



看漢科技集團有限公司

KanHan Technologies Group Limited

(incorporated in the Cayman Islands with limited liability)

Third Quarterly Report

2003

CHARACTERISTICS 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 of Hong Kong Limited 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 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.

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 and nine months respectively ended 30th September, 2003, together with the comparative unaudited results for the corresponding periods in 2002 are set out below:

	NOTES	Three months ended 30th September		Nine months ended 30th September	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover	2	879	121	1,710	731
Direct costs		(753)	(152)	(1,265)	(542)
Gross profit		126	(31)	445	189
Other operating income		2	-	46	-
Selling and distribution expenses		(360)	(136)	(902)	(469)
Administrative expenses		(1,853)	(881)	(4,810)	(2,478)
Loss from operations		(2,085)	(1,048)	(5,221)	(2,758)
Finance costs		-	(92)	(5)	(119)
Loss before taxation		(2,085)	(1,140)	(5,226)	(2,877)
Taxation	3	-	-	-	-
Loss for the period		(2,085)	(1,140)	(5,226)	(2,877)
Loss per share	4	(0.43 cents)	(0.27 cents)	(1.07 cents)	(0.68 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 except for the changes due to adoption of the new and revised SSAPs which have become effective since 1st January 2003. The adoption of these revised SSAPs has no material effect on the Group's results.

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 30th September		Nine months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Sales of licensed software	828	33	1,582	586
Software maintenance	45	82	111	125
Software rental and subscription income	6	6	17	20
	879	121	1,710	731

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

	Three months ended 30th September		Nine months ended 30th September	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
China	36	–	79	34
Taiwan	36	–	36	–
HK	807	121	1,595	697
	879	121	1,710	731

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 nine months period ended 30th September, 2003 (2002: Nil).

4. LOSS PER SHARE

The computation of the Group's basic loss per share for the nine months period ended 30th September, 2003 is based on the Group's loss attributable to shareholders of approximately HK\$5,226,000 (2002: a loss of approximately HK\$2,877,000) and on the weighted average number of shares issued during the period of 486,432,000 (2002: 420,000,000).

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

5. 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 Article 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 <i>HK\$</i>	Accumulated losses <i>HK\$</i>	Total <i>HK\$</i>
At 1st January, 2002	9,297,830	(10,758,317)	(1,460,487)
Loss for the 9 months ended 30th September, 2002	–	(2,877,147)	(2,877,147)
At 30th September, 2002	9,297,830	(13,635,464)	(4,337,634)
At 1st January, 2003	9,297,830	(7,037,144)	2,260,686
Loss for the 9 months ended 30th September, 2003	–	(5,225,827)	(5,225,827)
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)
30th September, 2003	14,882,989	(5,225,827)	9,657,162

6. DIVIDEND

No dividend has been paid or declared by the Company or any of its subsidiaries for the nine months period ended 30th September 2003 and 2002.

MANGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

Revenue for the nine months ended 30th September 2003 amounted to HK\$1,710,000 (2002: HK\$731,000) representing about 134% increase as compared to that of previous period in 2002. The net loss for the period amounted to approximately HK\$5,226,000 (2002: net loss of approximately HK\$2,877,000) representing 82% increase than that of the previous period in 2002.

The loss resulted principally from the expenses incurred in the Group's operating, research and development activities.

The total expenses of the Group for the period was approximately HK\$5,712,000, which is about 94% increase when comparing to that of the same period last year. This increase was mainly resulted from the increase of professional cost by the Group in business operations to ensure the Group has adequate professional guidance after the successful listing of the Company on GEM of the Stock Exchange on 25th February.

BUSINESS DEVELOPMENT

During the review period, the Group continued to be affected by the SARS aftermath. Though general economic conditions have gradually been picking up, many corporate customers were still taking a cautious stand with regard to future economic conditions, leading to the temporary suspension or deferral of their IT projects and spending.

Sales and Marketing

In response to the recent introduction of the "Mainland Free Independent Travelers" Scheme in September, which led to a large influx of mainland tourists, the Group successfully reached an agreement with one of Hong Kong's leading corporations, the Hang Seng Bank, to provide an exclusive real-time Simplified Chinese version of its official website through the Group's patented HanWEB Publishing Server. With the incorporation of the Simplified Chinese interface, banking services will be more convenient for mainlanders, and lead to a wider customer base for the bank.

Additionally, the Group also successfully clinched another agreement with the e-government portal, ESD Life, to provide real-time Simplified Chinese conversion of its website content through its patented HanWEB Publishing Server, adding another prominent customer to the Group's solid client base.

Voice-based Technology

Given the increased activities across the border, the Group successfully won its first logistics customer in Shenzhen to provide a Traditional Chinese interface for its website content with regard to its frequent enquiries on cargo transportation to the PRC. This website will further extend the application of the Group's HanPhone technology for text-to-speech conversion at a later stage.

The Group also worked closely with the Hong Kong Society for the Blind to build the world's first digital voice library system for the visually impaired in Hong Kong. Equipped with the Group's award-winning online text-to-speech HanPhone technologies, Chinese webpages can be translated in real-time into Cantonese and Putonghua speech and listened by simply using the telephone keypad. With different functions available, users can also listen to an article or book, jump a paragraph or increase the speed of the recording according to their own preferences. The project was supported by the Social Welfare Department with a HK\$1.38 million business improvement grant.

FUTURE PROSPECTS

Aware that income from the pure sale of software is subject to cyclical economic conditions, the Group is now aggressively exploring new and recurring streams of income from other potential market sectors for wider applications of its text-to-speech technology platform.

Capitalizing on its advanced HanPhone Interactive Voice Response System (IVRS), the Group is introducing an innovative football paid phone service to provide real-time information and professional football commentaries on the UK Premier League, European National Cup, as well as other local and international soccer matches. Additionally, the Group is also planning to integrate further applications into its paid phone system, where callers will be able to use a voice message to retrieve related information.

The Group is also aggressively exploring market opportunities in the ringtone industry by providing a Do-It-Yourself (“DIY”) ringtone platform, which further expands its text-to-speech technology applications. The ringtone service distinguishes itself by enabling users to translate their favourite music and voice messages into a ringtone format using the Group’s internet-based DIY platform. Text information can also be converted into voice as a ring-tone format for SMS-like applications to be heard over mobile phones or when integrated to HanPhone, users can hear information and listen to music from designated telephone gateways.

Looking ahead, the Group is confident that its profitability will soon be enhanced due to the wider applications of its text-to-speech technology. Both the football paid phone service and the DIY ringtone platform are expected to generate satisfactory results for the Group in the future, improving KanHan’s recognition in the market and enhancing its revenue base.

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. The Group adopts a conservative treasury policies in cash and financial management. Cash is generally placed in bank, mostly denominated in Hong Kong dollars. The Group’s liquidity and financing arrangement are reviewed regularly, and the Group intends to apply the proceeds, from the listing of the Company in GEM in the manner as disclosed in the Prospectus.

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 6,423,000 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 30th September, 2003, the group had no material contingent liabilities.

EMPLOYEE INFORMATION

As at 30th September, 2003, the Group had 14 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 skill 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 directors	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 the 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 30th September, 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 year of age were granted or had exercised any rights to subscribe for the securities of the Company.

SHARE OPTIONS

As at 30th September, 2003, no share option has been granted by the Company under the share option scheme.

DIRECTORS' INTERESTS IN CONTRACTS

In the nine months period ended 30th September, 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\$360,000. The Group paid consultancy fee, a total of HK\$340,000 during the nine months period ended 30th September, 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\$64,000 during the nine months period ended 30th September, 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 30th September, 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%
Alexandra Global investment Fund I, Ltd	75,010,000	15.42%
Alexandra Investment Manager, LLC	75,010,000	15.42%

- * 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 30th September 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 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 the 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 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 nine months period ended 30th September, 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 Executive Director

Hong Kong, 10th November, 2003