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• KanHan Technologies Group Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code : 8175)



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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.*

**FIRST 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 ended 31 March 2006 together with the comparative figures for the corresponding periods in 2005 as follows:

**UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT**

*For the three months ended 31 March 2006*

		<b>Three months ended</b>	
		<b>31 March</b>	
		<b>2006</b>	2005
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>1,415</b>	1,284
Cost of sales		<b>(771)</b>	(483)
		<hr/>	<hr/>
Gross profit		<b>644</b>	801
Other income	4	<b>92</b>	–
Research and development expenses		<b>(280)</b>	(286)
Selling and distribution expenses		<b>(279)</b>	(286)
Administrative expenses		<b>(1,095)</b>	(979)
		<hr/>	<hr/>
Loss before taxation		<b>(918)</b>	(750)
Taxation	5	–	–
		<hr/>	<hr/>
Loss for the period		<b>(918)</b>	(750)
		<hr/>	<hr/>
Loss per share – Basic	7	<b>0.18 cents</b>	(Restated) 0.18 cents
		<hr/>	<hr/>

**UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

For the three months ended 31 March 2006

	Share capital HK\$'000	Share premium HK\$'000	Special* reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>2005</b>						
At 1 January 2005	5,837	19,323	10,084	-	(32,695)	2,549
Loss for the period	-	-	-	-	(750)	(750)
At 31 March 2005	<u>5,837</u>	<u>19,323</u>	<u>10,084</u>	<u>-</u>	<u>(33,445)</u>	<u>1,799</u>

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
<b>2006</b>						
At 1 January 2006	7,004	20,704	10,084	567	(37,608)	751
Exercise of share options	370	1,270	-	(567)	-	1,073
Issue of rights shares	22,124	3,097	-	-	-	25,221
Issue of shares expenses	-	(2,000)	-	-	-	(2,000)
Loss for the period	-	-	-	-	(918)	(918)
At 31 March 2006	<u>29,498</u>	<u>23,071</u>	<u>10,084</u>	<u>-</u>	<u>(38,526)</u>	<u>24,127</u>

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

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 in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The measurement basis used in the preparation of these unaudited consolidated results is historical cost.

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

**3. TURNOVER**

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
Sales of licensed software	<b>983</b>	881
Software maintenance service	<b>184</b>	194
Software rental and subscription income	<b>64</b>	108
Website development	<b>148</b>	50
Putonghua learning platform	<b>36</b>	51
	<b>1,415</b>	1,284

**4. OTHER INCOME**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	<i>HK\$'000</i>
Bank interest income	23	–
Commission income	69	–
	<u>92</u>	<u>–</u>

**5. TAXATION**

No provision for taxation has been made as the Group had no assessable profits for the three months ended 31 March 2006 (2005: Nil).

**6. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

**7. LOSS PER SHARE**

The computation of the basic loss per share for the three months ended 31 March 2006 is based on the loss for the period of approximately HK\$918,000 (2005: HK\$750,000) and on the weighted average number of 512,190,362 shares (2005: 411,521,472 shares).

The weighted average number of shares for the purpose of calculating basic loss per share for the three months ended 31 March 2005 has been retrospectively adjusted for the share consolidation and the effects of the rights issue approved by the shareholders of the Company on 28 February 2006.

No diluted loss per share was presented for the three months ended 31 March 2006 as no share options granted by the Company were outstanding. No diluted loss per share was presented for the corresponding period in 2005 as there were no potential ordinary shares.

**MANAGEMENT'S DISCUSSION AND ANALYSIS****RESULTS OF OPERATION**

For the three months ended 31 March 2006, the Group recorded a turnover of approximately HK\$1,415,000, representing an increase of approximately 10.2% over that of the corresponding period of last year.

Licensed software business continued to be the Group's major source of income. Turnover from the sales of licensed software and the software related services including the subscription service and the provision of software maintenance service and website development service, achieved the growth of approximately 11.6% and 7.2% to approximately HK\$983,000 (2005: HK\$881,000) and HK\$432,000 (2005: HK\$403,000) respectively.

For the period under review, gross profit margin was about 45.5%, representing a decrease of 16.9% from about 62.4% for the same period in 2005. The decrease was mainly attributable to the increase in direct costs associated with the provision of website development services.

## **CAPITAL STRUCTURE**

On 28 February 2006, an extraordinary general meeting of the Company was convened at which the following ordinary resolutions were passed:

- (a) consolidation of every five issued and unissued ordinary shares of HK\$0.01 each into one ordinary share of HK\$0.05 each (the "Consolidated Share");
- (b) increase the authorised share capital of the Company from HK\$20,000,000 divided into 400,000,000 Consolidated Share of HK\$0.05 each to HK\$100,000,000 divided into 2,000,000,000 Consolidated Shares of HK\$0.05 each by the creation of an additional 1,600,000,000 unissued Consolidated Shares of HK\$0.05 each; and
- (c) issue of 442,475,040 new ordinary shares by way of a rights issue ("Rights Issue") on the basis of three rights shares for every one Consolidated Shares of HK\$0.05 each at a subscription price of HK\$0.057.

The Rights Issue was completed on 30 March 2006. All subscription monies for the Rights Issue have been received by the Company on 27 March 2006.

## **BUSINESS REVIEW AND OUTLOOK**

### **Software Sales Business**

During the reported period, KanHan has completed the HanPhone system for the Hospital Authority's Out-patient Service Booking hotline service for 12 out-patient clinics in Hong Kong Island. The hotline service deploys a total of 76 lines for booking over telephone. An extension of the service is now planned for the Kowloon side out-patient clients which will call for another HanPhone system with size no less than the Hong Kong Island one towards end of 2006. HanPhone business continues to look rosy with a few high profile prospects likely to be closed in the second quarter.

HanWEB won some high profile customers in the first quarter including Mass Transit Railway Corporation, Tai Fook Securities and Legislative Council. KanHan will begin to put more sales efforts targeting the banking and finance industry of which more enterprises are more eager to extend their web based service to their prospective customers in the Mainland. In order to broaden KanHan's web based solutions, KanHan began to introduce China's most successful full text search and retrieval technology from TRS (北京拓爾思信息技術有限公司) to the Hong Kong market in January 2006. With over 20 years in R&D in Chinese text processing and searching and a large

customer base including prominent government customers such as Beijing City government, TRS's full text retrieval database server technology will bring to Hong Kong enterprises and government agencies the best of breed intelligent searching mechanism with customizable dictionary and thesaurus to their Internet and Intranet based search applications covering most document formats. We are optimistic the wider spectrum of solutions will enable KanHan to capture more enterprise web application business.

Over 90% of the successful applicants from the phase one Jockey Club IT Scheme for the Visually Impaired Persons chooses Chinese JAWS screen reader software from KanHan. A total of around 80 copies were sold in this phase. The second phase of the scheme has begun to invite applications in early May.

### **Service Business**

Since the inaugural launch in January 2006, a kid version of ePutonghua platform (KIDPTH) has built up an impressive user mass close to 10,000 teachers and students in the primary school sector in less than 4 months. The integrated platform with incessant update on learning materials and innovative tools are extremely well received among school users for its comprehensiveness and uniqueness in serving the primary students of Hong Kong. KIDPTH serves to raise students' interest in learning Putonghua and ease teachers' workload in preparing Putonghua electronic learning materials over the web. There are now 12 schools subscribe to the platform on a 6 month or a 12 month period for a fee ranging from HK\$3,000 to HK\$6,000. KanHan aims to capture 100 schools towards end of the year out of the total of around 600 primary schools in Hong Kong.

A service model of HanPhone system coined School IVR was introduced at the same time of KIDPTH to the primary school in the first quarter. The School IVR system will provide to school a telephone hotline subscription service of which parents can call and listen to the latest school information or to leave a voice message to be forwarded to a specific teacher's email account. Each school pays HK\$3,000 per year for one telephone number. Both KIDPTH and School IVR services are uniquely positioned in the primary and secondary school market with no close competitor.

The EFAX business is growing quite promisingly month on month for the first quarter albeit still on a small base. We are witnessing a surge of daily enquiries for EFAX service specially after entering a co-marketing plan with an online media company which makes EFAX present in the Yahoo search engine as well as in some other popular websites. EFAX competes with a few local providers in this market with EFAX excelling in a total integrated service platform for sending and receiving fax and SMS at a competitive price. The EFAX platform is also the delivery platform for our e-marketing business helping Hong Kong and China companies promote their product and service through fax and SMS broadcast in Hong Kong.

### Pharmanet Business

After a six month testing period of the commission based medicine e-trading business model, only a few China importers remain interested to the idea of sourcing over Internet citing various obstacles unique to the medicine industry. The lack of support from a size-able number of importers will require KanHan to invest substantially into building the e-commerce infra-structure at our own risk of recruiting a critical mass of importers to making a profitable business. After due consideration, the Company has decided to reduce the operation gradually in the coming months.

### Prospects

The successful rights issue in March strengthens the Group's financial standing which allows us to explore more actively new investment opportunities with an aim to improve both the Group's earning and asset base. Meanwhile, the Group is considering various investments in Hong Kong and China.

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 March 2006, 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	144,024,172	24.41%
Mr. Ma She Shing, Albert	Beneficial owner	5,600,000	0.95%

Save as disclosed above, as at 31 March 2006, none of the directors and chief executives nor their associates had any interests or short positions in any shares, underlying shares or debentures 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. On 2 February 2006, all the outstanding 37,000,000 share options were exercised. As at 31 March 2006, no share options granted under the Scheme were outstanding. Particulars and movement of the share options granted under the Scheme were as follows:

Categories of grantees	Date of grant	Exercisable period	Exercise price per share HK\$	Outstanding as at 1/1/2006	Exercised during the period	Outstanding As at 31/3/2006
<b>Directors</b>						
Mo Wai Ming, Lawrence	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000	(7,000,000)	–
Ma She Shing, Albert	08/7/2005	08/7/2005 – 07/7/2015	0.029	7,000,000	(7,000,000)	–
<b>Employees</b>						
	08/7/2005	08/7/2005 – 07/7/2015	0.029	23,000,000	(23,000,000)	–

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2006, 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*	129,766,892	22.00%
Manciple Enterprises Limited	Person having a security interest in shares*	129,766,892	22.00%

\* Pursuant to a share charge agreement dated 13 April 2005, 129,766,892 of the 144,024,172 shares held by Mr. Mo Wai Ming, Lawrence, have been charged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau") who is a third party independent of, and not connected with the Company and its connected person(s). Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 129,766,892 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 31 March 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the three months ended 31 March 2006, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions 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 three months ended 31 March 2006 have been reviewed by the audit committee, which was of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and other legal requirements and that adequate disclosure has been made.

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

By Order of the Board  
**Ma She Shing, Albert**  
*Chairman*

Hong Kong, 12 May 2006