



FIRST QUARTERLY REPORT 2007

Kan han

KanHan Technologies Group Limited
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8175)



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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.



FIRST 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 three months ended 31 March 2007 together with the comparative figures for the corresponding periods in 2006 as follows:-

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 31 March 2007

| | NOTES | Three months ended 31 March | |
|-----------------------------------|-------|--------------------------------|------------------|
| | | 2007 HK\$'000 | 2006 HK\$'000 |
| Turnover | 3 | 1,392 | 1,415 |
| Cost of sales | | (637) | (771) |
| Gross profit | | 755 | 644 |
| Other income | 4 | 408 | 92 |
| Research and development expenses | | (356) | (280) |
| Selling and distribution expenses | | (304) | (279) |
| Administrative expenses | | (1,506) | (1,095) |
| Loss before taxation | | (1,003) | (918) |
| Taxation | 5 | - | - |
| Loss for the period | | (1,003) | (918) |
| Attributable to: | | | |
| Equity holders of the Company | | (1,003) | (918) |
| Loss per share – Basic | 7 | (0.17 cents) | (0.18 cents) |



UNAUDITED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2007

| | Share capital | Share premium | Special reserve | Warrant Subscription reserve | Exchange Reserve | Employee share-based compensation reserve | Accumulated losses | Total |
|---------------------------|------------------|------------------|--------------------|------------------------------------|---------------------|--|-----------------------|----------|
| | 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 |
| Exercise of share options | 370 | 1,270 | - | - | - | (567) | - | 1,073 |
| Issue of rights shares | 22,124 | 3,097 | - | - | - | - | - | 25,221 |
| Issue of shares expenses | - | (2,000) | - | - | - | - | - | (2,000) |
| Loss for the period | - | - | - | - | - | - | (918) | (918) |
| At 31 March 2006 | 29,498 | 23,071 | 10,084 | - | - | - | (38,526) | 24,127 |
| 2007 | | | | | | | | |
| At 1 January 2007 | 29,498 | 22,821 | 10,084 | 1,469 | (24) | 2,314 | (43,881) | 22,281 |
| Loss for the period | - | - | - | - | - | - | (1,003) | (1,003) |
| At 31 March 2007 | 29,498 | 22,821 | 10,084 | 1,469 | (24) | 2,314 | (44,884) | 21,278 |

Note:

- (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.



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. In addition, the Company is also engaged in the provision of software related services.

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 server-based language technology business:

| | Three months ended 31 March | |
|---|--------------------------------|------------------|
| | 2007 HK\$'000 | 2006 HK\$'000 |
| Sales of licensed software | 987 | 983 |
| Software maintenance | 186 | 184 |
| Software rental and subscription income | 48 | 64 |
| Website development | – | 148 |
| Putonghua learning platform | 171 | 36 |
| | 1,392 | 1,415 |

4. OTHER INCOME

Other income mainly represents the interest income from bank deposits.

5. TAXATION

No provision for taxation has been made as the Group had no assessable profit for the three months ended 31 March 2007 (2006: Nil).

6. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007 respectively (2006: Nil).



7. LOSS PER SHARE

The computation of the basic loss per share for the three months ended 31 March 2007 is based on the loss for the period of approximately HK\$1,003,000 (2006: HK\$918,000) and on the weighted average number of 589,966,720 shares (2006: 512,190,362 shares).

No diluted loss per share was 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 three months ended 31 March 2007, the Group recorded a turnover of approximately HK\$1,392,000 (2006: HK\$1,415,000) and a net loss of approximately HK\$1,003,000 (2006: HK\$918,000).

Turnover generated from sales of licensed software, customarily the Group's principal source of revenue, was approximately HK\$987,000 (2006: HK\$983,000), accounting for approximately 70.90% (2006: 69.5%) of the turnover for the period under review. In addition, the subscription income from e-Putonghua platform increased by 3.75 times to approximately HK\$171,000.

Administrative expenses for the first quarter amounted to approximately HK\$1,506,000 (2006: HK\$1,095,000), representing an increase of 37.5%. The increase was mainly due to the increase in professional expenses incurred for the business operations.

Business Review and Outlook

Software Sales Business

The most notable achievements of the quarter are the successful launch of three major HanPHONE IVR projects, namely, the Housing Department's 24-hour rent enquiry hotline equipped with the latest voice recognition technology, the warrant trade hotline for KBC Financial Products and a major utility's engineering service telephone booking system. Due to the high profile success of these cases plus the large scale deployment of HanPHONE IVR in Hospital Authority's outpatient telephone booking system, we have received a lot more enquiries for IVR and telephony applications than last year. We are optimistic of further growth of the HanPHONE IVR business for the rest of the year.

The third phase of Jockey Club funding bought 18 sets of Chinese JAWS for the visually impaired persons from KanHan. Application for the forth phase will start in May this year. We are now planning a brand new version of Chinese JAWS with support to Microsoft's Windows VISTA version in 4th quarter this year.



Service Business

The e-Putonghua business continues its steady growth in all fronts. More large corporations are subscribing to the adult version for employee training such as Esquel Group, Deloitte Touche Tohmatsu and City University. The government's Civil Service Bureau has opted for more industry contents for civil servant training in Putonghua including law and accountancy. We also see growth in retail subscription to the adult training platform due to the persistent exposure in the Yahoo Dictionary service.

There are now close to 80 primary and secondary schools subscribing to the school Putonghua platform for teaching purpose. We are optimistic the growth in this sector will be faster when teaching plans are introduced to schools in the coming school term such that Putonghua teachers will have a carefully and professional written curriculum in both online and printed format that are superior to traditional text books.

The EFAX business maintains a stable monthly income. We are forecasting major growth in SMS broadcasting business for rest of the year due to the incorporation of our SMS gateway in a number of IT applications including school intranet and ERP.

MAJOR TRANSACTION

On 21 March 2007, 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 obligation, indebtedness and liabilities due by Silky Sky to the Vendor (the "Proposed Acquisition"). The total consideration amounted to HK\$61,000,000 and will be settled in the following manner:

- (i) HK\$20,000,000 as deposit which has already been paid by Rise Assets to the Vendor pursuant to the terms of the sale and purchase agreement;
- (ii) HK\$16,968,750 by procuring the Company to allot and issue 135,750,000 consideration shares at an issue price of HK\$0.125 per share; and
- (iii) HK\$24,031,250 by issuing the promissory note to the Vendor.

Sky Rich Limited, a wholly-owned subsidiary of Silky Sky, owns as to 51% of interest in Beijing Shiji Jiangshan Resource Recycling Technology Limited ("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.

As at the date of this report, an ordinary resolution to approve the Proposed Acquisition and the transactions contemplated under the sale and purchase agreement, including but not limited to the allotment and issue of 135,750,000 consideration shares to the Vendor was passed by the shareholders at the extraordinary general meeting held on 11 May 2007.



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

As at 31 March 2007, the interests and short position of the directors and chief executives 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:

(a) Directors' 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 | 149,824,172 | 25.40% |
| Mr. Ma She Shing, Albert (<i>Note 2</i>) | Beneficial owner | 11,400,000 | 1.93% |

(b) Directors' short 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 | 129,766,892 | 22.00% |

Notes:

- Mr. Mo is interested in 144,024,172 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 per share and HK\$0.19 per share respectively.
- Mr. Ma is interested in 5,600,000 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 per share and HK\$0.19 per share respectively.



Save as disclosed above, as at 31 March 2007, none of the directors nor the chief 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 are as follows:

| Categories of grantees | As at 1 January 2007 | Options granted during the period (Note 1) | Options exercised during the period | Options Outstanding at 31 March 2007 | Exercise price HK\$ | Grant date | Exercisable period |
|------------------------|----------------------------|--|--|--|---------------------------|------------|--------------------------|
| Directors | | | | | | | |
| Mo Wai Ming, Lawrence | 4,400,000 | – | – | 4,400,000 | 0.21 | 5/6/2006 | 5/6/2006 – 4/6/2016 |
| | – | 1,400,000 | – | 1,400,000 | 0.19 | 13/2/2007 | 13/2/2007 – 12/2/2017 |
| Ma She Shing, Albert | 4,400,000 | – | – | 4,400,000 | 0.21 | 5/6/2006 | 5/6/2006 – 4/6/2016 |
| | – | 1,400,000 | – | 1,400,000 | 0.19 | 13/2/2007 | 13/2/2007 – 12/2/2017 |
| Employees | | | | | | | |
| | 10,600,000 | – | – | 10,600,000 | 0.21 | 5/6/2006 | 5/6/2006 – 4/6/2016 |
| | – | 1,200,000 | – | 1,200,000 | 0.19 | 13/2/2007 | 13/2/2007 – 12/2/2017 |
| | 19,400,000 | 4,000,000 | – | 23,400,000 | | | |

Notes:

- (1) During the period, options to subscribe for 4,000,000 shares were granted on 13 February 2007 at a subscription price of HK\$0.19 per share. The closing price of the shares immediately before the date on which the options were granted was HK\$0.21 on 12 February 2007.



SUBSTANTIAL SHAREHOLDERS

As at 31 March 2007, other than the interests of a director 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 (<i>note 1</i>) | Interest of a controlled corporation | 129,766,892 | 22.00% |
| Manciple Enterprises Limited (<i>note 1</i>) | Person having a security interest in shares | 129,766,892 | 22.00% |
| Mr. Yip Yung Kan (<i>note 2</i>) (<i>note 3</i>) | Beneficial owner Interest of a controlled corporation | 2,760,000 117,800,000 | 0.47% 16.64% |
| Mr. Yang Pei Gen (<i>note 4</i>) | Beneficial owner | 135,750,000 | 18.71% |

Notes:

- Pursuant to a share charge agreement dated 13 April 2005, 129,766,892 of the 144,024,172 shares held by Mr. Mo Wai Ming, Lawrence, have been charged in favour of Manciple Enterprises Limited ("Manciple"), 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. Under the SFO, each of Manciple and Mr. Lau is deemed to be interested in these 129,766,892 shares.
- Mr. Yip Yung Kan ("Mr. Yip") held 2,660,000 shares and his spouse, Ms. Lei I Si held 100,000 shares.
- 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. Upon full exercise of the subscription rights attaching to the warrants, a total of 117,800,000 new shares, representing 16.64% of the issued share capital of the Company as enlarged by the issue of new shares.
- Mr. Yang Pei Gen ("Mr. Yang") is interested in 135,750,000 consideration shares pursuant to the sale and purchase agreement dated 21 March 2007. Upon the issue of the consideration shares, a total of new shares, representing 18.71% of the issued share capital of the Company as enlarged by the issue of the consideration shares.



Save as disclosed above, as at 31 March 2007, the directors of the Company were not aware of any other person (other than the directors and chief executives 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 31 March 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 31 March 2007.

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. Hsu Shiu Foo, William, 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 three months ended 31 March 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 and Mr. Ma She Shing, Albert are executive Directors, and Mr. Hsu Shiu Foo, William, 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, 14 May 2007