



Kan han



• KanHan Technologies Group Limited

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



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

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

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

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 issuers.

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

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

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 2006 together with the comparative figures for the corresponding periods in 2005 as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2006

		Three months ended 30 September		Nine months ended 30 September	
		2006	2005	2006	2005
	NOTES	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Restated)		(Restated)
Turnover	3	1,052	642	4,118	3,129
Cost of sales		(367)	(184)	(1,906)	(1,204)
Gross profit		685	458	2,212	1,925
Other income	4	90	84	432	102
Research and development expenses		(292)	(286)	(859)	(856)
Selling and distribution expenses		(284)	(244)	(853)	(781)
Administrative expenses		(1,265)	(1,008)	(3,641)	(3,203)
Loss before taxation		(1,066)	(996)	(2,709)	(2,813)
Taxation	5	–	–	–	–
Loss for the period		(1,066)	(996)	(2,709)	(2,813)
Attributable to:					
Equity holders of the Company		(1,066)	(996)	(2,709)	(2,813)
Loss per share – Basic	7	(0.18 cents)	(0.20 cents)	(0.48 cents)	(0.64 cents)

UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2006

	Share capital HK\$'000	Share premium HK\$'000	Special* reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2005						
At 1 January 2005	5,837	19,323	10,084	–	(32,695)	2,549
Issue of shares under the placing	1,167	1,518	–	–	–	2,685
Share issue expenses	–	(137)	–	–	–	(137)
Loss for the period	–	–	–	–	(2,813)	(2,813)
At 30 September 2005	<u>7,004</u>	<u>20,704</u>	<u>10,084</u>	<u>–</u>	<u>(35,508)</u>	<u>2,284</u>

	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Employee share-based compensation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
2006						
At 1 January 2006	7,004	20,704	10,084	567	(37,608)	751
Exercise of share options	370	1,270	–	(567)	–	1,073
Issue of rights shares	22,124	3,097	–	–	–	25,221
Share issue expenses	–	(2,250)	–	–	–	(2,250)
Loss for the period	–	–	–	–	(2,709)	(2,709)
At 30 September 2006	<u>29,498</u>	<u>22,821</u>	<u>10,084</u>	<u>–</u>	<u>(40,317)</u>	<u>22,086</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 TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

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

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

2. BASIS OF PREPARATION

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards 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:

	Three months ended		Nine months ended	
	30 September		30 September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		(Restated)
Sales of licensed software	496	216	2,759	1,636
Software maintenance	180	226	555	640
Software rental and subscription income	102	99	226	232
Website development	140	–	288	368
Putonghua learning platform	134	101	290	253
	1,052	642	4,118	3,129

4. OTHER INCOME

Other income represents mainly interest income generated from bank deposits.

5. TAXATION

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

6. DIVIDEND

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

7. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 30 September 2006 is based on the loss for the period of approximately HK\$1,066,000 (2005: HK\$996,000) and on the weighted average number of 589,966,720 shares (2005: 493,823,172 shares).

The computation of the basic loss per share for the nine months ended 30 September 2006 is based on the loss for the period of approximately HK\$2,709,000 (2005: HK\$2,813,000) and on the weighted average number of 564,326,162 shares (2005: 440,462,729 shares).

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

No diluted loss per share was presented as the exercise of the outstanding share options and the conversion of the outstanding warrants of the Company are anti-dilutive.

8. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of Operation

For the three months ended 30 September 2006, the Group's turnover increased by 63.9% to approximately HK\$1,052,000 when compared to the corresponding period in 2005. The increase was derived from the surge of revenue generated from the sales of licensed software and the provision of website development services.

Despite the increase in turnover during the quarter, the Group recorded a net loss of approximately HK\$1,066,000 representing a 7% increase in loss as compared to the last corresponding period. Such increase was principally attributable to the increase in professional expenses incurred for the business operations.

For the nine months ended 30 September 2006, the Group recorded a total turnover of approximately HK\$4,118,000, representing an increase of 31.6% over that of the same period last year. Net loss for the period amounted to approximately HK\$2,709,000, representing a moderate improvement of 3.7% over the same period in 2005.

Administrative expenses for the nine months' period increased by 13.7% to approximately HK\$3,641,000 as compared to approximately HK\$3,203,000 for the same period last year. Such increase was related to the increase in professional expenses as mentioned above.

Business Review and Outlook

Software Sales Business

The Interactive Voice Response (IVR) business continues to grow according to plan. As of this report is published, we have been awarded to provide medium size IVR solutions to higher education institutions, government departments, financial institutions and the Hong Kong Export Credit Insurance Corporation. Large projects including Hospital Authority and Housing Authority will roll out in the fourth quarter this year with major billings to be booked.

The newly launched Hong Kong SAR Government's one-stop service portal www.gov.hk provides a real-time translated simplified Chinese interface from its traditional Chinese information using KanHan's market leading HanWEB publishing technology. Despite the wide adoption of HanWEB in the government and quasi-government sectors, the sale to commercial sector is still lacking far behind our expectation.

The second phase of Jockey Club funding has bought 17 set of Chinese JAWS for the visually impaired persons from KanHan. Application for the third phase will close in December.

Service Business

The secondary school e-Putonghua platform (TEENPTH) was officially launched in August. There are 5 subscriptions by the end of October. At the same time, the Kids version has recorded a satisfactory growth from 20 schools to 33 schools during the same period. We are confident the growth momentum will speed up significantly due to the availability of additional annual funding from the HKSAR Government's Education and Manpower Bureau in assisting schools purchase e-learning platforms starting September. We still aim to achieve the 100 school target out of the total of around 1200 primary and secondary schools in Hong Kong by end of this year. There is also a steady growth of corporate users to the adult e-Putonghua platform including Tung Wah Group, Civil Server Bureau of Hong Kong SAR Government and a major accounting firm.

The EFAX business maintains a stable monthly income while attracts interest from commercial companies in conducting e-marketing campaign via fax, SMS and IVR channels.

Yahoo Hong Kong has renewed the contract in using HanVoice providing real-time pronunciation to its dictionary service. In lieu of payment, Yahoo Hong Kong has been providing KanHan banner ads in their popular online channels to promote KanHan's online Putonghua and EFAX services. The banner ads have been quite effective in bringing in prospective customers to KanHan products and services.

Capital structure

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

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

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

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

- (b) On 28 August 2006, a conditional warrant placing agreement was entered into among the Company, Glory Force Limited (the "Subscriber") and Mr. Yip Yung Kan (the "Guarantor") in relation to a private placing of 117,800,000 warrants to the Subscriber, at an issue price of HK\$0.015 per warrant. The warrant placing was completed on 14 September 2006 and 117,800,000 warrants had been issued to the Subscriber. The net proceeds from the warrant placing of approximately HK\$1.37 million will be applied as general working capital of the Group. The warrants entitle the Subscriber to subscribe for new shares at an initial subscription price of HK\$0.155 per new share for a period of 18 months commencing from the date of issue of the warrants.

Proposed acquisition

On 15 May 2006, the Company entered into the non-legally binding memorandum of understanding ("MOU") with Excel State Group Limited ("Excel State") and Mr. Yang Shuxin in relation to the proposed acquisition of the whole or part of equity interests held by Mr. Yang in Excel State, which holds a 51% interests in Shantou Jinshui Technology Limited ("Jinshui").

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

A refundable amount of HK\$2,500,000 was paid by the Company to Mr. Yang as earnest money. As additional time is required for the negotiation process on the terms of the proposed acquisition, the long-stop date of the MOU has been extended from 31 August 2006 to 30 November 2006. If no legally-binding formal agreement has been entered into on or before 30 November 2006, the sum will be refunded to the Company in full.

Details of the proposed acquisition and its extension of long-stop date were set out in the announcements of the Company dated 15 May 2006 and 18 August 2006 respectively.

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

As at 30 September 2006, the interests and short position of the directors and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Future Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352

of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of the Company as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

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

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

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

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

Notes:

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

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

SHARE OPTION SCHEME

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

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

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

Notes:

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

SUBSTANTIAL SHAREHOLDERS

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

Name	Capacity	Number of shares held	Percentage of the issued share capital
Mr. Lau Kim Hung, Jack	Interest of a controlled corporation (<i>Note 1</i>)	129,766,892	22.00%
Manciple Enterprises Limited	Person having a security interest in shares (<i>Note 1</i>)	129,766,892	22.00%
Mr. Yip Yung Kan	Beneficial owner (<i>Note 2</i>)	2,760,000	0.47%
	Interest of a controlled corporation (<i>Note 3</i>)	117,800,000	16.64%

Notes:

1. Pursuant to a share charge agreement dated 13 April 2005, 129,766,892 of the 144,024,172 shares held by Mr. Mo Wai Ming, Lawrence, have been charged in favour of Manciple Enterprises Limited ("Manciple"), a company incorporated in the British Virgin Islands which is wholly and beneficially owned by Mr. Lau Kim Hung, Jack ("Mr. Lau") who is a third party independent of, and not connected with the Company and its connected persons. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 129,766,892 shares.
2. Mr. Yip held 2,660,000 shares and his spouse, Ms. Lei I Si held 100,000 shares.
3. Mr. Yip beneficially owns 100% issued share capital of Glory Force Limited which was granted 117,800,000 warrants on 14 September 2006 to subscribe for 117,800,000 new shares at a subscription price of HK\$0.155 per share. Upon full exercise of the subscription rights attaching to the warrants, a total of 117,800,000 new shares, representing 16.64% of the issued share capital of the Company as enlarged by the issue of new shares.

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

COMPETING INTERESTS

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

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

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 ended 30 September 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, 13 November 2006