



KANHAN TECHNOLOGIES GROUP LIMITED

看漢科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31ST MARCH 2003**

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 of Hong Kong Limited takes no responsibility for the contents of this announcement, 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 announcement.

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 (the “Board”) of directors (the “Directors”) 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 period ended 31st March, 2003, together with the comparative figures for the corresponding period in 2002 as follows:-

	NOTES	Three months ended 31st March	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	640	263
Direct costs		(252)	(159)
Gross profit		388	104
Other operating income		40	–
Administrative expenses		(1,262)	(1,062)
Selling and distribution expenses		(13)	(40)
Loss from operations		(847)	(998)
Finance costs		(40)	–
Loss for the period		(887)	(998)
Loss per share – Basic	5	(0.18 cents)	(0.24 cents)

Notes:

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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.

Pursuant to a group reorganisation (the “Group Reorganisation”) to rationalise the structure of the Group in preparation for the listing of the Company’s shares on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”), the Company became the holding company of the companies now comprising the Group on 15th January, 2003. Details of the Group Reorganisation were set out in the prospectus issued by the Company dated 13th February, 2003 (the “Prospectus”).

The shares of the Company were listed on the GEM on 25th February, 2003.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, the consolidated financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group using the principles of merger accounting in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for Group Reconstructions” issued by the Hong Kong Society of Accountants.

The accounting policies have been consistently applied by the Company and are consistent with those used in the 2002 annual financial statements.

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

2. TURNOVER

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

	Three months ended 31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of licensed software	602	258
Software maintenance	32	–
Software rental and subscription income	6	5
	640	263

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, and the People's Republic of China (the "PRC"). Segment information about these geographical markets is presented below:

	Three months ended 31st March	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	636	263
The PRC	4	–
	640	263

3. TAXATION

No provision for Hong Kong profits tax has been made in the account as the Group had no assessable profits in Hong Kong for the three months period ended 31st March, 2003 (2002: Nil).

4. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries for the three months period ended 31st March 2003 and 2002.

5. LOSS PER SHARE

The computation of the Group's basic loss per share for the three months period ended 31st March, 2003 is based on the Group's loss attributable to shareholders of approximately HK\$887,000 (2002: a loss of approximately HK\$998,000) and on the weighted average number of shares issued during the quarter of 486,432,000 (2002: 417,135,649).

No diluted loss per share was presented as there were no dilutive potential ordinary shares outstanding.

6. RESERVES

Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium and accumulated profit of the Company are available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

	Share Premium	Accumulated losses	Total
2002			
At 1st January, 2002	9,297,830	(10,758,317)	(1,460,487)
Loss for the 3 months ended 31st March, 2002	—	(997,905)	(997,905)
At 31st March, 2002	<u>9,297,830</u>	<u>(11,756,222)</u>	<u>(2,458,329)</u>
2003			
At 1st January, 2003	9,297,830	(7,037,144)	2,260,686
Loss for the 3 months ended 31st March, 2003	—	(887,478)	(887,478)
Group reorganization	(6,251,199)	7,037,144	785,945
Amount utilized upon capitalization issue	(4,084,775)	—	(4,084,775)
Arising from the issuance of shares upon capitalization of loan due to related company	1,739,856	—	1,739,856
Issue of shares	19,200,000	—	19,200,000
Share placement expenses	(5,018,723)	—	(5,018,723)
At 31st March, 2003	<u>14,882,989</u>	<u>(887,478)</u>	<u>13,995,511</u>

MANGEMENT DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue for the first quarter amounted to HK\$640,000 (2002: HK\$263,000) representing about 143% increase as compared to that of previous period in 2002. The net loss for the period amounted to approximately HK\$887,000 (2002: net loss of approximately HK\$998,000) representing 11% decrease than that of the previous period in 2002.

Business Development

The successful listing of the Company on GEM of the Stock Exchange on 25th February, 2003 marked an important milestone of the Group since its inception in late 1999. It resulted in more financial independence and also a prominent corporate identity.

Sales & Marketing

Though slightly affected by the industry's unique seasonal buying pattern of the target markets, for the first 3 months ended 31st March, 2003, the Group had successfully landed on co-operation agreements with the Airport Authority of Hong Kong and a few other provincial government agencies in Southern China for the Group's web-based translation platform between Simplified and Traditional Chinese.

To tap into the immense business opportunities in the PRC market, the Group recruited mainland based sales staff and/or agents with strong focus on the government, telecom and finance industries.

Voice-based Technology

A number of high potential projects sprang up for the application of the Group's voice technologies to deliver dynamic, real-time contents from the Internet to the reach of telephone users in both e-government and financial industries. The Group continues to be optimistic that its voice-based projects will contribute significantly to the Group's revenue towards the end of the year.

Research & Development

Web-to-phone Technology

The Group is in its final phase of R&D in extending its web-to-phone technologies to the e-mail system. By incorporating the above latest technology, users can have easy access to their emails over the phones and reply by simply recording a voice message. Furthermore, users can also select to print to destined facsimile machines.

Given the GPRS network in the huge PRC telecom market, the Group is confident that its email-to-phone technology is a big potential value-added service for both the fixed line and mobile voice network in the PRC. The Group is aggressively looking into possible co-operation opportunities with the PRC's regional telecom operators to provide its latest email-to-phone technology on a profit sharing basis.

FUTURE PROSPECTS

The Board of the Group believes that the information technology sector in the PRC is in phase of extremely rapid development. Increased business transactions across the boarder also results in great demand for a cost-effective translation platform between the two Chinese for diverse electronic formats. With constant endeavour of the R&D team and sales staff under the leadership of the Board and the management, the Group is confident to achieve more fruitful results in 2003.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

The Group has historically relied on shareholder's loan 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.

RULE 17.15 TO 17.21 OF THE GEM LISTING RULES

The Directors have confirmed that 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.

CAPITAL STRUCTURE

Pursuant to a written resolution of a sole shareholder of the Company held on 15th January, 2003, the authorized share capital of the Company has increased 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; and an aggregate of 11,622,500 shares were allotted and issued, credited as fully paid to the then shareholders of KanHan Technologies Inc as a consideration for the Company to acquire 11,622,500 shares of US\$0.01 each in the share capital of KanHan Technologies Inc.

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 held by Mr. Mo Wai Ming, Lawrence.

60,000,000 shares of HK\$0.01 each were allotted and issued pursuant to the completion of Placing on 25th February, 2003.

On 21st February, 2003, Timeless Strategy Limited, a shareholder of the Company, has converted the whole of the principal amount of HK\$1.8 million under the 3% convertible note issued by KanHan Technologies Inc into 6,432,000 shares of HK\$0.01 each in the Company.

408,377,500 shares of HK\$0.01 each were allotted and issued by way of capitalize HK\$4,083,775 standing to the credit of the share premium account of the Company.

CONTINGENT LIABILITIES

As at 31st March, 2003, the group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 31st March, 2003, the Group had 15 full-time employees. All of the Group companies are equal opportunity employers, with the selection and promotion of individuals being based on suitability for the position offered. The salary and benefit levels of the Group's employees are kept at a competitive level and employees are rewarded on a performance related basis with the general framework of the Group's salary and bonus system which is reviewed annually. Selected benefit programmes including medical coverage and provident funds were also provided. In addition, training and development course were offered throughout the Group to upgrade employee skills and knowledge.

The Group also adopted employee share option scheme to provide the eligible employees a performance incentives for continuous and improved service with the Group and to enhance their contributions to increase profits by encouraging capital accumulation and share ownership.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 25th February, 2003, the date on which the Company's shares were listed on the Stock Exchange, the interests of the directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), or which are required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of

Securities in the GEM of the Stock Exchange (“GEM Listing Rules”), to be notified to the Company and the Stock Exchange were as follows:

Name of director	No. of shares held	
	Personal interests	Corporate interests
Mr. Mo Wai Ming, Lawrence	180,008,000	–
Ms. Wai Lai Yung	2,512,000	84,072,000*
Mr. Lee Chi Ming	1,432,000	–
Mr. Yuen Ka Lok, Ernest	1,432,000	–

* These shares are attributable to Ms. Wai Lai Yung in respect of her interest in 3,616,000 shares of Metrolink Holdings Limited (“Metrolink”), interest in 40,432,000 shares of ZMGI Corporation (“ZMGI”) and interest in 40,024,000 shares of Golden Nugget Resources Limited (“Golden Nugget”).

Save as disclosed above, as of 31st March, 2003, none of the Directors and chief executive or their associates had any interests in any securities in the Company or its associated corporations. None of the Directors, nor their spouses or children under 18 years of age were granted or had exercised any rights to subscribe for the securities of the Company.

SHARE OPTIONS

As at 31st March, 2003, no share option has been granted by the Company under the share option scheme.

DIRECTORS’ INTERESTS IN CONTRACTS

In the three months period ended 31st March, 2003, the Group has a tenancy agreement with a related company in which Mr. Mo Wai Ming, Lawrence is one of the directors. The rental expenses paid during the period to the related company amounted to HK\$120,000. The Group paid consultancy fee, a total of HK\$40,000 during the three months period ended 31st March, 2003, to a related company in which Ms. Wai Lai Yung is the director. The Company paid legal and secretarial fee, a total of HK\$8,000 during the three months period ended 31st March, 2003, to a law firm in which Mr Yuen Ka Lok, Ernest is a partner.

Save as disclosed above:

- (i) no contracts of significance subsisted at the end of the period or at any time during the period to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly; and
- (ii) there were no transactions which are required to be disclosed as connected transactions in accordance with the requirements of GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of shares	Approximate percentage of holding
Mr. Mo Wai Ming, Lawrence	180,008,000	37.01%
Ms. Wai Lai Yung	86,584,000*	17.80%

* These shares are attributable to Ms. Wai Lai Yung in respect of her interest in 3,616,000 shares of Metrolink, interest in 40,432,000 shares of ZMGI, interest in 40,024,000 shares of Golden Nugget and 2,512,000 shares held by her directly.

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, fees for acting as the Company's continuing sponsor.

Neither the sponsor of the Company, South China, nor its directors, employees or associates (as referred to Note 3 of Rule 6.35 of the GEM Listing Rules) 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) as at 31st March, 2003.

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

Other than in connection with the Company's initial public offering on GEM, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules since the listing of its shares on GEM on 25th February, 2003.

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 Rules 5.23, 5.24 and 5.25 of the GEM Listing Rules. The audit committee comprises Mr. Ho Siu Kau and Mr. Lai Chau Ming, who are the independent non-executive directors of the Company.

The Group's unaudited results for the three months ended 31st March, 2003 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.

On behalf of the Board
Mo Wai Ming, Lawrence
Chairman and Chief Executive Officer

Hong Kong, 12th May, 2003

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.