Golding Soft Limited

(incorporated in the Cayman Islands with limited liability)

2003 First Quarterly Report

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM 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 sector 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.

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This report, for which the directors (the "Directors") of Golding Soft Limited (the "Company") 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 (the "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 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.

HIGHLIGHTS

The turnover of the Group for the three months ended 30th September, 2002 was approximately RMB13 million, representing a decrease of approximately 21% as compared with the corresponding period in the previous year.

The unaudited profit from operations of the Group for the three months ended 30th September, 2002 was approximately RMB5.5 million, representing a decrease of approximately 30% as compared with the corresponding period in the previous year.

The earnings per share was RMB0.45 cents for the three months ended 30th September, 2002.

RESULTS

The board of Directors (the "Board") is pleased to announce the unaudited results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30th September, 2002, together with the unaudited comparative figures for the corresponding periods in 2001 as follows:

		Three months ended 30th September,	
		2002	2001
		(Unaudited)	(Unaudited)
	Notes	**RMB**	RMB
Turnover	2	**13,204,174**	16,611,116
Cost of sales		**(3,626,621)**	(4,738,782)
Gross profit		**9,577,553**	11,872,334
Other revenue		**232,133**	79,361
Selling and distribution costs		**(2,107,768)**	(3,085,133)
Administrative expenses		**(1,910,630)**	(854,733)
Other operating expenses		**(319,746)**	(195,604)
Profit from operating activities and before tax		**5,471,542**	7,816,225
Tax	3	**(965,390)**	–
Net profit from ordinary activities attributable to shareholders		**4,506,152**	7,816,225
Earnings per share – Basic (RMB)	4	**0.45 cents**	0.98 cents

Notes:

1. **Group Reorganisation and basis of presentation**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 28th August, 2001 under the Companies Law of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of its shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company became the holding company of the companies now comprising the Group on 24th January, 2002. On 8th February, 2002, the shares of the Company were successfully listed on the GEM.

The financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation. On this basis, the Company has been treated as the holding company of its subsidiaries throughout the period from 1st July, 2001, rather than from the date of their acquisition pursuant to the Group Reorganisation on 24th January, 2002. Accordingly, the consolidated results of the Group for the three months ended 30th September, 2001 include the results of the Company and its subsidiaries with effect from 1st July, 2001 or since their respective dates of incorporation, where this is a shorter period.

All significant intercompany transactions and balances within the Group are eliminated in the preparation of the consolidated financial statements.

2. **Turnover**

An analysis of turnover is as follows:

	Three months ended 30th September,	
	2002	2001
	RMB'000	RMB'000
Provision of original design manufacturing ("ODM") software	**6,490,794**	7,898,881
Provision of proprietary packaged software	**1,222,867**	2,321,100
Provision of system solutions	**5,490,513**	6,391,135
	13,204,174	16,611,116

For the three months ended 30th September, 2002, approximately 63% (2001: 70%) of the Group's turnover were derived from the North America market and the remaining from the PRC.

3. **Taxation**

No income tax has been provided in Hong Kong during the period under review as the Group did not generate any assessable profits arising from its operation in Hong Kong. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Three months ended 30th September,	
	2002	2001
	RMB	RMB
Provision for the period		
Hong Kong	–	–
Elsewhere in the PRC	965,390	–
Tax charge for the period	965,390	–

According to the Income Tax Law of the PRC and as approved by relevant tax authorities, Jiangxi Jinding Information System Co., Ltd. ("Jiangxi Jinding"), a wholly-owned subsidiary of the Company operating in the PRC, was exempted from the PRC corporate income tax ("CIT") for its first two profit-making years and was entitled to a 50% relief from CIT for the following three years. Accordingly, Jiangxi Jinding was exempted from CIT from 1st January, 2000 to 31st December, 2001 and entitled to a 50% relief from CIT from 1st January, 2002 to 31st December, 2004. During the period under review, provisions for CIT for Jiangxi Jinding have been made at the applicable reduced tax rate on the foregoing basis.

No deferred tax has been provided as the Group did not have any significant timing differences at the balance sheet date.

4. **Earnings per share**

The calculation of basic earnings per share for the three months ended 30th September, 2002 is based on the unaudited net profit attributable to shareholders of RMB4,506,152 and the 1,000,000,000 ordinary shares in issue during the period under review.

The calculation of basic earnings per share for the three months ended 30th September, 2001 is based on the unaudited net profit attributable to shareholders of RMB7,816,225 and the 800,000,000 ordinary shares deemed to have been issued on the assumption that the Group Reorganization and the subsequent capitalization issue of 780,000,000 shares of the Company had been effective on 1st July, 2001.

Diluted earnings per share amounts for the three months ended 30th September, 2002 and 2001 have not been disclosed as no potential ordinary shares or diluting events existed during these years.

5. **Reserves**

	Share premium account RMB	Statutory reserve RMB	Retained profits/ (accumulated losses) RMB	Total RMB
At 1st July, 2001	–	413,500	13,674,970	14,088,470
Issue of shares	60,900,000	–	–	60,900,000
Capitalisation of share premium account to pay up in full 780,000,000 shares	(8,190,000)	–	–	(8,190,000)
Share issue expenses	(12,684,000)	–	–	(12,684,000)
Net profit for the year	–	–	28,004,441	28,004,441
At 30th June, 2002 and 1st July, 2002	40,026,000	413,500	41,679,411	82,118,911
Net profit for the period	–	–	4,506,152	4,506,152
At 30th September, 2002	40,026,000	413,500	46,185,563	86,625,063

In accordance with the Law of the PRC on Wholly-Owned Foreign Investment Enterprises, the Company's subsidiaries established in the PRC are required to appropriate an amount of not less than 10% of the profit after tax to the statutory reserve, until the accumulated total has reached 50% of the respective subsidiaries' registered capital and thereafter any further appropriation is optional. As at 30th September, 2002, the accumulated total of Jiangxi Jinding had reached 50% of its registered capital and no appropriation was made for the period under review. In respect of the Company's other subsidiary established in the PRC, 北京泰萊投資咨詢有限公司, as it was newly incorporated during the period under review and did not generate any material revenue, no appropriation was made to the statutory reserve.

INTERIM DIVIDEND

The Board does not propose the payment of an interim dividend for the three months ended 30th September, 2002 (the three months ended 30th September, 2001: Nil).

FINANCIAL REVIEW

For the three months ended 30th September, 2002, the Group generated turnover of approximately RMB13.2 million, representing a decrease of approximately 21% as compared to the previous corresponding period in 2001. The gross profit margin was maintained at approximately 72%. Profit from operating activities amounted to approximately RMB5.4 million which represented a decrease of 30% as compared with the previous corresponding period in 2001. The Group's net profit attributable to shareholders for the three months ended 30th September, 2002 decreased by approximately 42% to approximately RMB4.5 million.

Turnover of the provision of ODM software, proprietary packed software and system solutions decreased by 18%, 47% and 14% to approximately RMB6.4 million, RMB1.2 million and RMB5.4 million respectively as compared to the previous corresponding period in 2001.

Approximately 63% of the total turnover were generated from North America and the remaining were from PRC during the period under review.

BUSINESS REVIEW

During the period under review, the Group continued its business model comprising three inter-related and synergistic business, namely provision of ODM software, proprietary packaged software and system solutions, backed by an extensive library of software modules which can be customized to suit specific industries.

The current status of the Group's three primary business segments is as follows:

Provision of ODM software

This business segment continued to be the Group's major business and accounted for 49% of the Group's total turnover for the three months ended 30th September, 2002. The customers from North American market contributed to approximately 73% of this segment's turnover and the remaining were from the PRC. The Group's strategy is to purse large, high-volume deals, more complex and significant projects from the US technology vendors, which are gradually increasing in number in the Group's client portfolio. In PRC, the Group strengthened its presence in the retail sector and helped a new department store client to streamline business and information technology processes as well as design and rollout a customised software.

Provision of proprietary packaged software

The turnover of this segment recorded a large decrease of 47% during the period under the review. It was mainly due to the vigorous competition as well as the continuous weakening in software products market in North America. For the Group's sales in PRC market, the performance was comparable to the corresponding period in the last year.

Provision of system solutions

During the period under review, a decline of 14% in this segment's turnover was observed when compared with the corresponding period for the last year. The Group believes that it was largely attributable to the postponement in IT spending for the multinational companies in the US so that the number of projects executed by the Group in the North American market showed a decrease of 21%. For PRC market, the government entities in Jiangxi province, PRC continued to be the Group's major customers. The Group operated with the different municipal agencies in Jiangxi province, PRC to evaluate IT effectiveness, formulate strategies to reduce spending and align IT with the civil services.

Sales and marketing

In regards of sales channels and business development in the US, the Group has been actively negotiating with regional consulting firms to distribute our proprietary packaged software, especially the web-based business management software, Ezacc e-business solution. Not only will this help the Group to further penetrate into the North American market, partnering with these regional firms also helps to save marketing expenses. For PRC market, the Group's marketing staff continued to visit clients and alliance partners in Jiangxi province and introduce the Group's software products and services.

In addition, the Group has continued to develop a comprehensive network of authorized agents and alliance partners in North America and the PRC to promote and market the Group's services and products. On the other hand, the global economic depression has driven the Group to take more prudent approach in establishing overseas offices. However, the expansion into overseas markets as stated in the Company's prospectus dated 31st January 2002 is still considered as the Group's long-term strategy.

Research and development

During the period under review, the Group is currently migrating its products to be compatible with the .NET platform. This will enhance the Group's system performance and its speed so that the system will be more openable and scalable. It is expected that the migration will be completed within this financial year. In addition, the Group has changed its development tool from ASP to ASP.net, VB to Vb.net. Finally, the development of middle ware by the Group to complement its business solutions and supply relationship management modules for use in the Group's products is near to completion.

As at 30th September, 2002, the Group has a pool of about 140 IT professionals serving the both North America and PRC customers.

OUTLOOK

The global economy shows little evidence of recovery in the short term. The Group will continue to work under a challenging business environment for the rest of the financial year. But the Group will continuously enhance its IT services and products portfolio, bringing the latest technology to its client and elevating competitiveness among other similar enterprises. In addition, the Group is taking necessary steps to manage costs and enhance operational efficiencies and will strive to maintain profitability in order to maximize returns for shareholders.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SECURITIES

As at 30th September, 2002, the interests of the directors and chief executive and their respective associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Hong Kong's Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

	Number of Shares				
Director	Corporate interests	Personal interests	Family interests	Other interests	Total interests
Mr. Wen Ruifeng ("Mr. Wen")	249,000,000 *(Note 1)*	–	–	–	249,000,000
Mr. Xin Qian ("Mr. Xin")	249,000,000 *(Note 1)*	–	–	–	249,000,000
Mr. Li Jiahui ("Mr. Li")	–	189,000,000	–	–	189,000,000

Note:

1. These Shares are registered in the name of Unrivaled Beauty Profits Limited ("Unrivaled Beauty"). Mr. Wen and Mr. Xin are the owners of 47% and 38% of the issued share capital of Unrivaled Beauty. Under the SDI Ordinance, both Mr. Wen and Mr. Xin are individually deemed to be interested in all the Shares registered in the name of Unrivaled Beauty.

Save as disclosed above, none of the directors and chief executive or their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance at 30th September, 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as the share option scheme disclosed in the prospectus Appendix IV, at no time during the period was the Company or its holding 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. None of the directors, their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company or had exercised any such rights during the period. To date, no options have been granted under the scheme.

SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

Substantial shareholders

As at 30th September, 2002, according to the register required to be kept under Section 16(1) of the SDI Ordinance, the following persons are interested in 10 per cent. or more of the Shares of the Company:

Name	Number of Shares held	Approximate percentage shareholding
Cytech Investment Limited ("Cytech Investment") *(Note 1)*	312,000,000	31.20%
Benep Management Limited ("Benep") *(Note 1)*	312,000,000	31.20%
Cytech Software Limited ("Cytech") *(Note 1)*	312,000,000	31.20%
ESP Associates Limited *(Note 2)*	312,000,000	31.20%
Wang Xiaochuan *(Note 2)*	312,000,000	31.20%
Unrivaled Beauty *(Note 3)*	249,000,000	24.90%
Mr. Li	189,000,000	18.90%
Mr. Wen *(Note 3)*	249,000,000	24.90%
Mr. Xin *(Note 3)*	249,000,000	24.90%

Notes:

1. The 312,000,000 Shares are registered in the name of Cytech Investment. Cytech Investment is a wholly owned subsidiary of Benep, which is in turn a wholly owned subsidiary of Cytech, a company whose shares are listed on the main board of the Singapore Exchange Securities Trading Limited. Accordingly, each of Cytech and Benep is interested in all the Shares in which Cytech Investment is interested pursuant to the SDI Ordinance.

2. The issued share capital of Cytech is owned as to approximately 63.81% by ESP Associates Limited and as to approximately 7.67% by Wang Xiaochuan. The issued share capital of ESP Associates Limited is in turn owned as to 70% by Wang Xiaochuan. Accordingly, each of ESP Associates Limited and Wang Xiaochuan is deemed to be interested in all the Shares in which Cytech is interested pursuant to the SDI Ordinance.

3. The 249,000,000 Shares are registered in the name of Unrivaled Beauty. The issued share capital of Unrivaled Beauty is owned as to 47%, 15% and 38% by Mr. Wen, Mr. Wen Weifeng and Mr. Xin respectively. Accordingly, each of Mr. Wen and Mr. Xin is deemed to be interested in all the Shares in which Unrivaled Beauty is interested pursuant to the SDI Ordinance.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific - Yamaichi Capital Ltd., ("CPYC") none of CPYC, its directors, employees or associates (as referred to Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company as at 30th September, 2002.

Pursuant to the sponsor's agreement dated 31st January, 2002 entered into between the Company and CPYC, whereby, for a fee, CPYC will act as the Company's retained sponsor for the period from 8th February, 2002 to 30th June, 2004 or until the sponsor agreement is terminated upon the terms and conditions setout therein.

BOARD PRACTICES AND PROCEDURES

During the three months ended 30th September, 2002, 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.

AUDIT COMMITTEE

The audit committee was formed on 24th January, 2002 and comprises Mr. Xin and two independent non-executive Directors, Mr. Chan Ngai Seng, Kenny and Mr. Xing Fengbing. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. The audit committee has reviewed and approved this first quarter report.

PURCHASE, SALES AND REDEMPTION OF SHARES

During the three months ended 30th September, 2002, neither the company nor any of its subsidiaries purchased, sold and redeemed Company's shares.

By Order of the Board
Golding Soft Limited
Li Jiahui
Chairman

Hong Kong, 14th November, 2002