GOLDING SOFT LIMITED

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2004

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.

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 the 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.

CONTENTS

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Jiahui
Mr. Wen Ruifeng
Mr. Xin Qian

NON-EXECUTIVE DIRECTOR

Mr. Gao Junhua

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Golding Technology Building
Soft Park, Huoju Avenue
Nanchang State Hi-tech Industry Development Zone
Nanchang City, Jiangxi Province
PRC

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
British West Indies

COMPANY SECRETARY

Mr. Ng Kai Cheung, AICPA

AUTHORIZED REPRESENTATIVES

Mr. Wen Ruifeng
Mr. Ng Kai Cheung

COMPLIANCE OFFICER

Mr. Xin Qian

QUALIFIED ACCOUNTANT

Mr. Ng Kai Cheung, AICPA

AUDITORS

Ernst & Young
Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Ltd
Bank of Communications
Industrial and Commercial Bank of China
Nanchang Commercial Bank

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
3rd Floor
36C Bermuda House
P.O. Box 513 G.T.
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1901-5
19th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

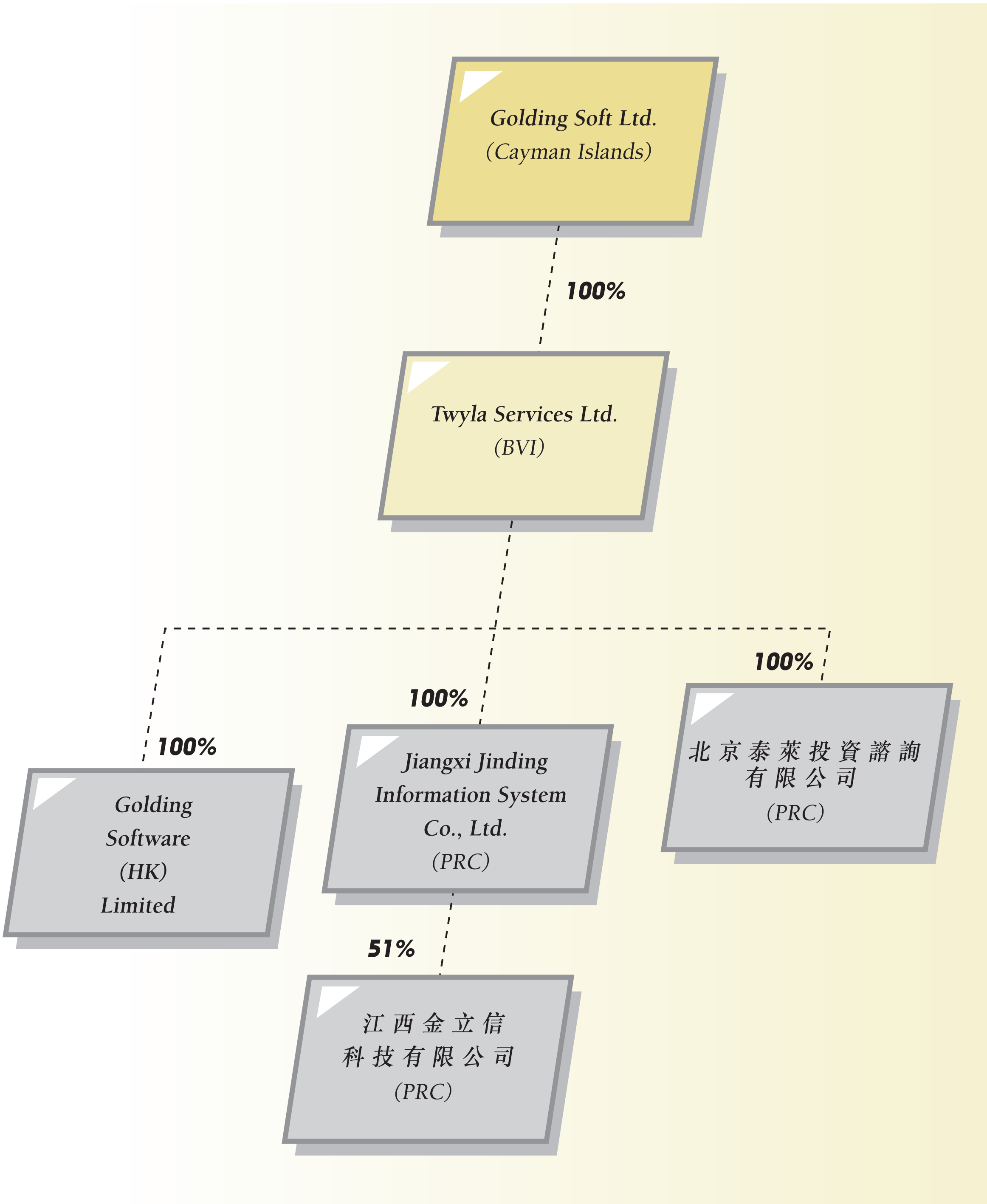
AUDIT COMMITTEE

Mr. Chan Ngai Sang, Kenny
Mr. Xing Fengbing
Mr. Xin Qian

WEBSITE ADDRESS

www.goldingsoft.com

The following chart sets out the structure of the Group:



On behalf of the board of directors (the "Board") of Golding Soft Limited, I hereby present to our shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2004. (the "Year")

The Year continued to be a difficult and challenging one for the Company. The sluggish economics and adverse sentiments in the North America at the beginning of the Year have caused the Group to centralize its resources and effort on the blooming PRC market. As a result, the revenues generated from North America market decreased significantly compared with the last year. However, the Group has continued to strengthen and improve the capability of its R&D centre to be around-the-clock virtual IT centre for offshore customers so as to capture the opportunities arising from the economics recovery in North America.

On the other hand, the change in global economics environment challenge the growth and profitability of business worldwide. Clients demand a "defined" benefit for every IT dollar spent and seek the new rules for return on their IT investment. Increasingly, clients do not want to make a choice between developing IT solutions and ensuring cost competitiveness. Clients explicitly demand genuine IT solutions that are also the most cost-effective as they strive to be fiercely competitive in their markets. In addition, as the line between IT management and operations management grows thinner, it would favor those innovative IT services models that tightly integrate the IT services with business process management.

For this scenario, the Group initiated a thorough review on its strategies and operations in the Year. The Group targeted not only to keep a stable revenue stream but also grasp every new business opportunity that may generate satisfactory returns to our shareholders.

PROSPECTS AND APPRECIATION

In view of the continuous economics growth in the PRC and economics recovery in North America, the Group is cautiously optimistic about the global software market.

On the other hand, the Group's financial position remains strong with cash and bank balance of approximately RMB64 million. However, the Group has taken tight measures in cost control and cash management in order to ensure the cost effective of all facets of operations.

The Group has been continuing its effort towards consolidating resources, strengthening management and exploring new business opportunities so as to improve the Group's performance.

Finally, on behalf of the board, I would like to express my gratitude to the management and staff of the Group for their hard work and dedication particularly in the harsh economics environment. I would also like to thank our shareholders, business associates, customers and suppliers for their continuous support. The management and staff will continue to work diligently to improve the performance.

Li Jiahui
Chairman

Hong Kong
13 August 2004

The following sections provide a detailed review and analysis of results and segmental performance of the financial year ended 30 June 2004.

FINANCIAL REVIEW

Turnover and gross profit

The Group generated a turnover of approximately RMB20.6 million, representing a decrease of approximately 47% as compared with last year. This is mainly attributable to the intense competition from software market in North America and PRC. The gross profit margin ratio for the year ended 30 June 2004 was 13% while it was 65% for the previous year. The decrease is mainly due to the significant decrease in turnover of the high profit margin segment, ODM software and the decrease in average gross profit margin of the system solutions.

Selling and distribution costs

The selling and distribution costs for the year were approximately RMB4.8 million, a decrease of approximately 35% from last year. The decrease was mainly due to the close down of the Beijing subsidiary and the termination of the subcontracting agreement with Nanchang Jinding software Ltd.

Administrative expenses

The administrative expenses for the year were approximately RMB9.9 million, an increase of approximately 12% from last year. The increase is mainly due to the additional expenses from the newly acquired subsidiary, Jiangxi Jinlixin Technology Co., Ltd. ("Jiangxi Jinlixin") and the provision of bad debts.

Other operating expenses

Other operating expenses for the year were approximately RMB10.7 million, an increase of approximately 257% from last year. The increase is mainly due to the increased research and development cost for upgrading the Group's proprietary packaged software and development of industry-specialized software.

Liquidity and financial resources

The Group generally finances its operation with internally generated cash flow. As at 30 June 2004, the Group had cash and bank balances amounting to a total of approximately RMB64 million (2003: RMB84 million) and the Group had a net current assets of approximately RMB62.4 million (2003: RMB83.7 million).

With these resources and the proceeds from the new issue of shares in February 2002, the Board believes that the Group has adequate capital resources to finance its business objectives as stated in the Prospectus.

Charges on the Group's asset

The Group did not have any charges on its assets, during the year under review.

Gearing Ratio

The Group expresses its gearing ratio (if any) as a percentage of bank borrowing and long term debts over total assets. As at 30 June 2004 and 2003, the Group did not have any bank borrowing or long term debts.

Treasury policies and capital structure

Any surplus fund derived from operating activities will be strategically placed in savings account which secures the Group's liquidity position in meeting its daily operating needs.

Exposure to Exchange Rate Risks

During the year ended 30 June 2004 and 2003, the Group conducted its business transactions principally in US Dollars or Renminbi, all of which were relatively stable during the year under review. The Group considered that as the exchange rate risks of the Group is considered to be minimal, the Group did not employ any financial instruments for hedging purposes.

Contingent liabilities

As at 30 June 2004, the Group did not have any significant contingent liabilities.

Details of future plans for material investment or capital assets

At present, the Group has no future plan for material investment or capital assets other than those mentioned in the Group's prospectus dated 31 January 2002.

Employee information

For the year ended 30 June 2004, the staff cost, excluding directors' remuneration, amounted to approximately RMB11.8 million (2003: RMB14.7 million) while the directors' remuneration amounted to approximately RMB2.2 million (2003: RMB2.2 million). The employee remuneration is commensurate with individual performance and experience. The decrease in staff cost (excluding directors' remuneration) was resulted from the fact that the number of employee has decreased from 141 to 116.

To maintain the standard of Group's services and for staff development, the Group provided comprehensive training programs for its staff.

The Group had adopted a share option scheme whereby certain employees may be granted options to acquire shares.

BUSINESS REVIEW

The Group was principally engaged in three inter-related business segments namely, provision of ODM software, provision of system solutions and provision of proprietary packaged software.

During the year under review, the Group attained the ISO9001:2000 Certification. The success in the compliance of ISO9001:2000 standard in the Group's quality management system verifies its dedication to continuous improvement on product quality and standard.

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

Provision of ODM software

Software outsourcing continues to be an important trend in the development of global software market. The gradual recovery of the US economics has created favorable environment for software market in North America. As a result, during the third quarter, the Group has successfully secured the new software development project from a US technology vendor, Broadwalk Incorporation, CA. The Group's core strategy is to establish and maintain long-term relationship with international technology vendor in order to keep abreast of latest software development trend.

Provision of system solutions

This segment comprises (i) e-government solutions and (ii) the e-business solutions.

The e-government projects market in PRC has continued to grow over the past years. By leveraging the Group's expertise in this segment, the Group has successfully won various e-government projects in Jiangxi province, PRC. Some of the new clients include Nanchang Planned Reproduction Committee (南昌市計劃生育委員會), Nanchang Land Authority (南昌市國土資源管理局) and Nanchang Welfare Committee (南昌市福利院).

For e-business solutions in PRC, some of the new clients include Jiangxi RenHe Group Development Co., Ltd (江西仁和集團發展有限公司), Beijing Gan Wen Xing Cheng Information Co., Ltd (北京高維誠信資訊有限公司) and Jiangxi XingXingZe Health Products Co., Ltd (江西新興澤保健品銷售有限公司).

In order to capture the blooming PRC market for computers products, the Group has acquired 51% equity interest in Jiangxi Jinlixin at a consideration of RMB1,150,000. Jiangxi Jinlixin engages in distribution of Founder's computers products (方正電腦產品) in PRC and therefore could widen the Group's earning base and diversify the Group's business portfolio. Furthermore, synergy effect between Jiangxi Jinlixin and the Group was developed since Jiangxi Jinlixin's products can complement the Group's system solutions. Though Jiangxi Jinlixin was operating at a loss during the year under review, the Group is currently negotiating with Founder for incentive rebates so that the performance of Jiangxi Jinlixin could be improved in short term.

Provision of proprietary packaged software

The packaged software market in the PRC encountered an intense competition. This affected the Group's sales of proprietary packaged software. To raise the competitiveness, the Group has continuously upgraded its existing packaged software, Zee Web (for PRC private enterprises) and Interoffice (for civil services) and developed innovative packaged software for different industries.

Sales & Marketing

During the year under review, the Group proactively carried out more marketing activities. The Group participated in certain trade shows including the CeBIT 2004 in Germany, the International ICT Expo in Hong Kong and others shows in US and PRC. These trade shows provide the avenue for the Group to meet with existing and potential customers, and to launch its latest products.

The Group also advertised in major IT magazines, issued press releases and arranged products training for authorized agents and alliance partners to increase publicity. The Group has also arranged visits of well-known persons to the Group's R&D center in Nanchang City, the PRC, in order to promote its public awareness.

RESEARCH AND DEVELOPMENT

During the year under review, the Group has completed the development of the followings that could complement the Group's system solutions and software products.

(i) two proprietary packaged software, Zee Web (for PRC private enterprises) and Interoffice (for civil services) has been upgraded to version 5.0 in order to incorporate the latest customers requirements and enhance the operating efficiency.

(ii) industry-specialized software has been developed, i.e. for logistic industry and retail-chain industry.

As at 30 June 2004, the Group has a pool of 85 IT professionals serving North America and PRC customers (30 June 2003: 113).

STRATEGIC ALLIANCES

The Group's strategic partnerships with PRC renowned educational institutions including Nanchang University and Jiangxi University of Finance and Economics not only improves the Group's research and development capabilities but also allows it to have access to recruit top level IT professionals in PRC. During the year under review, the Group has also arranged seminars on information technology in conjunction with Nanchang University and Jiangxi University of Finance and Economics in the PRC.

HUMAN RESOURCES

The numbers of the Group's employees (including the Directors) are set out as follows:

	As at 30 June 2004	As at 30 June 2003
Research and development and technical support	**85**	113
Sales and Marketing	**18**	16
Management, finance and administration	**13**	18
Total	**116**	147

COMPARSION OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

		Business Objective up to 30 June 2004 as stated in Prospectus	Actual business progress
Sales and marketing	1.	to set up two subsidiaries/branch offices in east coast of the US.	The plan to set up subsidiaries/branch offices in these locations has been under review.
	2.	to advertise and promote the Group's proprietary packaged software, in particular, Zee Web 5.0 and Interoffice 5.0 through (i) the Group's authorized agents and alliance partners; (ii) direct marketing by the Group's sales and marketing team; and (iii) attending or organizing conferences and seminars.	The advertisement and promotion activities have been carried out as planned.
	3.	to appoint more authorized agents and alliance partners to enhance the distribution network of the Group.	Additional authorized agents and alliance partners have been appointed in PRC to enhance the distribution network of the Group.

COMPARSION OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

		Business Objective up to 30 June 2004 as stated in Prospectus	Actual business progress
Research and development	1.	to evaluate opportunities to establish co-operation arrangements with other educational institutions/ business partners in East Asia and North America.	The Group has explored the opportunities in forming the technical alliances with international high-tech and/or research companies.
	2.	to participate in design of software products jointly with global IT companies.	Discussion with potential global IT companies has been in progress.
	3.	to improve the capability of the Group's research and development centre to be around-the-clock virtual IT department and virtual software development center.	The Group's software engineers have continued to maintain work-shift so that the 24-hours IT services can be provided across the time zones and geographies.
	4.	to commence to build the third facility (with a gross floor area of approximately 10,000 sq.m in Nanchang City, the PRC under its enhancement of research and development plan) for use as the Group's research and development centre.	The construction plan to build the third facility has not yet commenced since the existing research and development centre is still not operating at full capacity.
Quality assurance and award	1.	to be certified as CMM level 5 compliant	The Group is now trying to formalize its software development process so as to attain CMM level 3 standards first.
Acquisitions	1.	to evaluate opportunities for possible mergers and acquisitions in North America and/or East Asia which will complement the Group's businesses.	The Group has continued to seek target companies that would bring synergy effect to the Group's business but the Group has not yet identified any companies for possible mergers and acquisitions.

COMPARSION OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

USE OF PROCEEDS FROM THE PLACING OF NEW SHARES

The proceeds from the Company's issue of new shares at the time of its listing on the GEM in February 2002, after deduction of related issuance expenses, amounted to approximately HK$50 million. Up to the year ended 30 June 2004, the net proceeds were applied in the following areas:

– approximately HK$16 million was used for research and development ;

– approximately HK$3.8 million was used for establishment of branch offices;

– approximately HK$4.5 million was used for improvement of the Group's quality assurance system;

– approximately HK$1.1 million was used for the acquisition of an information technology company; and

– the balance of HK$24.6 million was applied as additional working capital of the Group.

During the year under review, the Group intends to carry out its business objectives as stated in prospectus, in a slower pace in order to minimize the business risks arising from the uncertainties in the global economics environment. As a result, the rate of applications of proceeds had been slowed down.

EXECUTIVE DIRECTORS

Mr. Li Jiahui (李佳輝), aged 44, is the chairman of the board of Directors of the Company, an executive Director and one of the founders of the Group. Mr. Li is responsible for the overall strategic planning and development of the Group. Mr. Li graduated from Wuhan Technical Institute (武漢工學院) with a university diploma in machinery design and manufacturing in 1982 and has also pursued studies in Japan. Mr. Li has substantial working experience in business planning and development and the IT industry.

Mr. Wen Ruifeng (溫瑞峰), aged 40, is an executive Director, chief executive officer and one of the founders of the Group. Mr. Wen is mainly responsible for the management of the daily operations of the Group. He has over 11 years of management experience in various sectors of the IT industry gained from a number of multinational corporations including Sony Corporation group in Japan and Quantum Corporation in the US. Mr. Wen holds a bachelor's degree in computer science and a master's degree in management engineering from Tsinghua University (清華大學) and a master's degree in business administration from University of Virginia in the US.

Mr. Xin Qian (辛謙), aged 39, is an executive Director and one of the founders of the Group. Mr. Xin is in charge of the sales and marketing department and research and development department of the Group. He has over 13 years of experience in the IT industry. Prior to founding the Group, Mr. Xin had worked in a number of multinational companies in the Silicon Valley, the US in which he was involved in full range software development process including system design and integration and software development. Mr. Xin holds a bachelor's degree in accounting from San Francisco State University in the US.

NON-EXECUTIVE DIRECTOR

Mr. Gao Junhua (高俊華), aged 42, is a non-executive Director. He has served as the Technical Adviser of Guangzhou Municipality, the PRC since December 1999. From 1986 to 1992, he was a software engineer at Guangzhou Marine & Shipping Design Research Institute (廣州船舶及海洋工程設計院). He received a master's degree in shipping and marine engineering from Shanghai Jiao Tong University (上海交通大學) in 1986. Mr. Gao joined the Group in January 2002. Mr. Gao is also an executive director of Cytech.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Ngai Sang, Kenny (陳毅生), aged 39, is an independent non-executive Director. He is presently a partner and founder of Kenny Chan & Co.. He has more than 11 years of experience in accounting, tax, auditing and corporate finance and has participated in a number of mergers and acquisitions and public flotation assignments. Mr. Chan holds a bachelor's degree in commerce from the University of New South Wales in Australia and is a member of the Institute of Chartered Accountants of New Zealand, Australia CPA, Hong Kong Society of Accountants and Taxation Institute of Hong Kong. Mr. Chan was appointed as an independent non-executive Director in January 2002.

Mr. Xing Fengbing (邢鳳炳), aged 64, is an independent non-executive Director and is currently an editorial writer of the Hong Kong Commercial Daily. Mr. Xing has substantial experience in journalism in Hong Kong and the PRC and has worked in The People's Daily (人民日報) and Shenzhen Special Zone Daily (深圳特區報). He holds a bachelor's degree in journalism from Qinan University (暨南大學) in the PRC. Mr. Xing was appointed to be an independent non-executive Director in January 2002.

SENIOR MANAGEMENT

Mr. Ng Kai Cheung, Martin (吳啟章), aged 34, is the financial controller, qualified accountant and company secretary of the Company. He is responsible for the overall financial control, accounting and company secretarial matters of the Group. Mr. Ng has over nine years of experience in auditing, accounting and finance. Prior to joining the Group in July 2001, he was the finance manager and company secretary of a company listed on GEM. Mr. Ng graduated from Lingnan University in Hong Kong with a major in finance in 1994. He is also a member of the American Institute of Certified Public Accountants.

Mr. Huang Boqi (黃伯麒), aged 39, is the vice president of the Group and is responsible for the administration of the Group. Prior to joining the Group in October 1998, Mr. Huang has over 11 years of experience in corporate management including international sales and marketing and corporate management. Mr. Huang holds a bachelor's degree in engineering from South China Technical Institute (華南工學院) and a master's degree in economics from Jiangxi University of Finance and Economics (江西財經大學) in the PRC. Mr. Huang was designated by the Jiangxi Provincial People's Government (江西省人民政府) and Jiangxi Provincial Young Entrepreneurs Association (江西省青年企業協會) as an Elite Young Entrepreneur of Jiangxi Province (江西省傑出青年企業家) in 2000.

Mr. Du Jianqiang (杜建強), aged 35, is the chief technology officer of the Group. He is responsible for the overall control of the development and design of the Group's IT products and services. Prior to joining the Group in April 1999, Mr. Du has over eight years of experience in software design, development and management. Mr. Du holds a bachelor's degree in engineering from Tsinghua University (清華大學) and a master's degree in mechanical engineering from Central China University of Technology (華中理工大學). Mr. Du was designated by Nanchang Science Technology Commission (南昌科學技術委員會) as one of the Top Ten Young Technology Elites of Nanchang City (南昌市十大青年科技明星) and the Jiangxi Provincial People's Government (江西省人民政府) as a Model Labour of Jiangxi Province (江西省勞動模範) in July 2000 and September 2000 respectively.

Mr. Tu Haining (涂海寧), aged 39, is the manager of IT support of the Group. He joined the Group in October 1998 and is mainly responsible for the Group's IT support to its customers. Mr. Tu has substantial experience in development of software, system analysis and design in Jiangxi Kehuan Electronic Technology Co., Ltd. (科環電子技術有限公司) and Nanchang University (南昌大學) in the PRC. Mr. Tu holds a bachelor's degree in mechanical engineering from Wuhan Aquatics Engineering College (武漢水運工程學院), a master's degree in mechanical engineering from Harbin Industry University (哈爾濱工業大學) and a doctor of philosophy's degree in machinery design from Central China University of Technology (華中理工大學).

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are the provision of original design manufacturing ("ODM") software, the sale of proprietary packaged software and the provision of system solutions. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 30 June 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 25 to 55.

The directors do not recommend the payment of any dividend in respect of the year ended 30 June 2004.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The proceeds from the Company's issue of new shares at the time of its listing on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in February 2002, after deduction of related issuance expenses, amounted to approximately HK$50 million. The proceeds applied up to 30 June 2004 in accordance with the proposed applications set out in the Company's listing prospectus, were as follows:

- Approximately HK$16.0 million was used for research and development;
- Approximately HK$3.8 million was used for the establishment of branch offices;
- Approximately HK$4.5 million was used for the improvement of the Group's quality assurance system;
- Approximately HK$1.1 million was used for the acquisition of an information technology company; and
- The balance of HK$24.6 million was applied as additional working capital of the Group.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 56. This summary does not form part of the audited financial statements.

FIXED ASSETS

Details of movements in the fixed assets of the Company and the Group during the year are set out in note 13 to the financial statements.

ACQUISITION OF A SUBSIDIARY

During the year, Jiangxi Jinding Information System Co., Ltd. ("Jiangxi Jinding"), a subsidiary of the Company, acquired 51% equity interests in Jiangxi Jinlixin Technology Co., Ltd. ("Jiangxi Jinlixin") from Mr. Yang Junkai, an independent party and national of the PRC. Jiangxi Jinlixin is a company established in the PRC on 26 May 2003 and of which the principal activities are the sale of computer hardware and accessories, office equipment and electronics.

SHARE CAPITAL AND SHARE OPTIONS

No share capital was issued during the year.

During the year, there were no convertible securities, options, warrants or similar rights, issued or granted by the Company or its subsidiaries.

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, (being the jurisdiction in which the Company was incorporated), which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 24 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 30 June 2004, the Company's reserves available for distribution, calculated in accordance with the Companies Law of the Cayman Islands, amounted to RMB31,135,820. This included the Company's share premium account of RMB40,026,000 at 30 June 2004, which may be distributed in the form of fully paid bonus shares, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers is less than 30% and accounted for 20.7% of the total sales for the year and sales to the largest customer included therein amounted to 10.3%. Purchases from the Group's five largest suppliers accounted for 99.5% of the total purchases for the year and purchases from the largest supplier included therein amounted to 79.7%.

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive directors:
Mr. Li Jiahui ("Mr. Li")
Mr. Wen Ruifeng ("Mr. Wen")
Mr. Xin Qian ("Mr. Xin")

Non-executive directors:
Mr. Gao Junhua ("Mr. Gao")
Mr. Xing Fengbing*
Mr. Chan Ngai Sang, Kenny*

* *Independent non-executive directors*

In accordance with article 108(A) of the Company's articles of association, Mr. Xing Fengbing and Mr. Wen Ruifeng will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 13 to 15 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the three executive directors has entered into a service contract on 24 January 2002 with the Company for an initial term of three years commencing from 7 February 2002, which will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other.

The two independent non-executive directors and the non-executive director have been appointed for a term of two years expiring on 23 January 2004. Each of the three directors has renewed a service agreement on 24 January 2004 with the Company for a period commencing from 24 January 2004 to 6 February 2005.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save for the transactions in connection with the Group reorganisation in preparation for the listing of the Company's shares on the GEM, no director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the interests and short positions of the directors and chief executives in the securities of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO), or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by Directors as required under Rules 5.40 to 5.58 of the GEM Listing Rules were as follows:

Long position in ordinary shares of the Company:

Name of Director	Total number of shares held	Capacity	Approximate percentage shareholding
Mr. Wen *(Note 1)*	218,700,000	Interest in a controlled corporation	21.87%
Mr. Xin *(Note 1)*	218,700,000	Interest in a controlled corporation	21.87%
Mr. Li	189,000,000	Beneficial owner	18.90%
Mr. Gao *(Note 2)*	312,000,000	Interest in a controlled corporation	31.20%

Notes:

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

2. These shares are registered in the name of ESP Associates Limited as disclosed in the section "Interest discloseable under the SFO and substantial shareholders" below.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, at 30 June 2004, none of the directors and chief executives had registered an interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have taken under such provisions of the SFO), which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.40 to 5.58 of the GEM Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SHARE OPTION SCHEME

Due to the adoption of Statement of Standard Accounting Practice No. 34 "Employee benefits" during the year, most of the detailed disclosures relating to the Company's share option scheme have been moved to note 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 30 June 2004, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	*Notes*	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**
Cytech Investment Limited ("Cytech Investment")	(a)	312,000,000	31.20
Benep Management Limited ("Benep")	(a)	312,000,000	31.20
Cytech Software Limited ("Cytech")	(a)	312,000,000	31.20
ESP Associates Limited	(b)	312,000,000	31.20
Wang Xiaochuan	(b)	312,000,000	31.20
Mr. Gao	(b)	312,000,000	31.20
Unrivaled Beauty	(c)	218,700,000	21.87
Mr. Wen	(c)	218,700,000	21.87
Mr. Xin	(c)	218,700,000	21.87
Mr. Li		189,000,000	18.90

Notes:

(a) 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 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 SFO.

(b) The issued share capital of Cytech is owned as to 38.81%, 7.67% and 2.74% by ESP Associates Limited, Wang Xiaochuan and Mr. Gao, respectively. The issued share capital of ESP Associates Limited is in turn owned as to 50.67% by Wang Xiaochuan and 41.11% by Mr. Gao. Accordingly, each of ESP Associates Limited, Wang Xiaochuan and Mr. Gao is deemed to be interested in all the shares in which Cytech is interested pursuant to the SFO.

(c) The 218,700,000 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 SFO.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares" above, had registered an interest in the share capital, underlying shares and debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific – Yamaichi Capital Limited (the "Sponsor"), as at 30 June 2004, neither the Sponsor itself, its directors, employees or associates (as referred to in note 3 to Rule 6.35 of the GEM Listing Rules), had any interests in the securities in the Company or of any members of the Group, or had any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any members of the Group.

Pursuant to the agreement dated 31 January 2002 entered into between the Company and the Sponsor, the Sponsor is entitled to receive an advisory fee for acting as the Company's retained sponsor for the period from 8 February 2002 to 30 June 2004.

COMPETING INTERESTS

Neither the directors, the managing shareholders or substantial shareholders of the Company (as defined in the GEM Listing Rules) or any of their respective associates had an interest in a business which competes or may compete with the businesses of which the Group, or has any other conflict of interests with the Group.

CONNECTED TRANSACTIONS

During the year, Twyla Services Limited, a subsidiary of the Company, made operating lease payments of RMB441,000 in respect of the Group's office premises in Hong Kong to Cytech Software (HK) Limited, which is a wholly-owned subsidiary of Cytech, a substantial shareholder of the Company. The independent non-executive directors have confirmed that the transaction was entered into in the ordinary and usual course of business of the Company. The monthly rentals were calculated by reference to the prevailing open market rentals for similar premises. Further details of the transaction are set out in note 29 to the financial statements.

This transaction is a de minimis transaction pursuant to Rule 20.23 of the GEM Listing Rules, which is exempted from the reporting, announcement and shareholder's approval requirements.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the GEM Listing Rules on 24 January 2002, and comprises Mr. Xin and the two independent non-executive directors, Mr. Chan Ngai Sang, 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 of directors. Three meetings were held during the financial year under review.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the directors, 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 since the listing of the Company's shares on the GEM on 8 February 2002.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By Order of the Board
Golding Soft Limited

Li Jiahui
Chairman

Hong Kong
13 August 2004

ERNST & YOUNG

To the members
Golding Soft Limited
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 25 to 55 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2004 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
13 August 2004

Year ended 30 June 2004

	Notes	2004 RMB	2003 RMB
TURNOVER	5	20,632,298	38,769,882
Cost of sales		(17,967,644)	(13,716,561)
Gross profit		2,664,654	25,053,321
Other revenue	5	1,008,132	843,013
Selling and distribution costs		(4,785,902)	(7,323,827)
Administrative expenses		(9,854,376)	(8,837,950)
Other operating expenses		(10,685,898)	(2,997,062)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	(21,653,390)	6,737,495
Tax	9	(2,622)	(2,247,670)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(21,656,012)	4,489,825
Minority interests		54,034	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10, 24	(21,601,978)	4,489,825
EARNINGS/(LOSS) PER SHARE – BASIC *(RMB)*	12	(2.16)cents	0.45cents

CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Fixed assets	13	**13,160,953**	13,427,703
Goodwill	14	**468,310**	–
		13,629,263	13,427,703
CURRENT ASSETS			
Inventories	16	**1,954,907**	–
Trade receivables	17	**340,397**	2,732,865
Prepayments, deposits and other receivables	18	**2,281,383**	2,365,655
Cash and cash equivalents	19	**63,578,466**	84,271,554
		68,155,153	89,370,074
CURRENT LIABILITIES			
Tax payable		**–**	112,612
Other payables and accruals	20	**3,892,443**	4,761,718
Trade deposits received		**413,862**	702,445
Due to related companies	21	**1,460,419**	112,266
		5,766,724	5,689,041
NET CURRENT ASSETS		**62,388,429**	83,681,033
MINORITY INTERESTS		**(510,934)**	–
		75,506,758	97,108,736
CAPITAL AND RESERVES			
Issued capital	22	**10,500,000**	10,500,000
Reserves	24	**65,006,758**	86,608,736
		75,506,758	97,108,736

Xin Qian
Director

Wen Ruifeng
Director

	Issued share capital RMB	Share premium account RMB	Statutory reserves (note 24) RMB	Retained profits RMB	Total RMB
At 1 July 2002	10,500,000	40,026,000	413,500	41,679,411	92,618,911
Net profit for the year	–	–	–	4,489,825	4,489,825
At 30 June 2003 and 1 July 2003	10,500,000	40,026,000	413,500	46,169,236	97,108,736
Net loss for the year	–	–	–	(21,601,978)	(21,601,978)
At 30 June 2004	10,500,000	40,026,000	413,500	24,567,258	75,506,758

* These reserve accounts comprise the consolidated reserves of RMB65,006,758 (2003: RMB86,608,736) in the consolidated balance sheet.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2004

	Notes	2004 RMB	2003 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) from operating activities		(21,653,390)	6,737,495
Adjustments for:			
Interest income	5	(305,687)	(747,019)
Amortisation of goodwill	6	93,662	–
Depreciation	6	2,647,891	2,341,649
Provision for doubtful debts	6	628,128	–
Operating profit/(loss) before working capital changes		(18,589,396)	8,332,125
Increase in inventories		(1,125,919)	–
Decrease in trade receivables		2,006,582	3,521,933
(Increase)/decrease in prepayments, deposits and other receivables		615,770	(504,681)
Decrease in trade payables		–	(246,344)
Decrease in other payables and accruals		(1,376,881)	(42,964)
Decrease in trade deposits received		(288,583)	(1,101,155)
Increase/(decrease) in amounts due to related companies		1,348,153	(73,550)
Cash generated from/(used in) operations		(17,410,274)	9,885,364
Interest received		305,687	747,019
Income tax paid in Mainland China		(115,234)	(4,153,001)
Net cash inflow/(outflow) from operating activities		(17,219,821)	6,479,382
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	13	(2,372,983)	(2,188,705)
Acquisition of a subsidiary	25(a)	(1,100,284)	–
Net cash used in investing activities		(3,473,267)	(2,188,705)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(20,693,088)	4,290,677
Cash and cash equivalents at beginning of year		84,271,554	79,980,877
CASH AND CASH EQUIVALENTS AT END OF YEAR		63,578,466	84,271,554
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		38,783,660	53,632,868
Time deposits with original maturity of less than three months when acquired		24,794,806	30,638,686
		63,578,466	84,271,554

	Notes	2004 RMB	2003 RMB
NON-CURRENT ASSETS			
Investments in subsidiaries	15	**210,000**	210,000
CURRENT ASSETS			
Prepayments		**88,704**	78,750
Due from a subsidiary	15	**43,374,712**	47,108,544
		43,463,416	47,187,294
CURRENT LIABILITIES			
Other payables and accruals	20	**2,037,596**	2,394,506
NET CURRENT ASSETS		**41,425,820**	44,792,788
		41,635,820	45,002,788
CAPITAL AND RESERVES			
Issued capital	22	**10,500,000**	10,500,000
Reserves	24	**31,135,820**	34,502,788
		41,635,820	45,002,788

Xin Qian
Director

Wen Ruifeng
Director

1. CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands on 28 August 2001. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, the British West Indies.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of original design manufacturing ("ODM") software, the sale of proprietary packaged software and the provision of system solutions. There were no significant changes in the nature of the Group's principal activities during the year.

2. IMPACT OF A NEW AND REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 9 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2004. The result of a subsidiary acquired during the year is consolidated from the date of acquisition. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost less residual value of each asset over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Leasehold land and buildings	The shorter of the lease terms and 20 years
Leasehold improvements	The shorter of the lease terms and 5 years
Computer equipment	5 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	5 years

The gain or loss on disposal of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

Leased assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories, representing computer hardware, are stated at the lower of cost and net realisable value after making due allowance for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services is recognised based on the stage of completion of the contract, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The stage of completion of a contract is established by reference to physical completion of a particular phase of the contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

– except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

– except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, based on the stage of completion of contracts, as further explained in the accounting policy for "Contracts for services" above;

(c) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(d) maintenance fee income, on a time proportion basis over the maintenance period.

Employee benefits

Retirement benefits scheme

The employees of the Company's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. Contributions under the scheme are charged to the profit and loss account as incurred.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

The Group's principal operations are conducted in Mainland China. Accordingly, the financial statements have been prepared in Renminbi ("RMB"), being the functional currency of the Company's principal subsidiaries. Transactions denominated in currencies other than RMB are translated into RMB at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of non-PRC subsidiaries are translated into RMB at the applicable exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the ODM segment engages in the design and development of ODM software for various business enterprises and government authorities, including software development key research and study, business consultancy, system design, coding, system testing and installation;

(b) the proprietary packaged software segment includes the research and development of proprietary packaged software for various business applications such as business management, financial management, office automation and e-commerce; and

(c) the system solutions segment provides total information technology solutions, including the distribution of computer hardware, strategic consultancy, the design and development of software, system networking and system integration for business management and the provision of maintenance and upgrading services.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

There were no intersegment sales and transfers during the year (2003: Nil).

4. SEGMENT INFORMATION (continued)

(a) **Business segments**

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	ODM		Proprietary packaged software		System solutions		Consolidated	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Segment revenue: Sales to external customers	2,933,500	17,308,267	150,000	2,301,061	17,548,798	19,160,554	20,632,298	38,769,882
Segment results	1,666,787	8,759,021	69,730	1,367,585	463,334	8,105,120	2,199,851	18,231,726
Interest income and unallocated gains							305,687	843,013
Unallocated expenses							(24,158,928)	(12,337,244)
Profit/(loss) from operating activities							(21,653,390)	6,737,495
Tax							(2,622)	(2,247,670)
Profit/(loss) before minority interests							(21,656,012)	4,489,825
Minority interests							54,034	–
Net profit/(loss) attributable to shareholders							(21,601,978)	4,489,825
Segment assets	180,400	1,287,750	15,000	29,761	4,118,866	1,415,354	4,314,266	2,732,865
Unallocated assets							77,470,150	100,064,912
Total assets							81,784,416	102,797,777
Segment liabilities	–	529,505	–	–	906,144	564,700	906,144	1,094,205
Unallocated liabilities							4,860,580	4,594,836
Total liabilities							5,766,724	5,689,041

An analysis of the capital expenditure and depreciation charge for the business segments has not been presented because the majority of the related fixed assets are used by more than one segment.

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following table presents revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	North America		PRC*		Consolidated	
	2004 RMB	2003 RMB	**2004 RMB**	2003 RMB	**2004 RMB**	2003 RMB
Segment revenue: Sales to external customers	**412,500**	19,161,439	**20,219,798**	19,608,443	**20,632,298**	38,769,882
Segment results	**804,226**	10,824,908	**1,395,625**	7,406,818	**2,199,851**	18,231,726
Other segment information: Amortisation of goodwill	**–**	–	**93,662**	–	**93,662**	–
Provision for doubtful debts	**148,555**	–	**479,573**	–	**628,128**	–
Segment assets	**82,500**	1,405,510	**81,701,916**	101,392,267	**81,784,416**	102,797,777
Capital expenditure	**–**	–	**2,381,141**	2,188,705	**2,381,141**	2,188,705

* People's Republic of China (the "PRC") including Hong Kong.

5. TURNOVER

Turnover represents the net invoiced value of goods sold and services rendered, after allowances for returns and trade discounts, where applicable.

An analysis of the Group's turnover and other revenue is as follows:

	2004 RMB	2003 RMB
Turnover		
Sale of goods	**17,348,798**	5,845,184
Rendering of services	**3,283,500**	32,924,698
	20,632,298	38,769,882
Other revenue		
Interest income	**305,687**	747,019
Forfeited deposits	**702,445**	95,994
	1,008,132	843,013
	21,640,430	39,612,895

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	Notes	2004 RMB	2003 RMB
Cost of inventories sold		16,859,363	3,938,011
Cost of services provided		1,108,281	9,778,550
Amortisation of goodwill*	14	93,662	–
Depreciation	13	2,647,891	2,341,649
Provision for doubtful debts*	17, 18	628,128	–
Minimum lease payments under operating leases in respect of land and buildings		572,218	1,090,978
Auditors' remuneration		735,000	735,000
Staff costs (excluding directors' remuneration – note 7):			
Salaries and wages		11,333,161	14,215,579
Pension scheme contributions		418,530	483,387
		11,751,691	14,698,966
Research and development expenses*		9,964,108	2,521,260
Exchange losses, net		39,051	–

* These items are included in "Other operating expenses" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2004 RMB	2003 RMB
Fees	491,400	491,400
Other emoluments:		
Salaries, allowances and benefits in kind	1,679,580	1,679,580
	2,170,980	2,170,980

7. DIRECTORS' REMUNERATION (continued)

During the year, the three executive directors received individual emoluments of RMB419,580, RMB630,000 and RMB630,000 (2003: RMB419,580, RMB630,000 and RMB630,000), respectively. The non-executive director received an individual fee of RMB189,000 (2003: RMB189,000). The two independent non-executive directors received individual fees of RMB151,200 (2003: RMB151,200), each.

The remuneration paid to each of the directors fell within the band of nil to HK$1,000,000 for each of the two years ended 30 June 2003 and 2004.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2003: three) non-director, highest paid employees are as follows:

	Group	
	2004	2003
	RMB	RMB
Salaries, allowances and benefits in kind	**1,852,200**	1,787,900

The remuneration paid to each of the non-director, highest paid employees fell within the band of nil to HK$1,000,000 for each of the two years ended 30 June 2003 and 2004.

9. TAX

No Hong Kong profits tax has been provided during the year as the Group did not generate any assessable profits arising from its operations in Hong Kong (2003: Nil). 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.

	2004 RMB	2003 RMB
Current year's provision:		
Hong Kong	–	–
Elsewhere in the PRC	2,622	2,247,670
Tax charge for the year	2,622	2,247,670

According to the Income Tax Law of Mainland China and as approved by the relevant tax authorities, Jiangxi Jinding Information System Co., Ltd. ("Jiangxi Jinding"), a wholly-owned subsidiary of the Company operating in Mainland China, was exempted from corporate income tax ("CIT") for two years commencing from its first profit-making year and is entitled to a 50% relief from CIT for the following three years. Accordingly, Jiangxi Jinding was exempted from CIT from 1 January 2000 to 31 December 2001 and is entitled to a 50% relief from CIT from 1 January 2002 to 31 December 2004. Since Jiangxi Jinding incurred a loss for the year, no income tax was provided.

Jiangxi Jinlixin Technology Co., Ltd. ("Jiangxi Jinlixin"), another subsidiary of the Company, is a domestic enterprise operating in Mainland China. The applicable CIT rate is 33%.

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2004 RMB	2003 RMB
Profit/(loss) before tax	(21,653,390)	6,737,495
Tax at the applicable rate of 33% (2003: 33%)	(7,114,710)	2,223,373
Lower income tax rates for the PRC at 15% (2003: 15%)	–	(2,239,054)
Tax loss not recognised	7,114,710	2,263,351
Expenses not deductible for tax	94,219	–
Unprovided deferred tax assets	(94,219)	–
Others	2,622	–
Tax charge at the Group's effective rate	2,622	2,247,670

9. TAX (continued)

The Group has tax losses arising in Mainland China and other countries of RMB21,653,000 (2003: RMB5,702,000) that are available, within a maximum period of five years in the PRC, for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time. Apart from the above, there were no significant unrecognised deferred tax assets as at 30 June 2004.

At 30 June 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

10. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year ended 30 June 2004 is RMB3,366,968 (2003: RMB3,513,944) (note 24(b)).

11. DIVIDENDS

No dividend has been paid or declared by the Company or any of the companies comprising the Group during the years presented in these financial statements.

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of RMB21,601,978 (2003: basic earnings per share based on the Group's profit of RMB4,489,825), and the weighted average of 1,000,000,000 (2003: 1,000,000,000) ordinary shares in issue during the year.

Earnings/(loss) per share amounts on a diluted basis for the two years ended 30 June 2003 and 2004 have not been disclosed as no potential ordinary shares or diluting events existed during these years.

13. FIXED ASSETS

Group

	Leasehold land and buildings RMB	Leasehold improvements RMB	Computer equipment RMB	Furniture, fixtures and office equipment RMB	Motor vehicles RMB	Total RMB
Cost:						
At 1 July 2003	5,678,247	3,112,955	6,900,918	1,131,946	604,085	17,428,151
Additions	–	903,160	1,433,500	7,800	28,523	2,372,983
Acquisition of a subsidiary (*note 25(a)*)	–	–	8,158	–	–	8,158
At 30 June 2004	**5,678,247**	**4,016,115**	**8,342,576**	**1,139,746**	**632,608**	**19,809,292**
Accumulated depreciation:						
At 1 July 2003	414,069	922,621	2,163,614	320,946	179,198	4,000,448
Provided during the year	281,136	650,165	1,387,969	210,536	118,085	2,647,891
At 30 June 2004	**695,205**	**1,572,786**	**3,551,583**	**531,482**	**297,283**	**6,648,339**
Net book value:						
At 30 June 2004	**4,983,042**	**2,443,329**	**4,790,993**	**608,264**	**335,325**	**13,160,953**
At 30 June 2003	5,264,178	2,190,334	4,737,304	811,000	424,887	13,427,703

The cost of leasehold land and buildings includes the cost of land use rights in the amount of RMB3,832,000. The Group's leasehold land and buildings are situated in Mainland China and held under medium term leases.

14. GOODWILL

The amount of the goodwill capitalised as an asset, arising from the acquisition of a subsidiary, is as follows:

Group

	RMB
Cost:	
At 1 July 2003	–
Acquisition of a subsidiary *(note 25(a))*	561,972
At 30 June 2004	**561,972**
Accumulated amortisation:	
At 1 July 2003	–
Amortisation provided during the year	93,662
At 30 June 2004	**93,662**
Net book value:	
At 30 June 2004	**468,310**
At 30 June 2003	–

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	RMB	RMB
Unlisted shares, at cost	**210,000**	210,000

The balance with a subsidiary included in the Company's current assets is interest-free, unsecured and has no fixed terms of repayment.

15. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of subsidiaries are as follows:

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Twyla Services Limited	British Virgin Islands 22 May 1997	US$100	100	–	Investment holding
Jiangxi Jinding Information System Co., Ltd. (江西金鼎信息系統有限公司) *(note i)*	Mainland China 30 April 1999	US$1,000,000	–	100	Design, development and sale of computer software and systems, and the provision of computer consultancy services
Golding Software (HK) Limited	Hong Kong 27 February 2002	HK$2	–	100	Software business
北京泰萊投資諮詢有限公司 ("Tailai") *(note ii)*	Mainland China 5 June 2002	US$150,000	–	100	Dormant
Jiangxi Jinlixin Technology Co., Ltd. (江西金立信科技有限公司) *(note iii)*	Mainland China 26 May 2003	RMB1,150,000	–	51	Sale of computer hardware and accessories, office equipment and electronics

15. INVESTMENTS IN SUBSIDIARIES (continued)

Notes:

i. Jiangxi Jinding is a wholly foreign-owned enterprise with an operating period of 15 years commencing from 30 April 1999. During the year, the paid-in share capital increased from US$100,000 to US$1,000,000 and the additional paid-in share capital has been verified by qualified certified public accountants in the PRC.

ii. Tailai is a wholly foreign-owned enterprise with an operating period of 20 years commencing from 5 June 2002.

iii. Jiangxi Jinlixin is a domestic enterprise with a registered capital of RMB1,150,000 and its operation period of 15 years commencing from 26 May 2003. On 1 September 2003, the Group acquired 51% equity interests in Jiangxi Jinlixin at a consideration of RMB1,150,000 from Mr. Yang Junkai, an independent party and national of the PRC. At the date of acquisition, the registered capital of Jiangxi Jinlixin had been fully paid up.

16. INVENTORIES

	Group	
	2004	2003
	RMB	RMB
Finished goods	**1,954,907**	–

There were no inventories carried at net realisable value included in the above balance as at the balance sheet date.

17. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to three months, extending up to three to six months for major customers. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the financial management.

An aged analysis of the trade receivables as at the balance sheet date based on invoice date is as follows:

	Group	
	2004	2003
	RMB	RMB
Within one month	**129,549**	147,907
One to two months	**–**	144,716
Two to three months	**82,500**	367,192
Three months to one year	**128,348**	2,073,050
Over one year	**585,119**	–
	925,516	2,732,865
Less: Provision for doubtful debts	**(585,119)**	–
	340,397	2,732,865

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2004	2003
	RMB	RMB
Prepayments	**2,146,501**	646,455
Deposits and other receivables *(note)*	**177,891**	1,719,200
	2,324,392	2,365,655
Less: Provision for doubtful debts	**(43,009)**	–
	2,281,383	2,365,655

18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Note: At 30 June 2003, other receivables included an amount of RMB1,500,000 due from 南昌金鼎軟件開發有限公司 ("Nanchang Jinding"), a company established in Mainland China in which Mr. Huang Boqi, a director of Jiangxi Jinding, has beneficial interests. Disclosures pursuant to Section 161B of the Hong Kong Companies Ordinance are as follows:

Name of company	**30 June 2004**	Maximum amount outstanding during the year	1 July 2003
	RMB	RMB	RMB
Nanchang Jinding	–	1,500,000	1,500,000

The amount due from Nanchang Jinding was unsecured, interest-free and has no fixed terms of repayment. The amount was settled during the year.

19. CASH AND CASH EQUIVALENTS

	Group	
	2004	2003
	RMB	RMB
Cash and bank balances	**38,783,660**	53,632,868
Time deposits	**24,794,806**	30,638,686
Cash and cash equivalents	**63,578,466**	84,271,554

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to RMB20,217,612 (2003: RMB37,208,554). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

20. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	RMB	RMB	**RMB**	RMB
Other payables	**547,511**	1,268,077	**121,373**	478,284
Accruals	**3,344,932**	3,493,641	**1,916,223**	1,916,222
	3,892,443	4,761,718	**2,037,596**	2,394,506

21. DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

22. SHARE CAPITAL

Shares	2004		2003
	HK$	**RMB**	RMB
Authorised:			
20,000,000,000 ordinary shares of HK$0.01 each	**200,000,000**	**210,000,000**	210,000,000
Issued and fully paid:			
1,000,000,000 ordinary shares of HK$0.01 each	**10,000,000**	**10,500,000**	10,500,000

There were no changes in the Company's share capital during the year.

Share options

Details of the Company's share option scheme are included in note 23 to the financial statements.

23. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include employees or proposed employees of the Group, the Company's directors, including non-executive directors, suppliers of goods or services to the Group, customers of the Group, persons or entities who provide technology support to the Group, shareholders of any of the Group companies, and any other participants determined by the Company's directors as having contributed who may contribute by way of joint venture or business alliances to the development and growth of the Group. The Scheme

23. SHARE OPTION SCHEME (continued)

became effective on 24 January 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Group may not in aggregate exceed 30% of the Company's shares in issue from time to time. The total number of shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the Scheme and any other share option scheme of the Group) to be granted under the Scheme and any other share option scheme of the Group, may not in aggregate exceed 10% of the Company's shares in issue.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive, managing shareholder or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than ten years from the date of grant of the share options or the expiry date of the Scheme, if earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the SEHK closing price of the Company's shares on the date of the offer of the share options; (ii) the average SEHK closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Up to the date of this report, no options have been granted or agreed to be granted under the Scheme since its effective date on 24 January 2002.

24. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 27 of the financial statements.

Pursuant to the relevant laws and regulations for wholly foreign-owned enterprises, a portion of the profits of Jiangxi Jinding, a subsidiary of the Company registered in Mainland China, has been transferred to the statutory reserves which are restricted as to use.

Company

	Share premium account RMB	Accumulated losses RMB	Total RMB
At 30 June 2002 and 1 July 2002	40,026,000	(2,009,268)	38,016,732
Net loss for the year	–	(3,513,944)	(3,513,944)
At 30 June 2003 and 1 July 2003	40,026,000	(5,523,212)	34,502,788
Net loss for the year	–	(3,366,968)	(3,366,968)
At 30 June 2004	**40,026,000**	**(8,890,180)**	**31,135,820**

(a) The share premium account of the Company includes shares issued at a premium upon the listing of the Company's shares on the GEM. Under the Companies Law of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) As at 30 June 2004, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to RMB31,135,820 (2003: RMB34,502,788), subject to the restrictions stated in note (a) above.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of a subsidiary

	Notes	2004 RMB	2003 RMB
Net assets acquired:			
Fixed assets	13	8,158	–
Inventories		828,988	–
Trade receivables		199,233	–
Prepayments, deposits and other receivables		574,507	–
Cash and bank balances		49,716	–
Other payables and accruals		(507,606)	–
Minority interests		(564,968)	–
		588,028	–
Goodwill on acquisition	14	561,972	–
		1,150,000	–
Satisfied by cash		1,150,000	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 RMB	2003 RMB
Cash consideration	1,150,000	–
Cash and bank balances acquired	(49,716)	–
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	1,100,284	–

During the year, the Group acquired 51% equity interests in Jiangxi Jinlixin as detailed in note 15 (iii) above. Since its acquisition, Jiangxi Jinlixin contributed RMB17,198,798 to the Group's turnover and a loss of RMB110,274 to the consolidated loss before minority interests for the year ended 30 June 2004.

26. CONTINGENT LIABILITIES

At the balance sheet date, the Company and the Group did not have any significant contingent liabilities (2003: Nil).

27. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office premises, retail shops and warehouse under operating lease arrangements with leases negotiated for terms ranging from one to two years.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	RMB	RMB
Within one year	**131,142**	257,250

28. COMMITMENTS

At the balance sheet date, neither the Group nor the Company had any significant capital commitments (2003: Nil).

29. RELATED PARTY TRANSACTIONS

In addition to the balances detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

		2004	2003
	Notes	**RMB**	RMB
Operating lease rentals paid to a related company	(i)	**441,000**	441,000
Agency fees paid to a related company	(ii)	**–**	1,000,000

29. RELATED PARTY TRANSACTIONS (continued)

Notes:

(i) The rentals were paid, in respect of the Group's office premises situated in Hong Kong, to Cytech Software (HK) Limited, which is a subsidiary of Cytech Software Limited, a substantial shareholder of the Company. The directors of the Company have confirmed that the monthly rentals were calculated by reference to open market rentals for similar premises.

(ii) Last year, pursuant to an agreement entered into between Jiangxi Jinding and Nanchang Jinding, the Group was entitled to all revenues from projects incepted by Nanchang Jinding on behalf of Jiangxi Jinding, in consideration of a fixed annual fee of RMB1 million payable to Nanchang Jinding. During the year, the Group terminated the above agreement with Nanchang Jinding. Therefore, no agency fees were incurred in current financial year.

30. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 13 August 2004.

A summary of the published results and assets and liabilities and minority interests of the Group for the last five financial years is set out below.

	Year ended 30 June				
	2004	2003	2002	2001	2000
RESULTS	**RMB**	RMB	RMB	RMB	RMB
TURNOVER	**20,632,298**	38,769,882	63,293,948	31,736,557	15,285,411
Cost of sales	**(17,967,644)**	(13,716,561)	(16,868,235)	(7,751,584)	(5,896,648)
Gross profit	**2,664,654**	25,053,321	46,425,713	23,984,973	9,388,763
Other revenue	**1,008,132**	843,013	560,658	215,485	80,009
Selling and distribution costs	**(4,785,902)**	(7,323,827)	(8,676,134)	(5,415,221)	(3,360,566)
Administrative expenses	**(9,854,376)**	(8,837,950)	(6,288,063)	(2,714,383)	(2,422,907)
Other operating expenses	**(10,685,898)**	(2,997,062)	(1,240,860)	(638,788)	(847,227)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(21,653,390)**	6,737,495	30,781,314	15,432,066	2,838,072
Finance costs	**–**	–	–	–	(158,125)
PROFIT/(LOSS) BEFORE TAX	**(21,653,390)**	6,737,495	30,781,314	15,432,066	2,679,947
Tax	**(2,622)**	(2,247,670)	(2,776,873)	–	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(21,656,012)**	4,489,825	28,004,441	15,432,066	2,679,947
Minority interests	**54,034**	–	–	–	–
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(21,601,978)**	4,489,825	28,004,441	15,432,066	2,679,947
ASSETS AND LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**81,784,416**	102,797,777	101,677,296	17,011,048	6,373,253
TOTAL LIABILITIES	**(5,766,724)**	(5,689,041)	(9,058,385)	(2,712,578)	(7,506,849)
MINORITY INTERESTS	**(510,934)**	–	–	–	–
	75,506,758	97,108,736	92,618,911	14,298,470	(1,133,596)

The summary of the published combined results of the Group for the two years ended 30 June 2000 and 2001 and the combined assets and liabilities of the Group as at 30 June 2000 and 2001 has been extracted from the Company's prospectus dated 31 January 2002 (the "Prospectus") in connection with the listing of the Company's shares on the GEM. The summary was prepared from the audited financial statements of the companies then comprising the Group, further details of the basis of preparation are set out in the Prospectus. The results of the Group for the three years ended 30 June 2002, 2003 and 2004 and its assets and liabilities as at 30 June 2002, 2003 and 2004 are those extracted from the Company's annual report of last year and those set out on pages 25 and 26 of the financial statements, respectively, and are presented on the basis as set out in note 3 to the financial statements.