



**KANHAN TECHNOLOGIES GROUP LIMITED**

**看漢科技集團有限公司**

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8175)**

**FIRST QUARTERLY RESULTS ANNOUNCEMENT  
FOR THE THREE MONTHS ENDED 31ST MARCH 2005**

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

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*This announcement, 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 announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## FINANCIAL 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 known as “the Group”) for the three months ended 31st March, 2005, together with the comparative figures for the corresponding period in 2004 as follows:–

	NOTES	Three months ended 31st March	
		2005 HK\$'000	2004 HK\$'000
Turnover	3	1,284	2,131
Direct costs		(483)	(454)
Gross profit		801	1,677
Research and development expenses		(286)	–
Administrative expenses		(979)	(1,354)
Selling and distribution expenses		(286)	(313)
(Loss) profit from operations		(750)	10
Taxation	4	–	–
(Loss) profit for the period		(750)	10
(Loss) earnings per share – Basic	6	(0.13 cents)	0.002 cents

Notes:

### 1. GENERAL

The Company was incorporated in the Cayman Islands on 10th 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 25th 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 accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the annual financial statements for the year ended 31st December, 2004. 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 and revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1st January, 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

The Group’s unaudited consolidated quarterly results has not been audited by the Company’s auditors but has been reviewed by the Company’s audit committee.

### 3. TURNOVER

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

	Three months ended 31st March	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Sales of licensed software	931	1,946
Software maintenance	194	141
Software rental and subscription income	108	24
Putonghua learning platform	51	20
	<u>1,284</u>	<u>2,131</u>

The Group's operations are principally located in Hong Kong and the People's Republic of China (the "PRC"). Segment information about these geographical markets is presented below:

	Three months ended 31st March	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Hong Kong	1,275	2,126
PRC	9	5
	<u>1,284</u>	<u>2,131</u>

### 4. TAXATION

No provision for taxation has been made in the account as the Group had no assessable profits for the three months ended 31st March, 2005 (2004: Nil).

### 5. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries for the three months ended 31st March, 2005 and 2004.

### 6. (LOSS) EARNINGS PER SHARE

The computation of the Group's basic loss per share for the three months ended 31st March, 2005 is based on the Group's loss attributable to shareholders of approximately HK\$750,000 (2004: a profit of HK\$10,000) and on the weighted average number of shares issued during the quarter of 583,718,400 (2004: 486,432,000).

No diluted (loss) earnings per share for both periods were presented as there were no dilutive potential ordinary shares outstanding.

## 7. MOVEMENT OF RESERVES

### The Group

	Share Premium <i>HK'000</i>	Special reserve <i>HK'000</i>	Accumulated losses <i>HK'000</i>	Total <i>HK'000</i>
<b>2004</b>				
At 1st January, 2004	11,836	10,084	(23,745)	(1,825)
Profit for the 3 months ended 31st March, 2004	–	–	10	10
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2004	<u>11,836</u>	<u>10,084</u>	<u>(23,735)</u>	<u>(1,815)</u>
<b>2005</b>				
At 1st January, 2005	19,323	10,084	(32,695)	(3,288)
Loss for the 3 months ended 31st March, 2005	–	–	(750)	(750)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March, 2005	<u>19,323</u>	<u>10,084</u>	<u>(33,445)</u>	<u>(4,038)</u>

## **MANGEMENT'S DISCUSSION AND ANALYSIS**

### **Results of operation**

Turnover of the Group for the three months ended 31st March, 2005 was approximately HK\$1,284,000 (2004: HK\$2,131,000). Net loss for the period amounted to approximately HK\$750,000 (2004: net profit of approximately HK\$10,000).

Sales of licensed software amounted to approximately HK\$931,000 representing about a decrease of 52% as compared to the same period in 2004. Nevertheless, there was a sustainable increase in turnover from the provision of software related services including the software rental and subscription services and the software maintenance service, achieving the growth of 83% to approximately HK\$302,000. We also witnessed the growth on sales of ePutonghua by contributing approximately 4% of the Group's total turnover for the period.

With our stringent control of operating expenses, the Group's administrative expenses were significantly reduced by 28% to approximately HK\$979,000 as compared to HK\$1,354,000 for the same period last year.

The management continues to adopt a prudent approach in capitalization of research and development expense. A total of HK\$286,000 of research and development expenses incurred during the period was expensed off.

## **BUSINESS REVIEW AND OUTLOOK**

### ***Software Sales Business***

A total of 30 copies of Chinese JAWS (CJAWS), a screen reader software for the visually impaired persons (VIP) was delivered to the HKSAR Government's CyberPoint centres in first quarter. This represents a major endorsement of CJAWS paving the way for a wider adoption serving the Hong Kong's 70,000 strong VIP community. Hong Kong Library and Leisure and Cultural Services Department have both launched their HanVoice/HanPhone based Interactive Voice Response (IVR) hotline services in March marking KanHan's successful entry into the commercial IVR market. Our sales front log continues to grow towards the replacement market for the ageing proprietary IVR systems in diverse industries especially in the government and logistic sectors.

### ***Service Business***

The Putonghua Learning Platform (ePutonghua) has begun to witness a surge of opportunities in first quarter. More professional training institutes are now interested in cooperating with KanHan to offer blended Putonghua training programmes incorporating ePutonghua in the course curriculum. A number of professional organizations are now planning to promote the online platform to their members. The application of a blended programme to be offered jointly by Vocational Training Council and KanHan for HKSAR Government's Continued Education Fund (CEF)'s sanction has been submitted in March. The approval is anticipated at around June/July timeframe. A rebranding of the subscription service has been put in place with the launching of a new domain name of [www.putonghuaonline.com](http://www.putonghuaonline.com) and a new website adorned with a professional appearance.

The eFaxOnline subscription service is on the verge for a full blown launch in mid May. The service will be promoted to companies in Hong Kong as well as those in China through our Guangzhou office. The web based convenience of sending and receiving faxes plus the savings in IDD charges will be the major attractions to China companies whom have frequent fax exchanges with Hong Kong and other international cities. A new website has been launched with the same name at [www.efaxonline.com](http://www.efaxonline.com).

The DIY Ringtone Service is still a non-performer. We have begun to package the technologies into a product for license to service and content providers in China in creating ringtone platform with contents and business ideas of their own.

## **FINANCIAL RESOURCES**

During the three months ended 31st March, 2005, the Group's operation was mainly financed by its own working capital, internally generated cash flow and the net proceeds from the placing of shares.

During the quarter ended 31st March, 2005, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies and investment.

As at 31st March, 2005, (i) the Group had no significant exposure to fluctuation in exchange rates and any related hedges; (ii) the Group had no banking facilities; and (iii) the Group had no significant investment held.

## **DISCLOSURE OF TRADE RECEIVABLE PURSUANT TO RULES 17.15, 17.17 AND 17.22 OF THE GEM LISTING RULES**

Pursuant to rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, a disclosure obligation arises where the relevant percentage ratios of a relevant advance to an entity from the Group exceeds 8%.

The Group's consolidated total assets as at 31st December, 2004 amounted to approximately HK\$6,179,000 and for the year ended 31st December, 2004, the Group's consolidated total revenue approximately HK\$4,320,000. The Group recorded amount due from Automated Systems (HK) Limited ("ASL") of approximately HK\$875,000 as at 31st March, 2005, representing approximately 14.16% of the Group's consolidated total assets and 20.25% consolidated total revenue. ASL is a customer of the Group and a third party independent of any of the directors, the chief executive, the management shareholders and the substantial shareholders (within the meaning of the GEM Listing Rules) of the Group.

The amount due from ASL represented the outstanding balance of certain sales transactions entered into by the Group in its ordinary and usual course of business and on normal commercial terms. It is unsecured, interest free, and settled upon delivery.

Save as disclosed above, there was no other advances which would give rise to disclosure obligation pursuant to rules 17.15, 17.17 and 17.22 of the GEM Listing Rules.

## DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 31st March, 2005, the interests of the directors of the Company and their associates in the shares and share options of the Company, 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 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange, were as follows:

### Long positions

Ordinary shares of HK\$0.01 each of the Company

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Mr. Mo Wai Ming, Lawrence	Beneficial owner	176,008,000	30.15%
Mr. Yuen Ka Lok, Ernest	Beneficial owner	1,432,000	0.25%

Save as disclosed above, none of the Directors nor 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 OPTIONS

As at 31st March, 2005, no share option has been granted by the Company under the share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 31st March, 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.

<b>Name</b>	<b>Capacity</b>	<b>Number of issued ordinary shares held</b>	<b>Percentage of the issued share capital of the Company</b>
YesMobile Holdings Company Limited	Beneficial owner	97,286,400	16.67%
Alexandra Global Investment Fund I, Ltd.	Beneficial owner	75,010,000	12.85%
Alexandra Investment Manager, LLC	Beneficial owner	75,010,000	12.85%

## SPONSOR'S INTERESTS

Pursuant to the agreement dated 13th February, 2003 entered into between the Company and South China Capital Limited (“South China”), South China acts as the Company’s continuing sponsor for a period commencing from 25th February, 2003 to 31st December, 2005 and South China received, and will receive, fee for acting as the Company’s continuing sponsor.

As at 31st March, 2005, neither the sponsor of the Company, South China, nor its directors, employees or associates had any interest in any class of securities of the Company or any other companies in the Group (including options or rights to subscribe for such securities) pursuant to Rules 6.36 of the GEM Listing Rules.

## 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 the business of the Group.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading “Share Options” above, at no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.



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

During the period ended 31st March, 2005, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## **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 24th January, 2003 with written terms of reference in compliance with the GEM Listing Rules. The audit committee comprises Ms. Li Mo Ching, Joyce, Ms. Tam Cheuk Ling, Jacqueline and Mr. Kwok Chi Sun, Vincent, who are the independent non-executive directors of the Company.

The Group's unaudited results for the three months ended 31st March, 2005 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complies with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

On behalf of the Board  
**Mo Wai Ming, Lawrence**  
*Chairman*

Hong Kong, 9th May, 2005

*As at the date of this announcement, Mr. Mo Wai Ming, Lawrence and Ms. Wai Lai Yung are executive Directors, and Ms. Li Mo Ching, Joyce, Ms. Tam Cheuk Ling, Jacqueline and Mr. Kwok Chi Sun, Vincent are independent non-executive Directors.*

*This announcement will remain on the GEM website at "www.hkgem.com" on the "Latest Company Announcements" page for seven days from the day of its posting.*