



THIRD QUARTERLY REPORT 2007

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”)

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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.



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 nine months ended 30 September 2007 together with the comparative figures for the corresponding periods in 2006 as follows:–

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2007

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Turnover	3	1,324	1,052	5,101	4,118
Cost of sales		(504)	(367)	(2,345)	(1,906)
Gross profit		820	685	2,756	2,212
Other income/(expenses)		(100)	90	238	432
Research and development expenses		(250)	(292)	(875)	(859)
Selling and distribution expenses		(907)	(284)	(1,533)	(853)
Administrative expenses		(2,973)	(1,265)	(6,104)	(3,641)
Loss before taxation		(3,410)	(1,066)	(5,518)	(2,709)
Taxation	4	–	–	–	–
Loss for the period		(3,410)	(1,066)	(5,518)	(2,709)
Attributable to:					
Equity holders of the Company		(2,287)	(1,066)	(4,280)	(2,709)
Minority interests		(1,123)	–	(1,238)	–
Loss per share – Basic	6	(0.31 cents)	(0.18 cents)	(0.64 cents)	(0.48 cents)



UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2007

	Share capital	Share premium	Special reserve	Warrant subscription reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)							
2006										
At 1 January 2006	7,004	20,704	10,084	-	-	567	(37,608)	751	-	751
Exercise of share options	370	1,270	-	-	-	(567)	-	1,073	-	1,073
Issue of rights shares	22,124	3,097	-	-	-	-	-	25,221	-	25,221
Share issuing expenses	-	(2,250)	-	-	-	-	-	(2,250)	-	(2,250)
Loss for the period	-	-	-	-	-	-	(2,709)	(2,709)	-	(2,709)
30 September 2006	29,498	22,821	10,084	-	-	-	(40,317)	22,086	-	22,086

	Share capital	Share premium	Special reserve	Warrant subscription reserve	Exchange reserve	Employee share-based compensation reserve	Accumulated losses	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)							
2007										
At 1 January 2007	29,498	22,821	10,084	1,469	(24)	2,314	(43,881)	22,281	-	22,281
Exercise of share options	150	837	-	-	-	(357)	-	630	-	630
Exercise of warrants	1,000	2,349	-	(249)	-	-	-	3,100	-	3,100
Issue of consideration shares (note b)	6,788	10,181	-	-	-	-	-	16,969	-	16,969
Share issuing expenses	-	(744)	-	-	-	-	-	(744)	-	(744)
Exchange differences arising from consolidation	-	-	-	-	8	-	-	8	-	8
Acquisition of subsidiary	-	-	-	-	-	-	-	-	12,998	12,998
Loss for the period	-	-	-	-	-	-	(4,280)	(4,280)	(1,238)	(5,518)
At 30 September 2007	37,436	35,444	10,084	1,220	(16)	1,957	(48,161)	37,964	11,760	49,724

Notes:

- (a) 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.
- (b) The Company issued 135,750,000 shares of HK\$0.05 each and credited as fully paid in consideration for acquisition of the entire equity interest in Silky Sky Investments Limited.



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. The Company is also engaged in the provision of software related services. In addition, the Group is engaged in the production and distribution of organic fertilizer through a technology which converts organic waste into organic fertilizer.

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 2006.

3. TURNOVER

Turnover comprises revenue from the following activities in the Group's business:

	Three months ended		Nine months ended	
	30 September		30 September	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of licensed software	646	496	3,250	2,759
Software maintenance	218	180	585	555
Software rental and subscription income	65	102	225	226
Website development	250	140	579	288
Putonghua learning platform	145	134	462	290
	1,324	1,052	5,101	4,118

4. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the nine months ended 30 September 2007 (2006: Nil).



5. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (2006: Nil).

6. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 30 September 2007 is based on the loss for the period of approximately HK\$2,287,000 (2006: HK\$1,066,000) and on the weighted average number of 748,716,720 shares (2006: 589,966,720 shares).

The computation of the basic loss per share for the nine months ended 30 September 2007 is based on the loss for the period of approximately HK\$4,280,000 (2006: HK\$2,709,000) and on the weighted average number of 668,055,548 shares (2006: 564,326,162 shares).

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Results of operation

For the nine months ended 30 September 2007, the Group's recorded a turnover of approximately HK\$5,101,000 which increased by approximately 23.87% compared to the corresponding period last year.

Turnover generated from sales of licensed software, customarily the Group's principal source of revenue, was approximately HK\$3,250,000 (2006: HK\$2,759,000), accounting for approximately 63.71% (2006: 67%) of the turnover for the period under review. In addition, the subscription income from e-Putonghua learning platform increased by 59.31% to HK\$462,000. As of this report is published, there were orders received in respect of the organic fertilizer business which will contribute income in the fourth quarter this year.

Net loss attributable to equity holders of approximately HK\$2,287,000 and HK\$4,280,000 were recorded respectively for the three months and nine months ended 30 September 2007, compared to net loss attributable to equity holders of approximately HK\$1,066,000 and HK\$2,709,000 respectively in the corresponding periods in previous year. Administrative expenses increased to approximately HK\$6,104,000 in the nine months ended 30 September 2007 from approximately HK\$3,641,000 in the same period last year. Such increase was attributable to the increase in professional expenses incurred for business operations and the consolidation of the results of Silky Sky Investments Limited and its subsidiaries.



Business review and outlook

Despite without a major win in the third quarter, enquiry on HanPHONE IVR continues to grow with a number of projects to be closed in the last quarter. Promotion of the HanPHONE IVR system with real-time stock quote feeds was begun in September 2007 targeting small to medium size stock brokerage firms in improving customer service. At the same time, HanWEB was also promoted to the brokerages in providing a simplified Chinese interface to their trading website for customers originated from China.

More HanWEB businesses are forecasted for the last quarter of 2007 as many HKSAR Government departments are migrating their websites to new internet technologies stimulating citizens' active engagement. There is also a surge of HanWEB enquiry from the media companies.

The new version of screen reading software Chinese JAWS supporting Windows VISTA system was announced in September. Shipment began in early November 2007. An upgrade program will be offered to the previous version of Chinese JAWS sold in the past few years.

The e-Putonghua business continues to grow at a steady pace in the new school term with a successful introduction of a new daily reading program to primary schools. The unique integrated learning and teaching platform has begun to win subscription from some traditional band one schools.

A major attraction of the e-Putonghua platform in providing real-time text-to-speech function has been licensed by Yahoo Hong Kong and Taiwan to be one major featured service launched in November 2007. The new service will provide Chinese and English text-to-speech translation in real-time with Putonghua pinyin as an option supplementing the Chinese text.

The EFAX/SMS business maintains a stable monthly income with a leading school IT service provider beginning to broadcast daily student attendance records to their parents. Promotion to the major fashion chains in adopting the SMS platform for their holiday season marketing campaign will begin in November 2007.

During the period under review, the Company acquired the equity interest in Silky Sky Investments Limited and its subsidiaries, which are principally engaged in the production and distribution of organic fertilizer in the PRC. The Group has always been active in seeking investment opportunities with a vision to actively participate and develop the Group business in the agricultural industry in the PRC in the long run. At the date of this report, the Group has announced a major transaction in acquiring the water supply business in the rural areas of the PRC with an aim to serve as a complement to the organic fertilizer business in the PRC. Details of the proposed acquisition of the water supply business were disclosed in the announcements of the Company dated 4 October 2007 and 2 November 2007 respectively.



Material acquisitions or disposal of subsidiaries and affiliated companies

- (a) During the period under review, Rise Assets Limited ("Rise Assets"), a wholly-owned subsidiary of the Company entered into a conditional sale and purchase agreement with Mr. Yang Pei Gen ("the Vendor") to acquire the entire issued share capital of Silky Sky Investments Limited ("Silky Sky") and all obligations, indebtedness and liabilities due by Silky Sky to the Vendor for a total consideration of HK\$61,000,000.

Sky Rich Investments Limited, a wholly-owned subsidiary of Silky Sky, owns 51% equity interest in Beijing Shiji Jiangshan Resource Recycling Technology Limited (北京世紀江山再生資源技術開發有限公司) ("Shiji Jiangshan"). Shiji Jiangshan, an equity joint venture company established in the PRC, is principally engaged in the production and distribution of organic fertilizer through a technology which converts organic wastes into organic fertilizer.

- (b) On 29 October 2007, Rise Assets entered into the agreement with Proud Dragon Limited ("Proud Dragon") and Mr. Yip Yuk Tong ("the Vendor") in relation to the acquisition of the equity interest held by the Vendor in Proud Dragon with a consideration of HK\$47,600,000 which comprises the Sale Consideration and the Subscription Consideration. The Sale Consideration will be settled as to HK\$6,200,000 by cash, HK\$10,000,000 by convertible bond and balance of HK\$15,600,000 by promissory note, whereas the Subscription Consideration of HK\$15,800,000 will be settled by cash.

Upon reorganization, Proud Dragon will hold 70% equity interest in Dang Tu Xian Zhong Tian Water Supply Limited (當涂縣中天供水有限公司) which is principally engaged in the management of water plants and the provision of water supply in the rural areas of the PRC.

As of the date of this report, the Company has paid HK\$6,200,000 to the Vendor for part of the Sale Consideration.

Details of the acquisition were set out in the announcements of the Company dated 4 October 2007 and 2 November 2007 respectively.



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

As at 30 September 2007, the interests and short positions 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:

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	20,057,280	2.68%
Mr. Pang Hong Tao (<i>Note 2</i>)	Beneficial owner	7,000,000	0.93%
Mr. Ma She Shing, Albert (<i>Note 3</i>)	Beneficial owner	5,800,000	0.77%
Ms. Au Shui Ming, Anna (<i>Note 4</i>)	Beneficial owner	15,000,000	2.00%

Notes:

- Mr. Mo is interested in 14,257,280 shares and was granted options to subscribe for 4,400,000 shares on 5 June 2006 and 1,400,000 shares on 13 February 2007 at a subscription price of HK\$0.21 and HK\$0.19 per share respectively.
- Mr. Pang was granted options to subscribe for 7,000,000 shares on 14 August 2007 at a subscription price of HK\$0.205 per share.
- Mr. Ma was granted options to subscribe for 4,400,000 shares on 5 June 2006 and 1,400,000 shares on 13 February 2007 at a subscription price of HK\$0.21 and HK\$0.19 per share respectively.
- Ms. Au is interested in 3,200,000 shares and was granted options to subscribe for 4,600,000 shares on 5 June 2006, 1,200,000 shares on 13 February 2007 and 6,000,000 shares on 14 August 2007 at a subscription price of HK\$0.21, HK\$0.19 and HK\$0.205 per share respectively.

Save as disclosed above, as at 30 September 2007, 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 were as follows:

Categories of grantees	As at 1 January 2007	Options granted during the period	Options exercised during the period	Outstanding at 30 September 2007	Exercise price HK\$	Grant date	Exercisable period
Directors							
Mo Wai Ming,	4,400,000	-	-	4,400,000	0.210	5/6/2006	5/6/2006 - 4/6/2016
Lawrence	-	1,400,000	-	1,400,000	0.190	13/2/2007	13/2/2007 - 12/2/2017
Pang Hong Tao	-	7,000,000	-	7,000,000	0.205	14/8/2007	14/8/2007 - 13/8/2017
Ma She Shing,	4,400,000	-	-	4,400,000	0.210	5/6/2006	5/6/2006 - 4/6/2016
Albert	-	1,400,000	-	1,400,000	0.190	13/2/2007	13/2/2007 - 12/2/2017
Au Shui Ming,	4,600,000	-	-	4,600,000	0.210	5/6/2006	5/6/2006 - 4/6/2016
Anna	-	1,200,000	-	1,200,000	0.190	13/2/2007	13/2/2007 - 12/2/2017
	-	6,000,000	-	6,000,000	0.205	14/8/2007	14/8/2007 - 13/8/2017
Employees							
	6,000,000	-	(3,000,000)	3,000,000	0.210	5/6/2006	5/6/2006 - 4/6/2016
	-	7,000,000	-	7,000,000	0.205	14/8/2007	14/8/2007 - 13/8/2017
	19,400,000	24,000,000	(3,000,000)	40,400,000			



SUBSTANTIAL SHAREHOLDERS

As at 30 September 2007, other than the interests of directors 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>)	179,005,492	23.91%
Manciple Enterprises Limited	Person having a security interest in shares (<i>note 1</i>)	179,005,492	23.91%
Mr. Yip Yung Kan	Beneficial owner (<i>note 2</i>)	2,070,000	0.28%
	Interest of a controlled corporation (<i>note 3</i>)	117,800,000	15.73%
Glory Force Limited	Person having a security interest in shares (<i>note 3</i>)	117,800,000	15.73%
Mr. Yang Pei Gen	Beneficial owner (<i>note 4</i>)	142,750,000	19.07%

Notes:

1. Manciple Enterprise Limited is 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.
2. Mr. Yip held 1,970,000 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 subscriber for 117,800,000 new shares at a subscription price of HK\$0.155 per share. On 22 June 2007, the subscription rights attaching to 20,000,000 warrants were exercised, resulting in issue of 20,000,000 ordinary shares.
4. Mr. Yang is a director of subsidiaries of the Company. Mr. Yang held 135,750,000 shares and was granted options to subscribe for 7,000,000 shares on 14 August 2007 at a subscription price of HK\$0.205 per share.

Save as disclosed above, as at 30 September 2007, the directors of the Company were not aware of any other person (other than the directors and chief executive 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 2007, 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 2007.

COMPLIANCE WITH CODE OF CORPORATE GOVERNANCE

During the nine months ended 30 September 2007, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules except that no nomination committee of the Board is established.

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. William Hsu Shiu Foo, 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 2007 have been reviewed by the audit committee, which was of the opinion that the preparation of such statements complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

As at the date of this report, Mr. Mo Wai Ming, Lawrence, Mr. Ma She Shing, Albert, Mr. Pang Hong Tao and Ms. Au Shui Ming, Anna are executive Directors, and Mr. Hsu William Shiu Foo, 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 2007