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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

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 (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of The Stock Exchange ("GEM Listing Rules") for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm 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 purpose only*

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") is pleased to present the audited consolidated financial statements of KanHan Technologies Group Limited (the "Company") and its subsidiaries (together the "Group") for the year ended 31 December 2005 together with the comparative audited figures for the year 2004, as follows:

Consolidated Income Statement
For the year ended 31 December 2005

	NOTE	**2005**	2004
		HK$'000	*HK$'000*
Turnover	*4*	**4,472**	4,320
Cost of sales		**(1,888)**	(1,645)
Gross profit		**2,584**	2,675
Other income	*6*	**204**	–
Research and development expenses		**(1,250)**	(2,460)
Selling and distribution expenses		**(1,062)**	(2,348)
Administrative expenses		**(5,389)**	(6,817)
Loss before taxation	*7*	**(4,913)**	(8,950)
Taxation	*8*	**–**	–
Loss for the year		**(4,913)**	(8,950)
Attributable to:			
Equity holders of the Company	*10*	**(4,913)**	(8,950)
			(Restated)
Loss per share			
– Basic	*11*	**(3.82 cents)**	(8.55 cents)

Consolidated Balance Sheet

At 31 December 2005

	2005	2004
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**334**	467
	334	467
CURRENT ASSETS		
Inventories	**–**	200
Trade and other receivables	**1,807**	1,296
Bank balances and cash	**2,253**	4,216
	4,060	5,712
CURRENT LIABILITIES		
Trade and other payables	**2,305**	2,211
Financial assistance from government	**166**	223
	2,471	2,434
NET CURRENT ASSETS	**1,589**	3,278
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,923**	3,745
NON-CURRENT LIABILITIES		
Financial assistance from government	**1,172**	1,196
	1,172	1,196
NET ASSETS	**751**	2,549
EQUITY AND RESERVES		
Share capital	**7,004**	5,837
Reserves	**(6,253)**	(3,288)
	751	2,549

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Share capital *HK$'000*	Share premium *HK$'000*	Special reserve *HK$'000* *(note a)*	Employee share-based compensation reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2004	4,864	11,836	10,084	–	(23,745)	3,039
Issue of shares under the placing	973	8,027	–	–	–	9,000
Share issue expenses	–	(540)	–	–	–	(540)
Loss for the year	–	–	–	–	(8,950)	(8,950)
At 31 December 2004	5,837	19,323	10,084	–	(32,695)	2,549
Issue of shares under the placing	1,167	1,518	–	–	–	2,685
Share issue expenses	–	(137)	–	–	–	(137)
Employee share – based compensation	–	–	–	567	–	567
Loss for the year	–	–	–	–	(4,913)	(4,913)
At 31 December 2005	7,004	20,704	10,084	567	(37,608)	751

Note:

(a) The special reserve represents the difference between the nominal amount of shares and share premium of KanHan Technologies Inc. ("KanHan (BVI)") 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:

1. CORPORATE INFORMATION

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 Growth Enterprises Market ("GEM") of The Stock Exchange of Hong Kong Limited on 25 February 2003.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("FRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. This year, the Group adopted the new/revised HKFRS pertinent to its operations. Major changes in accounting policies following the adoption of these HKFRS are summarised in note 3 below.

The measurement basis used in the preparation of these financial statements is historical cost.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

This year, the Group adopted the following new/revised HKFRS issued by the HKICPA, which are generally effective for accounting periods beginning on or after 1 January 2005. The comparatives have been amended as required, in accordance with the relevant requirements. The major effects on the changes in accounting policies are summarized below:

HKAS 24 Related party disclosures

HKAS 24 has affected the identification of related parties and some other related-party disclosures.

HKFRS 2 Share-based payment

The adoption of HKFRS 2 has resulted in a new selection of accounting policy for employee share options. Prior to this, the provision of share options to employees did not result in a charge to the income statement. Following the adoption of HKFRS 2, the fair value of share options at grant date is recognised as an expenses with a corresponding increase in the employee share-based compensation reserve.

As at 1 January 2005, the Company had not issued any share options to its employees and, therefore, the adoption of HKFRS does not have any impact on the Group's prior year's financial statements.

4. TURNOVER

The Group is principally engaged in provision of server-based language technology. Turnover recognised during the year is as follows:

	2005	2004
	HK$'000	*HK$'000*
Sales of licensed software	**3,053**	2,956
Software maintenance service	**780**	681
Software rental and subscription income	**249**	507
Putonghua learning platform	**390**	176
	4,472	4,320

5. SEGMENT INFORMATION

For the years ended 31 December 2004 and 2005, more than 90% of the Group's turnover and operating assets were attributable to the development of server-based language technologies in the Special Administrative Regions of Hong Kong. Accordingly, no analysis by either business or geographical segment is included in these financial statements.

6. OTHER INCOME

	2005	2004
	HK$'000	*HK$'000*
Bank interest income	**27**	–
Commission income	**177**	–
	204	–

7. LOSS BEFORE TAXATION

	2005	2004
	HK$'000	*HK$'000*
This is stated after charging:		
Directors' emoluments	**1,864**	1,670
Employee retirement benefit scheme contributions	**140**	153
Employee salary and other benefits	**3,194**	3,624
Employee share-based payment	**353**	–
Total staff costs	**5,551**	5,447
Amortisation of development expenditure included in cost of sales	**–**	258
Auditors' remuneration	**220**	200
Cost of services and inventories	**1,888**	1,645
Depreciation	**206**	296
Operating lease payments		
– director quarter	**240**	480
– office premises	**355**	281
Impairment loss on development expenditure included in research and development expenses	**–**	81
Loss on disposal of property, plant and equipment	**–**	289

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the financial statements as the Company and its subsidiaries incurred tax loss during both years.

9. DIVIDEND

No dividend has been paid or declared by the Company during the years ended 31 December 2005 and 2004.

10. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The net loss attributable to equity holders of the Company included a loss of HK$9,063,000 (2004: HK$11,521,000) which has been dealt with in the financial statements of the Company.

11. LOSS PER SHARE

On 1 March 2006, the Company has consolidated the ordinary shares in its capital on basis of every five issued and unissued ordinary shares of HK$0.01 each into one share of HK$0.05 each of Consolidated Share. As a result, the calculation of the basic loss per share for the year ended 31 December 2005, together with the comparative figure for 2004 have been adjusted.

	2005	2004
	HK$'000	*HK$'000*
Net loss for the year	**4,913**	8,950
	Number of shares	Number of shares
Weighted average number of shares	**643,847,495**	523,645,377
Adjusted for share consolidation	**(515,077,996)**	(418,916,302)
Weighted average number of shares for the purpose of basic loss per share	**128,769,499**	104,729,075
Basic loss per share	**3.82 cents**	8.55 cents

No diluted loss per share was presented as the share options granted by the Company are anti-dilutive.

In addition to the share consolidation, a rights issue of share as described in more details in note 12 to these financial statements also occurred after the balance sheet date. Had the rights issue of share occurred before 31 December 2005, the number of ordinary share would be increased by 442,475,040 from 147,491,680 to 589,966,720.

12. POST BALANCE SHEET EVENTS

On 2 February 2006, all the outstanding 37,000,000 share options were exercised by the holders, thereof creating an additional 37,000,000 shares in issue as at that date. The total issued shares therefore increased from 700,458,400 to 737,458,400.

On 28 February 2006, a special general meeting was convened and the shareholders approved the following:-

(a) consolidation of every five issued and unissued ordinary shares of HK$0.01 each into one ordinary share of HK$0.05 each (the "Consolidated Share").

(b) increase the authorised share capital of the Company form HK$20,000,000 divided into 400,000,000 Consolidated Shares of HK$0.05 each to HK$100,000,000 divided into 2,000,000,000 Consolidated Shares of HK$0.05 each by the creation of an additional 1,600,000,000 unissued Consolidated Shares of HK$0.05 each.

(c) issue of 442,475,040 new ordinary shares by way of a rights issue on the basis of three rights shares for every one Consolidated Shares of HK$0.05 each at a subscription price of HK$0.057.

BUSINESS REVIEW

Software Sales Business

Despite increasing enquiries, the selling cycle has continued to be long for HanWEB software which translates in real-time traditional Chinese website into simplified Chinese. Sales efforts were shifted into calling on HanPhone prospective customers leading to a few significant wins in the past year. Chinese JAWS, the screen reader for visually impaired has attained its dominant position with more HKSAR Government purchases to benefit their employees and to provide community service through various community centers.

Service Business

The Putonghua learning platform has introduced more industry specific contents including law, cosmetics and retail in the past year. Retail sales of the subscription have been slow due to lack of promotional activities. Countering that, ePTH began to offer private label program for educational institutes to blend the online platform into their class room training curriculum. There are now four training institutes selling ePTH subscription through their respective private label sites. The Institute of Professional Education and Knowledge of Vocational Training Council continued to be a key partner in reselling the ePTH to corporations. Substantial efforts were spent in later half of 2005 in transforming the adult version of the ePTH into an integrated Putonghua learning platform targeting over 600 primary schools. The new platform www.kids.putonghuaonline.com with contents customized for primary school students, was subsequently launched in January 2006. At the end of 2005, there were over 2000 users to the ePTH platform including secondary and primary students, individual and corporate subscribers vindicating the usefulness and robustness of the platform.

The EFAX service of sending and receiving of fax over Internet was launched in end June with the attraction of web based convenience plus the savings in IDD charges to China companies. Retail subscription has been growing steadily despite the number is still small in Hong Kong while the China subscribers have begun to surface when email marketing was started recently in China. In order to promote EFAX as an all encompassing personal and business communication service, web based SMS was added to EFAX platform such that personal and business users will have the flexibility in sending or broadcasting their messages via fax or SMS channel on personal and marketing purposes. Packaging the EFAX and the outbound call IVR services, KanHan also promotes to corporations database e-marketing service using fax, SMS, outbound call and email. The Group is optimistic that gradual build-up of the value added messaging and marketing service business will not only bring in steady income but also prospects for KanHan's other products and services.

The Group is disappointed at the DIY Ring-tone Service business that was launched in late 2004 by 21CN and TenCent in China. The service did not bring upon sufficient market awareness because of the lack of persistent marketing efforts and novelty in the offerings. Despite of the lacklustre business, 21CN and TenCent continued to offer the service in the hope of finding new ideas of packaging the technologies to attract usage.

Outlook

The Group is confident 2006 will be a year of substantial growth taking into consideration of the optimistic prospect of HanPhone projects and the maturing service business. A new Putonghua business (KidPTH) has been launched in January 2006 to cater for more than 600 primary schools' needs for an integrated web-based learning environment for Putonghua. This is Hong Kong's first and only integrated learning and teaching platform aims at fulfilling Education and Manpower Bureau's long term goal of teaching Chinese in Putonghua. There are already more than 10 primary schools signing up the new platform since launch. KanHan aims to capture at least 100 schools for the year and 400 in two years' time. The EFAX business has been growing steadily and a new SMS extension has been introduced in March 2006 to the EFAX platform giving subscribers both fax and SMS channels in reaching out to their friends and customers in China and Hong Kong. The business is already operating at a break-even level. It is envisaged more aggressive promotion activities will turn the business into a profit-making business in the coming year.

HanWEB will continue to bring in steady service income to KanHan in Hong Kong. To leverage on the install base of HanWEB consisting mostly big name customers whom are now more conscious about the need of handling Chinese information better over their web based business services, KanHan has signed up to distribute China's most prominent search engine solution in Hong Kong. The package of HanWEB and search engine solution is expected to re-kindle the growth of selling Chinese web solutions to large corporations.

Another business contribution to the Group will come from the Hong Kong Jockey Club funding of HK$7 million in assisting the visually impaired persons acquiring the screen reader Chinese JAWS from KanHan and Braille display in the coming years. KanHan anticipates more than 200 copies of the Chinese JAWS will be sold this year.

The Group continues to look for China opportunities in both business development and investment. A subsidiary of one of China's largest book store operators, Commercial Press has signed up to represent KanHan products in Northern China market. KanHan will release a HanPhone product to the China market aiming at recruiting present IVR solution providers to resell the software for a bigger sales number while HanPhone will continue to be sold on project basis for bigger profit margin in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the year ended 31 December 2005, the Group recorded a turnover amounted to HK$4,472,000 (2004: HK$4,320,000), representing a slightly increase of approximately 3.5% as compared to last year. Turnover generated from sales of licensed software, customarily the Group's principal source of revenue, was approximately HK$3,053,000 (2004: HK$2,956,000), accounting for 68.3% (2004: 68.4%) of the turnover for the year under review.

During the year, the Group committed to maximize operational efficiency and streamline operational expense. Loss attributable to shareholders was then decreased substantially by 45.1% to approximately HK$4,913,000.

Other operating income for the year ended 31 December 2005 amounted to approximately HK$204,000, mainly consists of the commission income derived from providing sales support services to customers.

Operating expenses (including research and development expenses, selling and distribution costs and administrative expenses) for the year ended 31 December 2005 decreased by 33.8% to approximately HK$7,701,000 as compared to HK$11,625,000 last year. The decrease in operating expenses largely results from the decrease in advertising and promotion expenses. As a result of adopting the new Hong Kong Financial Reporting Standards, the share option cost of HK$567,000 representing 7.4% of the total operating expenses was charged to the administrative expenses.

Liquidity, Financial Resources and Capital Structure

As at 31 December 2005, the Group had current assets of approximately HK$4,060,000 (2004: HK$5,712,000). The current assets comprised of cash and bank balances of HK$2,253,000 (2004: HK$4,216,000) together with trade and other receivables of HK$1,807,000 (2004: HK$1,296,000). The Group's current liabilities comprised mainly trade and other payables of approximately HK$2,305,000 (2004: HK$2,211,000). The Group had no bank borrowings at 31 December 2005 (2004: Nil) but an outstanding loan granted by government of approximately HK$1,338,000 at 31 December 2005 (2004: HK$1,419,000). As at 31 December 2005, the Group had a current ratio of approximately 1.64:1 as compared to that of 2.35:1 at 31 December 2004.

During the year ended 31 December 2005, the Group's operation was mainly financed by its internal financial resources and the net proceeds from the placing of shares. On 27 June 2005, the Company placed 116,740,000 new shares to the independent third parties at HK$0.023 per share and recorded net proceeds of approximately HK$2,548,000.

As at 31 December 2005, (i) the Group had no charges on its assets; and (ii) the Group did not make any material investments, acquisitions and disposals of subsidiaries and affiliated companies.

Distributable Reserves

As at 31 December 2005, the accumulated losses of the Company exceeded the aggregate of share premium and contributed surplus, thus the Company did not have any reserves available for distribution (2004: HK$1,994,000).

Foreign Exchange Risk

As at 31 December 2005, the Group had no significant exposure to fluctuation in foreign exchange rate.

Capital Structure

As at 31 December 2005, the total issued share capital of the Company was HK$7,004,584 divided into 700,458,400 shares of HK$0.01 each.

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

Employee Information

As at 31 December 2005, the Group had 24 (2004: 24) full-time employees. Employee costs, excluding Director's emoluments, totaled HK$3,687,000 (2004: HK$ 3,777,000). 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 programs 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.

Compliance Adviser's Interests

Pursuant to the agreement dated 1 June 2005 entered into between the Company and Hantec Capital Limited ("Hantec"), Hantec will receive a fee for acting as the Company's compliance adviser for the period from 1 June 2005 to 31 December 2005.

Neither the compliance adviser of the Company, Hantec, 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 31 December 2005.

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has adopted and complied with the Code on Corporate Governance Practices ("Code") of the GEM Listing Rules throughout the year ended 31 December 2005 with the exception that the articles of association of the Company does not provide that every director, including those appointed for a specific term, will rotate at least once every three years. In order to comply with the Code, the existing articles of association will be proposed at the forthcoming annual general meetings to make the necessary amendments.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 audited results for the year ended 31 December 2005 have been reviewed by the audit committee, which are of the opinion that the preparation of such results complies with applicable accounting standards, GEM Listing Rules, and that adequate disclosures have been made.

By Order of the Board
Ma She Shing, Albert
Chairman

28 March 2006

As at the date of this announcement, 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.

This announcement will remain on the GEM website on the "Latest Company Announcements" page for at least 7 days from the date of its posting.