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)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30TH SEPTEMBER, 2004

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.

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.

* *For identification purposes only*

HIGHLIGHTS

- The unaudited turnover of the Group for the nine months ended 30th September 2004 was approximately HK$3,734,000, representing about 118% increase as compared with that of the corresponding period in 2003.

- The Directors do not recommend any payment of an interim dividend for the nine months ended 30th September 2004.

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 respective three months and nine months ended 30th September, 2004, together with the comparative figures for the corresponding period in 2003 as follows:–

		Three months ended 30th September		**Nine months ended 30th September**	
		2004	2003	**2004**	2003
	NOTES	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover	*2*	**904**	879	**3,734**	1,710
Direct costs		**(434)**	(753)	**(1,331)**	(1,265)
Gross profit		**470**	126	**2,403**	445
Other operating income		–	2	–	46
Selling and distribution expenses		**(1,183)**	(360)	**(2,001)**	(902)
Administrative expenses		**(1,658)**	(1,853)	**(4,523)**	(4,810)
Loss from operations		**(2,371)**	(2,085)	**(4,121)**	(5,221)
Finance costs		–	–	–	(5)
Loss before taxation		**(2,371)**	(2,085)	**(4,121)**	(5,226)
Taxation	*3*	–	–	–	–
Loss for the period		**(2,371)**	(2,085)	**(4,121)**	(5,226)
Loss per share – Basic	*4*	**0.44 cents**	0.43 cents	**0.82 cents**	1.07 cents

Notes:

1. Basis of Preparation

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 accounting policies adopted in the preparation of these unaudited consolidated accounts are consistent with those used in the annual financial statements for the year ended 31st December, 2003. These unaudited accounts have been prepared in accordance with Statements of Standard Accounting Practice, the accounting principles generally accepted in Hong Kong, the disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules.

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,	
	2004	2003	**2004**	2003
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Sales of licensed software	**486**	828	**2,759**	1,582
Software maintenance	**177**	45	**494**	111
Software rental and subscription income	**160**	6	**309**	17
	823	879	**3,562**	1,710
Putonghua learning platform	**81**	–	**172**	–
	904	879	**3,734**	1,710

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 ended 30th September, 2004 (2003: Nil).

4. Loss Per Share

The computation of the Group's basic loss per share for the three months ended 30th September, 2004 is based on the Group's loss attributable to shareholders of approximately HK$2,371,000 (2003: a loss of approximately HK$2,085,000) and on the weighted average number of 537,190,122 shares (2003: 486,432,000 shares)

The computation of the Group's basic loss per share for the nine months ended 30th September, 2004 is based on the Group's loss attributable to shareholders of approximately HK$4,121,000 (2003: a loss of approximately HK$5,226,000) and on the weighted average number of 503,474,873 shares (2003: 486,432,000 shares).

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

5. Dividend

No dividend has been paid or declared by the Company or any of its subsidiaries for the nine months ended 30th September 2004 (2003: Nil).

6. **Movement of Reserves**

The Group

	Share premium	Share reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2003				
At 1st January, 2003	9,298	–	(7,037)	2,261
Loss for the 9 months ended 30th September, 2003	–	–	(5,226)	(5,226)
Arising from Group reorganization	(9,298)	10,084	–	786
Issue of shares by way of capitalization	(4,085)	–	–	(4,085)
Issues of shares upon conversion of convertible notes	1,740	–	–	1,740
Issue of shares under the placing	19,200	–	–	19,200
Share issue expenses	(5,019)	–	–	(5,019)
At 30th September, 2003	11,836	10,084	(12,263)	9,657

	Share premium	Share reserve	Accumulated losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2004				
At 1st January, 2004	11,836	10,084	(23,745)	(1,825)
Loss for the 9 months ended 30th September, 2004	–	–	(4,121)	(4,121)
Issue of shares under the placing	8,027	–	–	8,027
Share placement expenses	(540)	–	–	(540)
At 30th September, 2004	19,323	10,084	(27,866)	1,541

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATION

The Group recorded a turnover of approximately HK$3,734,000 for the nine months ended 30th September, 2004 (2003: HK$1,710,000) representing about 118% increase as compared to that of previous period in 2003. The net loss for the period amounted to approximately HK$4,121,000 (2003: net loss of approximately HK$5,226,000).

Operating expenses for the period slightly increased by 14% to HK$6,524,000 as compared to HK$5,712,000 of the same period last year. The increase was mainly attributable to the marketing and promotional expenses incurred in developing the DIY Ring-tone service in the PRC.

BUSINESS REVIEW AND OUTLOOK

The Group entered second half of 2004 with an enlarged capital base due to a successful new share placement to YesMobile Holdings Company Limited ("YesMobile"). Discussions and business collaboration is being undertaken with YesMobile, being a PRC and Hong Kong value-added mobile phone service provider in adopting's KanHan DIY Ringtone and IVR technologies to complement its service offerings to the market. KanHan Guangzhou office is trying to resell some of YesMobile service and products to its PRC business partners. We are optimistic the synergy will exist and reflect in the new businesses to the Group in the coming year.

Traditional Business

The software sales remains challenging in market. Customers' decision in buying HanWEB remains slow as a result of slow implementation of new website projects and other factors. For example, a large utility company took 11 months to become a customer of KanHan in its website project. As such, sales performance is still behind our expectation. Our sales front log is skewed towards the areas of HanPhone and HanVoice applications. As a result, Interactive Voice Response (IVR) systems may be our core revenue contributor in the next two quarters. This is a direct reflection of the information technology "fashion" in the market. As expected, IVR business is a big ticket item with respectable margin percentage. The new turnkey solution includes the integration of HanPhone/HanVoice into new breed of Internet based telephone switching systems and thus a replacement product of the main stream telecommunication equipment.

Chinese JAWS, a screen reader software assisting the visually impaired in using computers has begun its volume shipment in the quarter with more than 30 copies shipped already. This is a catch up exercise due to a slow software development effort in the past. The Group by now has mastered seasoned skill set in developing applications in this market.

Non Traditional Business

Info-Tone Payment and Delivery Gateway

The Group has temporarily suspended its plan in launching the fee based call phone business in Hong Kong while we are shifting our focus in SMS, WAP and MMS services to China with the help of YesMobile.

DIY Ring-tone Service

Tencent, the leading China mobile service provider under the brand name QQ released a basic version of KanHan's DIY Ring-tone service platform in September. The service was rolled out without much fanfare as originally planned due to the depressed market condition caused by the sanction against service providers by the mobile operators. We are in discussion with Tencent to launch a full functional DIY Ring-tone platform in Q1 2005.

Putonghua ("PTH") Learning Platform

The Group won a milestone project in demonstrating our ability in the PTH web-based learning platform. Beginning in November, all of Vocational Training Council's (VTC) teaching and administrative staff will be able to learn PTH at their own pace and time via KanHan PTH platform. The e-learning platform offers users comprehensive curriculum ranging from entry level to advanced stage PTH knowledge. Moreover, there is an online IT based examination for students prior to their language standard acknowledgement . This project also sets the stage for KanHan to get into corporate training market. VTC is a customer and our reseller in this market. The Group is also aiming at large organizations for staff training purposes.

Research and Development

The Group's HanPhone/HanVoice Server technology was awarded in August a Certificate of Merit in the product category of the 6th IT Excellence Award from Hong Kong Computer Society. This is the sixth award the Group has won in the past 4 years and serves as a strong vindication of the Company's leading position in technology development and innovation.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial resources

On 14th August, 2004, the Company completed the placement of 97,286,400 new Shares to YesMobile Holdings Company Limited ("YesMobile") at the Subscription Price of HK$9,000,000, representing approximately HK$0.0925 per Subscription Share. The Directors of the Company believes that YesMobile will create synergy with the Group to explore the markets in the PRC.

During the nine months ended 30th September, 2004, the Group financed its operation by the net proceeds of the placing of shares and the internal financial resources of the Group.

During the period, the Group did not make any material acquisitions and disposal of subsidiaries and affiliated companies and investment.

As at 30th September, 2004, (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. It is expected that the Group may raise bank borrowings should the need arise.

As announced on 12th December, 2003, the Company signed an agreement (subject to completion) with a discretionary fund in that the fund would provide a financing facility to the Company by investing, at the sole discretion of the Company, up to HK$100 million in new ordinary shares to be issued by the Company to the fund over three years from the date of completion. Under the agreement, following the issue of a drawdown notice by the Company, the fund will purchase the shares at a price equivalent to 90% of the average closing price of listed shares in the Company during the 15 consecutive trading days immediately prior to the date of drawdown. The agreement also provides that the fund will be granted warrants to subscribe for shares of the Company equivalent to 25% of the number of shares issued to the fund. The warrant will have a term of three years and an exercise price equivalent to the market price of the Company's shares on the date of pricing of the shares. At the date of this report, the Company is still in the process of negotiations of the terms of the equity financing facility with the discretionary fund.

The Board is of the opinion that the Group has sufficient working capital for its present requirement, and is satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

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.

CONTINGENT LIABILITIES

As at 30th September, 2004, the Group had no material contingent liabilities.

DIRECTORS' INTERESTS IN SHARES OF THE COMPANY

As at 30th September, 2004, the interests of the directors of the Company and their associates in the shares or underlying shares 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 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:

Long positions

Ordinary shares of HK$0.01 each of the Company

Name	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Mo Wai Ming, Lawrence	Beneficial owner	176,008,000	30.14%
Ms. Wai Lai Yung	Beneficial owner	2,512,000	0.43%
	Held by controlled corporations*	84,072,000	14.40%
Mr. Lee Chi Ming	Beneficial owner	1,432,000	0.25%
Mr. Yuen Ka Lok, Ernest	Beneficial owner	1,432,000	0.25%

* Ms. Wai Lai Yung beneficially owns 50% issued capital of Metrolink Holdings Limited ("Metrolink"), 45.45% issued capital of ZMGI Corporation ("ZMGI") and 100% issued capital of Golden Nugget Resources Limited ("Golden Nugget") which held 3,616,000, 40,432,000 and 40,024,000 shares in the Company respectively.

Save as disclosed above, as at 30th September, 2004, 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 30th September, 2004, no share option has been granted by the Company under the share option scheme.

SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2004, 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 ordinary shares held	Percentage of the issued share capital of the Company
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%
Mr. Lai Kui Shing, Andy	Held by controlled corporations *(note i)*	44,048,000	7.55%
Metrolink	Beneficial owner	3,616,000	0.62%
	Held by controlled corporations *(note ii)*	40,432,000	6.93%
ZMGI	Beneficial owner	40,432,000	6.93%
Golden Nugget	Beneficial owner	40,024,000	6.85%

Notes:

(i) Mr. Lai Kui Shing, Andy beneficially owns 50% issued capital of Metrolink and beneficially owns 44.25% issued capital of ZMGI.

(ii) Metrolink beneficially owns 88.5% issued capital of ZMGI.

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 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, 2004 pursuant to Rules 6.36 and 18.63 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 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 5.34 to 5.45 of the GEM Listing Rules during the nine months ended 30th September, 2004.

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 5.28 to 5.30 of 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 nine months ended 30th September, 2004 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, 11th November, 2004