVR platform was further awarded by Hospital Authority to deliver the pilot phase of its Out-patient Service Booking Hotline service in November with over 100 telephone and fax lines to be installed in the full blown system covering most public hospitals. Moreover, HanPhone IVR system delivered in August one of territory's largest IVR enquiry systems for Hong Kong SAR Government's Education and Manpower Bureau (EMB). A total of 192 lines were made available to anxious Secondary Five students, after obtaining the Hong Kong Certificate of Education Examination results, to inquire the number of Secondary Six places available of a specific school during a 4 days period. The HanPhone IVR system was once again proven to be a resilient and robust system under a highly stressful environment. We continue to witness a surge of enquires due to the publicity generated from these high profile success cases.

The Social Welfare Department of HKSAR Government announced in October a grant of approximately HK\$7 million is allocated by the Hong Kong Jockey Club Charities Trust (HKJCCT) to support people with visual impairment the acquisition of advanced Chinese screen readers, such as the *Chinese JAWS* and Braille display. The grant is to be administered by the Social Welfare Department. KanHan stands to be benefited by the grant with over 300 copies of Chinese JAWS potential to be shipped early next year.

Service Business

The Putonghua Learning Platform (ePutonghua) has gradually made its presence into the primary/secondary school sector with now more than 8 schools in using the platform to assist Putonghua teaching. The Company is planning to launch in December a brand new interface targeting the primary school sector which has more than 600 schools in the territory. The new interface will sport a cartoonish look with contents targeting children. We envisage selling to school a campus license and/or to be subscribed by parents as supplemental learning tool on a yearly basis. The long term goal is to establish this platform to be the de facto language teaching platform for most schools providing the teaching materials, the IT platform as well as the technology tools such that teacher can concentrate on their teaching and delegate the rest to us.



The Yahoo Dictionary link has been generating substantial increase in traffics to the ePutonghua website. We are now planning to introduce a new subscription base public service targeting the new visitors. By packaging the ePutonghua tools into the popular Yahoo dictionary, the new service will be a handy substitute to electronic talking dictionary commonly used by students and office workers when they are at the computer. In making it as affordable as possible, we are hopeful it will generate a moderate retail following in a short time who would switch to the more expensive learning and industry content driven service.

Pharmanet Business

The commission based medicine trading business from China importers and distributors has begun to take shape during the reported period and will become the forerunner for building an e-commerce platform for the sale of foreign made brand name medicine online.

Prospects

The Group will continue to explore investment opportunities with an aim to improve both the Group's earnings and asset base.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2005, the interests of the directors of the Company and their associates in the shares of the Company and the underlying shares as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Future Ordinance ("SFO"), or which are required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

Name	Capacity	Number of issued held	Percentage of the issued share capital
Mr. Mo Wai Ming, Lawrence	Beneficial owner	169,508,000	24.20%

Save as disclosed above and the interests of certain directors of the Company in the share options of the Company as disclosed in the section headed "SHARE OPTION SCHEME" below, as at 30 September 2005, none of the directors and chief executives or their associates had any interests or short positions in any shares, underlying shares or debenture of the Company or any of its associated corporations.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") on 24 January 2003 pursuant to a written resolution of the Company. On 8 July 2005, options to subscribe for an aggregate 37,000,000 shares at HK\$0.029 per share had been granted by the Company under the Scheme.

As at 30 September 2005, no share options granted under the Scheme have been exercised. A summary of share options granted under the Scheme is as follows:

Categories of grantees	Date of grant	Exercisable period	Exercise price per share HK\$	Number of share options granted during the period and outstanding at 30/9/2005
Directors				
Mo Wai Ming, Lawrence	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000
Ma She Shing, Albert	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000
Employees	08/7/2005	08/7/2005 – 07/7/2015	0.029	23,000,000

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

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company.

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

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

COMPETING INTERESTS

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

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

During the period ended 30 September 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 30 September 2005, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

PRE-EMPTIVE RIGHTS

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

AUDIT COMMITTEE

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

The Group's unaudited consolidated financial statements for the nine months 30 September 2005 have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and other legal requirements and that adequate disclosure has been made.

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

By Order of the Board
Ma She Shing, Albert
Chairman

Hong Kong, 14 November 2005