A & K Educational Software Holdings Limited

A & K 教育軟件控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

ANNUAL REPORT 2004/05

04/05

*For identification purposes only

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 sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors of A & K Educational Software Holdings Limited collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Exchange for the purpose of giving information with regard to A & K Educational Software Holdings Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

Contents

EXECUTIVE DIRECTORS
PENG Gexiong *(Chairman)*
WANG Chaoju
PENG Gang

INDEPENDENT NON-EXECUTIVE DIRECTORS
JIANG Minghe
LAW Chi Yuen
CHENG Yun Ming, Matthew (CPA, FCCA)

AUDIT COMMITTEE
JIANG Minghe
LAW Chi Yuen
CHENG Yun Ming, Matthew (CPA, FCCA)

COMPANY SECRETARY
CHENG Sing Kau (CPA, CPA(Australia))

COMPLIANCE OFFICER
WANG Chaoju

QUALIFIED ACCOUNTANT
CHENG Sing Kau (CPA, CPA(Australia))

AUTHORISED REPRESENTATIVES
PENG Gexiong *(Chairman)*
CHENG Sing Kau (CPA, CPA(Australia))

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GEM LISTING CODE
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SUMMARY OF CONSOLIDATED RESULTS

	For the year ended 31 March			
	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**15,704**	15,006	6,292	8,038
Cost of sales	**(1,607)**	(1,276)	(1,603)	(2,814)
Gross profit	**14,097**	13,730	4,689	5,224
Other revenue	**1,931**	555	2,207	674
Other net income	**270**	74	303	10
Distribution and selling expenses	**(898)**	(1,081)	(659)	(778)
Administrative expenses	**(5,813)**	(1,734)	(1,609)	(1,714)
Other operating expenses	**(8)**	(186)	(20)	(80)
Profit from ordinary activities before taxation	**9,579**	11,358	4,911	3,336
Taxation	**(936)**	(1,076)	(1,621)	(1,101)
Profit from ordinary activities after taxation	**8,643**	10,282	3,290	2,235
Earnings per share in RMB *(Note)*	**0.038**	0.057	0.018	0.012

SUMMARY OF CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 March			
	2005	2004	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**62,717**	31,256	19,422	16,115
Total Liabilities	**(4,427)**	(3,042)	(1,496)	(1,480)
Shareholders' Funds	**58,290**	28,214	17,926	14,635

(Note)

The calculation of the basic earnings per share for the years ended 31 March 2002, 2003 and 2004 are based on the assumption that the 180,000,000 shares in issue as and issuable, comprising 1,000 shares in issue as at 30 July 2004 and 179,999,000 shares to be issued pursuant to the capitalisation issue passed by the shareholders of the Company on 13 May 2004.

The calculation of the earnings per share for the year ended 31 March 2005 is based on the weighted average number of 228,904,110 ordinary shares in issue during the year.

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence in past years.

I hereby present on behalf of the Board of Directors (the "Board") of A & K Educational Software Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") the audited annual results of the Group for the year ended 31 March 2005 for the shareholders' reference.

Looking back on 2004, the Group had acted on the aim of "working in collaboration to develop education for the future" and adhered with effort to the guiding principle of catering to the needs of the end-users. As a result, the Group had been successful in capitalizing on the listing opportunities on the GEM to enhance generally the Group's products and core competitiveness, and to reinforce the Group's competitive strength as well.

During the reporting period, the Group had realized an audited turnover of approximately RMB15.7 million, representing an increase of 4.7% as compared to that of last year. The profit attributable to shareholder was approximately RMB8.6 million, decreased 15.9% over last year.

During the reporting period, Jiangxi A & K Educational Software Co. Ltd. ("Jiangxi A & K"), one of the Group's major subsidiaries, had its project of "Internet-based secondary and primary teaching and management platform industrialization" participated in the expert reply organized by National Development and Reform Commission. The project had been approved and chosen as one of the Commission's specified projects in the realm of information industry. Meantime, products under this project had also been classified as "China's 500 best new products for year 2005" by "世界經理人週刊". In light of the Group's rapid development for the previous year, the software industry development steering group of Nanchang Government had graded the Group's project of "Elementary Education Solution" (that is the project of "AK Education On-line") as one of the "key recommended projects of Nanchang for year 2005", and had assigned the city's education bureau as the responsible unit to promote this project, whereas the unit will, in the angle of the government, assist mainly in coordinating and in tackling problems in the course of implementation of this project. Besides, Jiangxi A & K had also been ranked as an advanced enterprise of year 2004 for its significant contributions made to Nanchang State High-tech Industry Development Zone as an enterprise with strong technological innovational capacity, flexible enterprise system and remarkable effectiveness.

During the reporting period, the Group had set up an office in Beijing with an aim to utilize the advantage of wide geological coverage of the Capital to establish a nationwide sales system. The Group had also signed cooperation agreements with a number of provincial and municipal enterprises for marketing and sales of the Group's products. Through the Beijing Office, we will successively form interest-communities with agents nationwide, and the good cooperation with them will be conducive to the marketing and sales of the Group's products in the country.

In the future, the Group will uphold the three impregnable objectives, that is, to improve the management system unswervingly, to foster a strong brand unflinchingly, and to cater to the needs of the end-users perseveringly. The Group endeavors to enhance operational efficiency, to enlarge its market share in China and to intensify product development, in order to accomplish the principle of caring about the interests of the users, and thus to repay the kindness of our shareholders with all our hearts.

Lastly, on behalf of the Board of the Company, I would like to thank all the staff for their diligence and their great contributions made to the Company. Also, I would like to express my sincere gratitude to the shareholders for their untiring care and support.

Peng Gexiong
Chairman of the Board

BUSINESS REVIEW

Self-developed education software, standard package basis

During the year under review, the turnover from self-developed education software on standard package basis was approximate RMB11.6 million, which was slightly decreased in compare to last year. "PIONEER'S" (校園先鋒) was still the mainstream of the Group self-developed education software product. The Group's research and development team is continuing update the "PIONEER'S" (校園先鋒) series software during the year.

Self-developed education software, project basis

The Group also develops customized educational applications in project basis in accordance with specifications prescribed by the customers. During the year under review, the Group successfully completed two projects to two customers for RMB4,000,000 and RMB60,000 respectively.

Government Grants

Since the Group had its project of "Internet-based secondary and primary teaching and management platform industrialization" participated in the expert reply organized by National Development and Reform Commission (國家發展及改革委員會). The project had been approved and chosen as one of the Commission's specified projects in the realm of information industry. A government grants of total RMB3 million was granted. During the year, RMB900,000 was received in cash. The remained RMB2.1 million will expected to be received in the next financial year.

Sales and Promotion

After the opening of the Beijing representative office, the group can now easier to assess and to be assess by difference provincial software distributing enterprises. Those software distributor enterprises have extensive connection in their province to promote and distribute the Group's products. The major advantages of using software distributors to promote the Group's products are: (i) better connection in promoting and distributing of the Group's product (ii) eliminate the distribution and selling expenses for provinces outside Jiangxi. Up to 31 March 2005, a cooperation agreement was signed with the software distributors in Shandong, Hubei and Henan.

In order to maintain the Group's competitive edge and promote the corporate image, the Group had participated in the following major seminars/exhibitions during the year ended 31 March 2005:

2004 Anhui Provinces Electronic Educational Unit Education Software Promotion Meeting
(2004安徽省電化教育館軟件推廣會議)
Date: August 2004
Location: He Fei

2004 Guangzhou Fair
(2004年廣州博覽會)
Date: September 2004
Location: Guangzhou

The 6th China International High and New Technology Results Exchange
(第六屆中國國際高新技術成果交易會)
Date: October 2004
Location: Shenzhen

Canada Toronto Global Chinese Financial Forum 2004
Date: October 2004
Location: Canada Toronto

BUSINESS PROSPECT

The Group had accomplished the preliminary construction of website AK Education On-line and had it put into trial-run within Jiangxi Province. With the launch of membership system and the sale of on-line learning card, the website had realized recall of capital and yield of revenue as registered users can use all functions in AK Education On-line (www.akedu.com.cn) at will anytime. After realization and operation of all the functions, the product will be promoted nationwide, such that AK Education On-line is not merely an education portal, nor just a product of a particular domain in elementary education teaching, management and application, but an application platform that integrates all existing educational software products and educational resources and meets the needs of all those involved, including the secondary and primary schools and families of the students enrolled, in the 12 grades of elementary education through the introduction of great global grid (GGG). Taking into account 700,000 odd schools and 0.3 billion of secondary and primary students nationwide, and that there are more than ten thousand secondary and primary schools with as many as 7 million of students and their families members within Jiangxi Province as its potential user-base, the market size is tremendous and the prospect is promising. We see its development the Group's new profit growth point.

The Group had continued to upgrade its R&D capability through collaborating with Microsoft in China. Recommended by Government of Jiangxi Province, the Group formed jointly Jiangxi Microsoft Technology Center with Microsoft in China and other three Jiangxi local software enterprises in February 2005. This Center will introduce all-out Microsoft management and technology and will provide the enterprises with services related to Microsoft products. Our active participation in the establishment and operation of this centre will surely help improve our software project management capability and technological personnel training.

FINANCIAL REVIEW

Turnover

The Group achieved a consolidated turnover of approximately RMB15.7 million, an increase of approximately 4.7% in compare to year ended 31 March 2004. The following table is the breakdowns of turnover for the year ended 31 March 2005:

	RMB'000	Approximately % attributable to the turnover of the Group
Sales of self-developed education software		
Standard package basis	11,644	74.15%
Project basis	4,060	25.85%
	15,704	100%

During this financial year, we have successfully promoted our products to other provinces outside Jiangxi with total turnover of approximately RMB 3.9 million which is approximately RMB 2.8 million increase in compare with year ended 31 March 2004. Since the opening of our Beijing representative office in November 2004, we have signed contracts with several agents in difference provinces to promote and distribute our Group's product.

The following table is the breakdown of turnover by region:

Province/Municipality	RMB'000	Approximately % attributable to the turnover of the Group
Jiangxi	11,792	75.09%
Shanghai	1,050	6.69%
Shandong	961	6.12%
Guizhou	844	5.37%
Hunan	738	4.70%
Guangxi	281	1.79%
Guangdong	14	0.09%
Anhui	13	0.08%
Henan	8	0.05%
Hubei	3	0.02%
Total	15,704	100%

Cost of sales and gross profit

The cost of sales has increased approximately RMB 0.3 million in compare to year ended 31 March 2004 of approximately RMB 1.6 million. The main reason for the increase was the Group employed additional technical staff and freelance teachers to improve and update the teaching material.

Other revenue

For the year ended 31 March 2005, the Group's other revenue mainly include government grant of RMB 900,000, VAT refund of approximately RMB 1 million and interest income of approximately RMB 19,000. The government grant was received from National Development and Reform Commission (國家發展和改革委員會) in cash and is unconditional and not repayable.

Distribution and selling expenses

For the year ended 31 March 2005, the Group's distribution and selling expenses was approximately RMB 0.9 million. There was 16.9% decrease in compare to the year ended 31 March 2004 because after setting up the representative office in Beijing last year, the sales and promotion costs outside Jiangxi province were borne by the authorized distribution agent in those provinces. By adopting such new sales and distribution method, the Group now can effectively control the cost of distribution to other provinces outside Jiangxi. In addition, the Group had employed new sales staff which have lower salary in compare with the sales staff resigned during the year.

Administrative expenses

For the year ended 31 March 2005, the Group's administrative expenses was approximately RMB5.8 million. There was a 235.2% increase in compare to the year ended 31 March 2004 because the Group incurred more administrative expenses after the listing of the shares of the Company on GEM. Those additional expenses including share registration, listing expenses, professional and promotion expenses, staff salary and general office expenses in Hong Kong.

Earnings per share

The earnings per share was approximately RMB0.038 for the year ended 31 March 2005 which was approximately 33.3% decrease in compare with 2004. The decrease was due to increase in administrative expenses and the placing of 75,000,000 ordinary shares in August 2004 and the number of shares calculate for earnings per share was increased from 180,000,000 shares to a weighted average number of 228,904,110 shares for the year ended 31 March 2005.

LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a very strong financial position with approximately RMB58.3 million shareholders' fund as at 31 March 2005 (2004: RMB28.2 million). The cash and bank balance of the Group as at 31 March 2005 had a total of approximately RMB33.6 million (2004: RMB9.2 million). The increase was result from the listing of the Share of the Company on GEM in August 2004 and cash collected from debtors. Cash and bank deposits are usually treated as liquid assets. As at 31 March 2005, the net current assets (representing total current assets less total current liabilities) amounted to approximately RMB58.0 million (2004: RMB27.1 million) represented 99.5% (2003: 96.2%) of shareholders' fund.

CHARGE OF ASSETS

As at 31 March 2005, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

As at 31 March 2005, the Group did not have any material capital commitments apart from those disclosed in Note 24 to the financial statements.

FOREIGN EXCHANGE EXPOSURE AND HEDGING POLICY

Since most of the income and expenses as well as assets and liabilities of the Group are denominated in Renminbi, the Director consider that the Group has no material foreign exchange exposures and no hedging policy has been taken.

CONITINGENT LIABILITIES

As at 31 March 2005, the Group did not have any material contingent liabilities.

DIVIDEND

The Broad did not recommend any payment of final dividend for the year ended 31 March 2005 (2004: nil).

HUMAN RESOURCES

As at 31 March 2005, the Group had 60 full time employees in the PRC and Hong Kong. At the same time, there were 59 freelance teachers employed by the Group for providing and updating teaching materials for the Group's product. Staff remuneration packages are determined by reference to prevailing market rates. Staff benefits include mandatory provident fund, personal insurance and discretionary bonus which are based on their performance and contribution to the Group.

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus of the Company dated 30 July 2004 (the "Prospectus") for the period from 6 August 2004 (the "Listing Date") to 31 March 2005:

Business Objectives as set out in the Prospectus from Listing Date to 31 March 2005	Actual business progress from the Listing Date to 31 March 2005
1. Expansion of the Group's research and development effort	
– Upgrade the standard package educational software	– The Group has continuously upgraded the standard package educational software
– Upgrade teaching materials database for primary school and junior secondary school courses	– The Group has continuously upgraded teaching materials database for primary school and junior secondary school courses
– Develop online teaching software modules	– The Group has initiated the development online teaching software modules
– Employ additional 20 database production staff	– The Group has employed additional 13 freelance teachers for database production
2. Expansion of the Group's sales and marketing network – Distribution	
– Strengthen the existing sales force in Jiangxi Province and other provinces and municipalities of the Group's existing network by employ additional 23 sales and marketing staff	– The Group has employed additional sales and marketing staff
– Establish a sales office in Beijing	– The Group has successfully established a sales office in Beijing in August 2004 and begin its operation in November 2004.

3. **Expansion of the Group's sales and marketing network – Promotion**

   – Continue to participate national and regional seminars and exhibitions in Jiangxi Province and other major provinces and cities

   – The Group has actively participated in major national and regional seminars and exhibitions.

4. **Establishment of a new testing centre and training facilities**

   – Established a new testing centre with training rooms

   – The Group has established a new training centre with training rooms

5. **Upgrade of the Group's equipment and IT infrastructure**

   – Continue to upgrade the hardware equipment including servers, computers, routers and network equipment

   – The Group has acquired several high level servers, computers, routers and network equipment in order to cop with the group's product upgrade and development

USE OF PROCEEDS

	From the Listing date to 31 March 2005	
	Proposed	**Actual**
	RMB'000	RMB'000
Expansion of the Group's research and development effort	1,802	1,067
Expansion of the Group's sales and marketing network – Distribution	742	851
Expansion of the Group's sales and marketing network – Promotion	265	353
Establishment of a new testing centre and training facilities	954	911
Upgrade of the Group's equipment and IT infrastructure	848	883
Total	4,611	4,065

Note:

The remain unused proceeds are currently being placed on interest bearing deposit with a licensed bank in PRC.

EXECUTIVE DIRECTOR

Mr. Peng Gexiong (彭格雄) (Chairman), aged 49, is the chairman of the Board. Mr. Peng is primarily responsible for the Group overall strategic planning, management and business development. Mr. Peng graduated from Jiangxi Finance College (江西財經學院) in 1982, majoring in finance. He joined the Group in January 2001. Prior to joining the Group, Mr. Peng had worked as a principle staff member of the general office of supervisory department of Jiangxi Province for more than 10 years. He had accumulated more than 7 years of management experience and 4 years of experience in education industry through working as the senior management of a real estate enterprise and a foreign department store and as the visiting professor of Jiangxi University of Finance & Economics (江西財經大學).

Mr. Peng Gang (彭剛), aged 42, is the executive Director of the Group. He is responsible for the overall business development planning of the Group. He graduated from Shanghai Jiao Tong University (上海交通大學) in 1984 and obtained a master degree from Nanjing Aviation College (南京航空學院), majoring in mechanical engineering in 1990. He joined the Group in June 1997 as the general manager and was responsible for software development of the Group for more than 7 years. In addition to his experience in the software industry, he had also accumulated more than 5 years of management experience through working as a director of the Group from 1999. Prior to joining the Group, he was the general manager of an import and export company in the PRC and was responsible for the market development of such company.

Mr. Wang Chaoju (汪超駒), aged 50, is the executive Director and Compliance Officer of the Group. He is responsible for the overall business development planning of the Group. He joined the Group in January 2001. Prior to joining the Group, Mr. Wang was a staff member of Donghui Administration of Taxation of Nanchang City, Jiangxi Province (江西省南昌市東湖區稅務局). He had accumulated more than 10 years of management experience through working in two PRC trading companies as director and general manager who was responsible for market development of such companies.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Jiang Minghe (蔣鳴和), aged 59, is the independent non-executive Director and member of the Audit Committee of the Group. He is presently the laboratory officer and researcher of Shanghai Education Science Research Institution's modern education laboratory (上海市教育科學研究院現代教育實驗室). He is also the committee member of the State's Education Department, a doctorate degree tutor of East China Normal University (華東師範大學), the president of PRC Education Economic Research Institute (中國教育經濟學研究會). He joined the Group in November 2003.

Mr. Law Chi Yuen (羅志遠), aged 47, is the independent non-executive Director and member of the Audit Committee of the Group. He is a solicitor practicing in Hong Kong. He obtained a bachelor degree in science and a master's degree in philosophy from the University of Hong Kong in 1978 and 1983 respectively. Mr. Law was admitted as a solicitor in Hong Kong (1983), United Kingdom (1987), Singapore (1991) and Australia (1991). He is also a member of The Chartered Institute of Arbitrators. He is the Chairman of the Appeal Board Panel under the Entertainment Special Effects Ordinance appointed by Secretary for Information Technology and Broadcasting and member of the Market Misconduct Tribunal. He joined the Group in April 2004.

Mr. Cheng Yun Ming Matthew (CPA, FCCA) (鄭潤明), aged 35, is the independent non-executive Director and member of the Audit Committee of the Group. He is a Certified Public Accountant, an associate of Hong Kong Institute of Certified Public Accountants, a fellow of The Association of Chartered Certified Accountants. He obtained a bachelor degree in accountancy from the Hong Kong Polytechnic University in 1992. He joined the Group in April 2004.

SENIOR MANAGEMENT

Ms. Peng Bizhen (彭碧珍), aged 47, is the general manager of the Group. Ms. Peng is responsible for the Group's overall strategic planning and management. In 1995, Ms. Peng was awarded accountants qualification by the PRC Finance Bureau (中華人民共和國財政部). She had accumulated more than 19 years of accounting experience. She is the spouse of Mr. Wang Chaoju. She joined the Group in September 1996. Prior to joining the Group, she was the finance manager of a car rental company in the PRC and was responsible for preparing the management accounts and internal auditing for more than 7 years.

Mr. Zeng (曾瑞洪), aged 39, is the head of research and development department and the chief engineer of the Group. Mr. Zeng is responsible for the overall research and development of new technology and products. Mr. Zeng graduated from Nanjing Industrial College (南京工業學院) in 1987, majoring in computer science. He joined the Group in July 1997. Prior to joining the Group, he had accumulated 10 years of experience in IT industry through working in a technology company as a software engineer and was responsible for developing application software for that institution.

Mr. Yan Feng (晏峰), aged 34, is the vice-chief engineer of website department of the Group. He is responsible for the up-grading and development of the Company's website. He graduated from Jiangxi Industrial University (江西工業大學) in 1992, majoring in mechanical engineering. He joined the Group in January 2002. Prior to joining the Group, he had accumulated more than 10 years of experience in education industry through working as a teacher in an industrial school and was responsible for teaching computer engineering and software developments.

Ms. He Rong (何嶸), aged 37, is the head of sales department of the Group. She is responsible for the formulation, implementation, and control of the overall sales and marketing strategies. She graduated from East China University of Politics and Law (華東政法學院) in 1998, majoring in law. She joined the Group in 2004. Prior to joining the Group, she had accumulated more than 5 years of experience in sales and marketing and project management in sizable incorporations in Jiangxi.

Mr. Zhang Xuefeng (張雪峰), aged 43, is the chief representative of Beijing representative office. He is responsible for coordinate the sales and marketing activities with other provinces sales agents in Beijing. He graduated from Jiangix Agricultural University (江西農業大學) in 1983. He joined the Group in 2004. Prior to joining the Group. he had worked in Jiangxi Xin Yu Shi forestry bureau (江西省新余市林業局) for more than 15 years.

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Cheng Sing Kau (CPA, CPA(Australia)) (鄭聲教), aged 36, is the Financial Controller, Company Secretary and Authorized Representative of the Group. Prior to joining the Group in October 2004, he has over 11 years of auditing, accounting and financial management experience in Big 4 and others sizable corporations. He has a Bachelor degree in Accounting from Edith Cowan University in Australia and is an associate member of both the Hong Kong Institute of Certified Public Accountants and CPA Australia.

The directors present herewith their annual report and the audited financial statements of the Company and the Group for the year ended 31 March 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the Group's subsidiaries are set out in note 12 to the financial statements.

An analysis of the Group's turnover and contribution to results by principal activities for the year ended 31 March 2005 are set out in note 3 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	25%	
Five largest customers in aggregate	56%	
The largest supplier		43%
Five largest suppliers in aggregate		81%

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major customers and suppliers noted above.

FINANCIAL STATEMENTS AND DIVIDENDS

The results of the Group for the year are set out in the consolidated income statement on page 24.

The state of affairs of the Group and the Company as at 31 March 2005 are set out in the consolidated balance sheet on page 25 and the balance sheet on page 26, respectively.

The Board does not recommend the payment of any final dividend in respect of the year ended 31 March 2005 (2004: Nil).

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past four financial years is set out on page 3.

CHARTITABLE DONATIONS

The Group does not made any charitable donations during the year. (2004: Nil)

FIXED ASSETS

Movements in fixed assets during the year are set out in note 11 to the financial statements.

SHARE CAPITAL

Movements in share capital of the Company during the year are set out in note 22 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in note 23 to the financial statements.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Mr. Peng Gexiong, Chairman
Mr. Wang Chaoju
Mr. Peng Gang

Independent non-executive directors

Mr. Jiang Minghe	(appointed on 13/5/2004)
Mr. Law Chi Yuen	(appointed on 13/5/2004)
Mr. Cheng Yun Ming, Matthew	(appointed on 13/5/2004)

In accordance with article 87 of the Company's Articles of Association, Mr. Law Chi Yuen and Cheng Yun Ming, Matthew will retire from office at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 March 2005 the interests or short positions of the Directors (the "Directors") and the chief executive of the Company in the shares and underlying shares (the "Shares") of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were 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 is taken or deemed to have under such provisions of the SFO), or which were required, to be entered in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

(a) The Company – interests in Shares

Director	Nature of Interest		No. of Share	Percentage of shareholding
Mr. Peng Gexiong	Interest of a controlled corporation	Note (1)	141,121,000	55.34%
Mr. Wang Chaoju	Interest of a controlled corporation	Note (2)	2,880,000	1.13%

Notes:

(1) These Shares are registered in the name of and beneficially owned by Educators Investment Limited ("Educators Investment"). Educators Investment is legally and beneficially owned as to 97.7% by Mr. Peng Gexiong, as to 1.28% by Mr. Shu Fan, as to 0.61% by Mr. Zeng Ruihong and as to 0.41% by Mr. Su Wenbo. By virtue of his 97.7% direct interest in Educators Investment, Mr. Peng Gexiong is deemed or taken to be interested in the 141,120,000 Shares held by Educators Investment for the purposes of the SFO.

(2) These Shares are registered in the name of and beneficially owned by Modern Precise Limited ("Modern Precise"), the entire issued share capital of which is registered in the name of and beneficially owned by Mr. Wang Chaoju. Under the SFO, Mr. Wang is deemed to be interested in all the Shares held by Modern Precise.

(b) Associated corporations – interests in Shares

(i) Long positions in the shares of HK$0.10 each in the capital of Educators Investment (the "Educators Shares"), an associated corporation (within the meaning of the SFO) of the Company:

Name of Director	Type of interest	Number of Educators Share held	Approximately percentage holding of Educators Shares
Mr. Peng Gexiong	Beneficial	9,770	97.7%

(ii) Long positions in the shares of HK$0.10 each in the capital of Modern Precise (the "Modern Precise Shares"), an associated corporation (within the meaning of the SFO) of the Company:

Name of Director	Type of interest	Number of Modern Precise Share held	Approximately percentage holding of Modern Prescise Shares
Mr. Wang Chaoju	Beneficial	1	100%

SUBSTANTIAL SHAREHOLDERS AND PERSONS WITH DISCLOSEABLE INTEREST AND SHORT POSITION IN SHARES UNDER SFO

So far as is known to any Director or chief executive of the Company, as at 31 March 2005, the following persons (other than the Directors or chief executive of the Company as disclosed above) had an interest or short position in the Shares as recorded in the register required to be kept under section 336 of the SFO, and were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of this Group:

Long positions in shares

Name	Nature of Interest	Number of Shares	Percentage of shareholding
Educators Investment	Beneficial owner	141,120,000	55.34%
Ms. Li Qin	Family *(Note 1)*	141,120,000	55.34%
Mr. Ye Jinxing	Beneficial owner	36,000,000	14.12%
Ms. Wang Chun Ning	Family *(Note 2)*	36,000,000	14.12%

Notes:

1. Under the SFO, Ms. Li Qin, spouse of Mr. Peng Gexiong, is deemed to be interested in the Shares.

2. Under the SFO, Ms. Wang Chun Ning, spouse of Mr. Ye Jinxing is deemed to be interested in the Shares.

Save as disclosed herein, as at 31 March 2005, the Company had not been notified of any other person (other than the Directors or chief executive of the Company) who had a discloseable interest or short position in the Shares as recorded in the register required to be kept under section 336 of the SFO or, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including options in respect of such capital) carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SHARE OPTION SCHEME

On 23 July 2004, the principal terms of the Share Option Scheme was approved and passed by the written resolutions of all the Shareholders. The purpose of the Share Option Scheme is to provide the people and the parties working for the interest of the Group with an opportunity to obtain an equity interest in the Company, thus linking their interest with the interests of the Group and thereby providing them with an incentive to work better for the interests of the Group. Given that the Directors are entitled to determine any performance targets to be achieved as well as the minimum period that an option must be held before an option can be exercised on a case by case basis, and that the exercise price of an option cannot in any event fall below the price stipulated in the GEM Listing Rules or such higher price as may be fixed by the Directors, it is expected that grantees of an option will make an effort to contribute to the development of the Group so as to bring about an increased market price of the Shares in order to capitalise on the benefits of the options granted.

For the year ended 31 March 2005, the Board did not offer any Share Option Scheme to any parties.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Cayman Islands.

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Shares of the Company during the year.

CONNECTED TRANSACTIONS

The Company did not have connected transactions for the year ended 31 March 2005.

COMPETING INTERESTS

For the year ended 31 March 2005, none of the Directors or the management shareholders or any of their respective associates (as defined in the GEM Listing Rules) of the Company had an interest in a business which causes or may causes any significant competition with the business of the Group.

BOARD PRACTICE AND PROCEDURES

The Company complied with the Board Practice and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules since its Listing.

The board's practices and procedures set out in Rules 5.35 to 5.45 of the GEM Listing Rules were replaced by the Code on Corporate Governance Practices (the "CCGP") as set out in Appendix 15 of GEM Listing Rules which has become effective for accounting periods commencing on or after 1 January 2005. Appropriate actions are being taken by the Company for complying with the CCGP.

SPONSOR'S INTEREST

Pursuant to a sponsor agreement dated 30 July 2004 entered into between the Company and Kingsway Capital Limited (the "Sponsor"), the Sponsor has been appointed as the retained sponsor of the Company for the period ending 31 March 2007 (or until the sponsor agreement is otherwise terminated upon the terms and conditions contained therein), for which the Sponsor will receive a fee. As notified and updated by the Sponsor, neither the Sponsor nor any of its directors or employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in any class of securities of the Company or any member of the Group, or any right to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 31 March 2005. Save as disclosed above, the Sponsor had no other interest in the Company as at 31 March 2005.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.62 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with such code of conduct and required standard of dealings throughout year ended 31 March 2005.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are, among others, to review and supervise the financial reporting processes and internal control procedures of the Group and to provide advice and comments to the Board accordingly. The audit committee consists of the three independent non-executive Directors of the Company, namely Jiang Minghe, Law Chi Yuen and Cheng Yun Ming Matthew.

During the year, the audit committee held four meetings and performed duties including reviewing the Group's annual report, half-yearly report, quarterly report and announcement. The audit committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 March 2005 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

SUBSEQUENT EVENT

Detail of significant subsequent events are set out in note 29 to the financial statements.

AUDITORS

The financial statements have been audited by CCIF CPA Limited (formerly known as Charles Chan, Ip & Fung CPA Limited). A resolution for their re-appointment as the Company's auditors for the ensuing year is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

PENG Gexiong
Chairman

China, 23 June 2005

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
A & K EDUCATIONAL SOFTWARE HOLDINGS LIMITED
(INCORPORATED IN CAYMAN ISLANDS WITH LIMITED LIABILITY)

We have audited the financial statements on pages 24 to 52 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 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 Institute of Certified Public Accountants. An audit includes 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 circumstances of the Company and the Group, 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 the Group as at 31 March 2005 and of the profit 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.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 23 June 2005

Chan Wai Dune, Charles
Practising Certificate Number P00712

Consolidated Income Statement

For the year ended 31 March 2005

	Note	2005 RMB'000	2004 RMB'000
TURNOVER	3	15,704	15,006
COST OF SALES		(1,607)	(1,276)
GROSS PROFIT		14,097	13,730
OTHER REVENUE	4	1,931	555
OTHER NET INCOME	4	270	74
DISTRIBUTION AND SELLING EXPENSES		(898)	(1,081)
ADMINISTRATIVE EXPENSES		(5,813)	(1,734)
OTHER OPERATING EXPENSES		(8)	(186)
PROFIT BEFORE TAXATION	5	9,579	11,358
TAXATION	6	(936)	(1,076)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	7	8,643	10,282
DIVIDENDS	8	–	–
EARNINGS PER SHARE			
– Basic	9	RMB0.038	RMB0.057
– Diluted		N/A	N/A

The notes on pages 29 to 52 form an integral part of these financial statements.

At 31 March 2005

	Note	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Fixed assets	11	788	1,000
Interest in an associate	13	75	75
		863	1,075
Current assets			
Inventories	14	206	194
Trade receivables	15	17,657	10,978
Amount due from a shareholder	16	–	98
Prepayments, deposits and other receivables		10,416	9,690
Amount due from a director	17	–	22
Cash and bank balances		33,575	9,199
		61,854	30,181
LIABILITIES			
Current liabilities			
Trade payables	18	11	–
Other payables and accruals		3,479	3,042
Amount due to a shareholder	19	1	–
Taxation payable		385	–
		3,876	3,042
Net current assets		57,978	27,139
Total assets less current liabilities		58,841	28,214
Non-current liabilities			
Deferred taxation	21	551	–
NET ASSETS		58,290	28,214
CAPITAL AND RESERVES			
Share capital	22	27,030	–
Reserves	23	31,260	28,214
		58,290	28,214

Approved and authorised for issue by the board of directors on 23 June 2005

On behalf of the board

Peng Gexiong
Director

Wang Chaoju
Director

The notes on pages 29 to 52 form an integral part of these financial statements.

Balance Sheet

At 31 March 2005

	Note	2005 RMB'000	2004 RMB'000
ASSETS			
Non-current assets			
Interests in subsidiaries	12	**17,274**	–
Current assets			
Prepayments, deposits and other receivables		**10,790**	–
LIABILITIES			
Current liabilities			
Amount due to a related company	20	–	(188)
Accruals		**(265)**	(2)
		(265)	(190)
Net current assets/(liabilities)		**10,525**	(190)
NET ASSETS/(LIABILITIES)		**27,799**	(190)
CAPITAL AND RESERVES			
Share capital	22	**27,030**	–
Reserves	23	**769**	(190)
		27,799	(190)

Approved and authorised for issue by the board of directors on 23 June 2005

On behalf of the board

Peng Gexiong
Director

Wang Chaoju
Director

The notes on pages 29 to 52 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2005

	Share capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB"000	Foreign currency translation reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 April 2003	20,000	–	–	110	–	–	–	(2,184)	17,926
Effect of the reorganisation	(20,000)	–	–	5	–	–	–	–	(19,995)
Contributed surplus on Group reorganisation	–	–	20,013	–	–	–	–	–	20,013
Translation adjustment	–	–	–	–	–	–	(13)	–	(13)
Profit for the year	–	–	–	–	–	–	–	10,283	10,283
Transfer to/(from) reserve	–	–	–	–	810	405	–	(1,215)	–
At 31 March 2004 and 1 April 2004	–	–	20,013	115	810	405	(13)	6,884	28,214
Issue of share on listing	7,950	23,850	–	–	–	–	–	–	31,800
Capitalisation of contributed surplus	19,080	–	(19,080)	–	–	–	–	–	–
Profit for the year	–	–	–	–	–	–	–	8,643	8,643
Share issue expenses	–	(10,367)	–	–	–	–	–	–	(10,367)
Transfer to/(from) reserve	–	–	–	–	1,972	986	–	(2,958)	–
At 31 March 2005	27,030	13,483	933	115	2,782	1,391	(13)	12,569	58,290

The notes on pages 29 to 52 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2005

	2005 RMB'000	2004 RMB'000
OPERATING ACTIVITIES		
Profit from ordinary activities before taxation	**9,579**	11,358
Adjustments:		
Depreciation	**539**	720
Bad debts written off	**–**	4
Loss on disposal of fixed assets	**2**	2
Interest income	**(19)**	(27)
Forfeiture of customer deposit	**–**	(21)
Provision for bad and doubtful debts	**593**	–
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**10,694**	12,036
Increase in inventories	**(12)**	(75)
Increase in trade receivable	**(7,272)**	(6,920)
Increase in prepayment, deposits and other receivables	**(726)**	(3,016)
Decrease in amount due from a related company	**–**	709
Increase/(decrease) in trade payables	**11**	(26)
Increase in accruals and other payables	**437**	1,572
CASH GENERATED FROM OPERATIONS	**3,132**	4,280
INVESTING ACTIVITIES		
Purchase of fixed assets	**(329)**	(354)
Disposal of associate	**–**	25
Proceed from disposal of other investment	**–**	1,400
Interest received	**19**	27
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	**(310)**	1,098
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	**2,822**	5,378
FINANCING ACTIVITIES		
Decrease in amount due from a director	**22**	1,538
Decrease/(increase) in amount due from a shareholder	**98**	(98)
Increase in amount due to a shareholder	**1**	–
Proceed from exercise of convertible note	**–**	20,005
Payment to former shareholder of a subsidiary	**–**	(20,000)
Proceeds from issuance of shares by placing	**31,800**	–
Decrease in amounts due from related companies	**–**	1,547
Share issue expenses	**(10,367)**	–
NET CASH INFLOW FROM FINANCING ACTIVITIES	**21,554**	2,992
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,376**	8,370
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,199**	829
CASH AND CASH EQUIVALENTS AT END OF YEAR	**33,575**	9,199

The notes on pages 29 to 52 form an integral part of these financial statements.

1. REORGANISATION, PRINCIPAL ACTIVITIES AND BASIS OF PREPARATION

a) Reorganisation

A & K Educational Software Holdings Limited (the "Company") was incorporated in Cayman Islands on 29 October 2003 as an exempted company with limited liability. Pursuant to a group reorganisation (the "Reorganisation") completed on 13 May 2004 to rationalise the structure of the Group in preparation for the public listing of its shares on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited, the Company becomes the holding company of its subsidiaries now comprising the Group. The Company's shares were listed on GEM on 6 August 2004. Details of the Reorganisation are set out in the prospectus dated 30 July 2004 issued by the Company and the details of the subsidiaries acquired pursuant to the Reorganisation are set out in note 12 to the financial statements.

b) Principal activities

The Company is an investment holding company. Its subsidiaries are principally engaged in development and distribution of education software and provision of school network integration services in The People's Republic of China (the "PRC").

c) Basis of Presentation

The Group is regarded as a continuing entity resulting from the Reorganisation and has been accounted for on the basis of merger accounting. The consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 13 May 2004. Accordingly, the consolidated results of the Group for the years ended 31 March 2004 and 2005 include the results of the Company and its subsidiaries with effect from 1 April 2003 or since their respective dates of incorporation, whichever is a shorter period as if the current Group structure had been in existence throughout the two years presented. The consolidated balance sheet at 31 March 2004 is combination of the balance sheets of the Company and its subsidiaries at 31 March 2004. All material intra-group transactions and balances have been eliminated on combination. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and the state of affairs of the Group as a whole.

2. PRINCIPAL ACCOUNTING POLICIES

a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited.

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

a) Statement of Compliance (Continued)

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The financial statements are prepared under the historical cost convention.

b) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 March.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances with the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill or capital reserve which was not previously charged or recognised in the consolidated income statement. Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

c) Revenue Recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised in the consolidated income statement as follows:

i) *Sales of education software and distribution of education software*

Revenue is recognised when the Group has transferred to the customer the significant risks and rewards of ownership of the goods. Revenue excludes value added and business taxes and is stated after deductions of any goods returns and trade discounts.

ii) *School network integration*

Revenue from school network integration are recognised when the installation work is completed and the customer has accepted the goods and services together with transfer of significant risks and rewards of ownership.

iii) *Interest income*

Interest income is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

iv) *Value added tax refunds*

Value added tax refunds is recognised when the acknowledgement of refunds from the Tax Bureau has been received.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

d) Fixed Assets and Depreciation

Fixed assets are stated at cost less accumulated depreciation and impairment losses. Major expenditures on modifications and betterments of fixed assets which will result in future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred. Depreciation is calculated to write off the cost less residual value of fixed assets on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	Over the remaining term of the lease
Computer equipment	5 years
Furniture and equipment	5 years
Motor vehicles	5 years

Gains or losses arising from the retirement or disposal of fixed assets are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

e) Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the income statement on a straight-line basis over the periods of the respective lease.

f) Impairment of Assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f) Impairment of Assets (Continued)

ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

g) Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

h) Associates

An associate is a company in which the Group or Company has significant influence and which is neither a subsidiary nor a joint venture of the Company.

The investments in associates are accounted for in the consolidated balance sheet under the equity method whereby the investments are initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates. The results of the associates are accounted for in the consolidated income statement to the extent of the Group's share of the associates' results of operations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i) Related Parties

Two 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 or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the first-in first-out method and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

k) Trade Receivable

Provision is made against trade receivable to the extent that they are considered to be doubtful. Trade receivable in the balance sheet is stated net of such provision.

l) Cash And Cash Equivalents

Cash and cash equivalents comprise cash at bank and on demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

m) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company or Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

n) Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

o) Translation of Foreign Currencies

Transactions in foreign currencies during the year are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the income statement.

The financial statements of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss is translated at an average rate. Exchange differences arising are dealt with as movement in foreign currency translation.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

p) Employee Benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to defined contribution retirement scheme are recognised as an expense in the consolidated income statement as incurred, except to the extent that they are included in the cost of intangible assets and inventories not yet recognised as an expense.

q) Retirement Benefits Costs

The Group contributes on a monthly basis to defined contribution retirement benefit plan organised by relevant municipal government in the PRC. The municipal government undertakes to assume the retirement benefit obligations of all existing and future retired employees payable under the plan. Contribution to the plan is expensed as incurred. The assets of the plan are held separately from those of the Group in independently administered funds managed by the PRC Government.

r) Government Grants

Government grants are recognised in the consolidated income statements as revenue upon receipt. The grant amounts are determined and paid at the sole discretion of the local and central government of certain jurisdictions in the PRC.

s) Segment Reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Intra-segment pricing is based on similar terms as those available to other external parties.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

s) Segment Reporting (Continued)

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

t) Research and Development costs

Research costs are charged to the income statement as cost of sales in the year in which they are incurred. Development costs are expensed as cost of sales as incurred, except where a specific project is undertaken, the technical feasibility of the product under development has been demonstrated, costs are identifiable and a market exists for the product such that the development costs are expected to be recoverable from related future economic benefits. Such development costs are recognised as deferred development costs in the balance sheet and amortised on a straight-line basis over a period of not more than 5 years from the date the product is available for sale. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3. TURNOVER

The Group is principally engaged in the development and distribution of educational software in PRC. The Group develops its own educational software and distributes such software on standard package and project basis. Also, the Group utilised its experience in IT to provide school network integration services for their software implementation. Apart from these, the Group has entered into distribution agreements with other software developers to distribute their educational software products.

Turnover represents the sales value of software and service provide to customers, net of value added and business tax as follows:

	2005 RMB'000	2004 RMB'000
Sales of self-developed education software:		
Standard package basis	**11,644**	11,838
Project basis	**4,060**	3,092
	15,704	14,930
Network integration, IT services and others	**–**	76
Total turnover	**15,704**	15,006

4. OTHER REVENUE AND OTHER NET INCOME

	2005 RMB'000	2004 RMB'000
Other revenue		
Government grants *(note i)*	**900**	–
Interest income	**19**	27
Value added tax refunds *(note ii)*	**1,012**	528
	1,931	555
Other net income		
Bad debts recovered	**2**	50
Forfeiture of customer deposit	**–**	21
Sundry income	**268**	3
	270	74

Notes:

i) The Group received RMB0.9 million government grants in the year ended 31 March 2005. It was granted from the 江西省發展和改革委員會 on 12 December 2004. The government grants were made in cash. The directors also advised that the governments grants given to the Group are unconditional and not repayable.

ii) According to the announcement issued by the State Council of the PRC on 24 June 2000 in respect of the Several Policies on Encouraging Development of the Software Industry and the Integration Circuit Industry (關於軟件產業和集成電路產地發展若干政策通知), the value added tax paid by an enterprise which obtained the "Software Enterprise Recognition Certificate" (軟件企業認定證書) in respect of the selling of its self developed software will entitle for a 14% tax refund. Jiangxi A & K obtained such certificate of "Software Development Enterprise" on 15 August 2001 and entitled to value added tax refunds of 14%.

5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2005 RMB'000	2004 RMB'000
Staff cost (including directors' emoluments)		
– Wages and salaries	**1,517**	1,460
– Mandatory provident fund	**14**	5
– Social security costs	**43**	36
– Staff welfare	**144**	144
Bad debts written off	**–**	4
Provision for bad and doubtful debts	**593**	–
Cost of inventories sold and services rendered	**1,607**	1,276
Depreciation of fixed assets	**539**	720
Loss on disposal of fixed assets	**2**	2
Operating lease rental in respect of land and building	**254**	179
Audit fee	**248**	106
Research and development cost	**1,475**	1,049

6. TAXATION

Taxation represents:

	2005 RMB'000	2004 RMB'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**385**	–
Deferred taxation *(note 21)*	**551**	1,076
	936	1,076

a) No provision for Hong Kong profits tax has been made, as there are no estimated assessable profits for the Company and its subsidiaries operating in Hong Kong during the year (2004: nil).

6. TAXATION (Continued)

b) Jiangxi A & K Educational Software Co. Limited ("Jiangxi A & K"), the subsidiary where the majority of the Group's turnover is derived therefrom, was subject to PRC enterprise income tax. As a wholly foreign-owned enterprise with the approval of the Department of Foreign Trade and Economic Cooperation of Jiangxi Province (江西省對外貿易經濟合作廳), pursuant to the Income Tax Law of the PRC for Foreign Investment Enterprise (外商投資企業及外國企業所得稅法) and with the confirmation received from the Nanchang High-tech Area Tax Bureau (南昌市高新區國稅局) on 1 March 2004, Jiangxi A & K will be exempted from PRC enterprise income tax for the two years starting from its first profit-making year and thereafter (after offsetting the accumulated losses), and is entitled to a 50% relief for the subsequent three years. Jiangxi A & K was entitled to the exemption from PRC enterprise income tax for the year ended 31 March 2004. For the year ended 31 March 2005, Jiangxi A & K was exempted from PRC enterprise income tax up to 31 December 2004 and subject to a reduced tax rate of 7.5% thereafter.

The reconciliation of the effective tax rate to the statutory tax rate is as follows:

	2005	2004
	RMB'000	RMB'000
Profit/(loss) before taxation	**9,579**	11,358
Taxation calculation at:		
– PRC statutory tax rate 33%	**3,161**	3,748
Effect of offsetting accumulated tax losses	**–**	(1,076)
Effect of utilisation of deferred tax assets	**–**	1,076
Increase in deferred taxation	**551**	–
Non-deductible expenses	**1,500**	77
Effect of tax exemption of Jiangxi A & K	**(4,276)**	(2,749)
	936	1,076

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB3,811,000 (2004: RMB190,000) which has been dealt with in the financial statements of the Company.

8. DIVIDENDS

The board of directors resolved not to declare any dividend in respect of the year ended 31 March 2005 (2004: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

	2005 RMB'000	2004 RMB'000
Profit attributable to shareholders	**8,643**	10,282

The calculation of the basic earnings per share for the year ended 31 March 2004 is based on the assumption that the 180,000,000 shares in issue as and issuable, comprising 1,000 shares in issue as at 30 July 2004 and 179,999,000 shares to be issued pursuant to the capitalisation issue passed by the shareholders of the Company on 13 May 2004.

The calculation of the earnings per share for the year ended 31 March 2005 is based on the weighted average number of 228,904,110 ordinary shares in issue during the year.

Diluted earnings per share is not presented as there was no dilutive potential ordinary shares in existence in both years.

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

i) Directors' emoluments

	2005 RMB'000	2004 RMB'000
Fees for executive directors	**–**	–
Fees for independent non-executive directors	**119**	–
Other emoluments for executive directors		
– Basic salaries and allowances	**47**	48
– Retirement scheme contributions	**2**	1
	168	49

No directors waived any emoluments during the year. No incentive payment nor compensation for loss of office was paid or payable to any directors for the year ended 31 March 2005 (2004: Nil).

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

i) Directors' emoluments (Continued)

The number of directors whose remuneration fall within the following bands were as follows:

	Number of directors	
	2005	2004
Executive directors		
– RMBNil to RMB1,060,000	**3**	3
Non-executive directors		
– RMBNil to RMB1,060,000	**3**	3
	6	6

ii) Details of emoluments paid to the five highest paid individuals (including directors and other employees) were as follows:

	2005	2004
	RMB'000	RMB'000
Basic salaries and allowances	**524**	297
Retirement scheme contributions	**19**	9
Bonus	**–**	7
	543	313

	2005	2004
Number of directors	**1**	1
Number of employees	**4**	4
	5	5

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

The number of the five highest paid individuals whose remuneration fall within the following bands were as follows:

	2005	2004
RMBNil to RMB1,060,000	**5**	5

11. FIXED ASSETS

	Leasehold improvement RMB'000	Computer equipment RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1/4/2004	308	3,412	166	758	4,644
Additions	–	312	17	–	329
Disposals	–	(3)	–	–	(3)
At 31/3/2005	308	3,721	183	758	4,970
Accumulated depreciation					
At 1/4/2004	161	2,977	118	388	3,644
Charge for the year	147	231	24	137	539
Disposals written back	–	(1)	–	–	(1)
At 31/3/2005	308	3,207	142	525	4,182
Net book value					
At 31/3/2005	–	514	41	233	788
At 31/3/2004	147	435	48	370	1,000

12. INTERESTS IN SUBSIDIARIES

	2005 RMB'000
Unlisted shares, at cost	–
Amounts due from subsidiaries	17,274
	17,274

(a) The amounts due from subsidiaries are unsecured, interest free, and have no fixed terms of repayment.

12. INTERESTS IN SUBSIDIARIES (Continued)

(b) The following is the detail of the subsidiary at 31 March 2005:

Name	Country of incorporation and operation	Principal activities	Interest held Directly	Interest held Indirectly
A & K Software (BVI) Limited ("A & K Software BVI")	British Virgin Islands	Investment holding	100%	–
Smart Elegant Investment Limited ("Smart Elegant")	Hong Kong	Investment holding	–	100%
Jiangxi A & K	PRC	Development and distribution of education software	–	100%

13. INTEREST IN AN ASSOCIATE

	2005 RMB'000	2004 RMB'000
Share of net assets	**75**	75

Company	Place and date of incorporation	Registered and paid up capital	Group's effective holdings at 31 March 2005	Group's effective holdings at 31 March 2004	Principal activities and place of operation
Jiangxi Da Jiang High Technology Limited Liability Company ("Jiangxi Da Jiang")	PRC 17 September 2002	RMB300,000	**25%**	25%	Media software research and development

a) Jiangxi Da Jiang is a limited liability company established in the PRC to be operated for 10 years up to September 2012.

b) The Group has not shared any profit or loss of an associate company under the equity method as the amount involved is immaterial.

14. INVENTORIES

	2005 RMB'000	2004 RMB'000
Computer accessories and low value consumable	206	194

No inventories were stated at net realisable value at 31 March 2004 and 31 March 2005.

15. TRADE RECEIVABLES

Details of the aging analysis of trade receivables are as follows:

	2005 RMB'000	2004 RMB'000
0 to 30 days	4,558	3,070
31 to 60 days	59	28
61 to 90 days	670	515
91 to 180 days	2,458	6,934
Over 180 days but less than one year	8,620	189
Over one year	1,885	242
	18,250	10,978
Less: Provision for bad and doubtful debts	(593)	–
	17,657	10,978

The Group generally grants credit terms of 0 day to 90 days to its customers. Extended credit period of approximately 90 days to 270 days may be granted to customers with long term business relationship and have good payment record.

16. AMOUNT DUE FROM A SHAREHOLDER

	2005 RMB'000	2004 RMB'000
Mr. Ye Jinxing ("Mr. Ye")	–	98

The amount due from a shareholder is unsecured, interest free and has no fixed terms of repayment.

16. AMOUNT DUE FROM A SHAREHOLDER (Continued)

Pursuant to a loan agreement dated 26 July 2003 entered into between Smart Elegant and Mr. Ye, Mr. Ye agreed to advance an interest-free loan of not more than HK$950,000 to Smart Elegant and Smart Elegant agreed to procure the Company to deposit with Mr. Ye or his nominee a sum of RMB1,070,000 as security provided that if Smart Elegant fails to repay the loan before 31 January 2004, Mr. Ye might apply the whole of the deposit to settle the amount due to him by Smart Elegant. The loan was used by the Group to pay the listing expenses. Mr. Ye advanced approximately HK$917,306 (RMB972,345) to Smart Elegant 29 August 2003 while the Company deposited RMB1,070,000 to Mr. Ye on 5 August 2003. Thus, at Group level, the net balance due from Mr. Ye as at 31 March 2004 was approximately RMB98,000.

The amount due from a shareholder was fully settled on 10 May 2004.

17. AMOUNT DUE FROM A DIRECTOR

			Maximum outstanding balances	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Peng Gexiong	**–**	22	**184**	1,558

The amount is unsecured, interest free and has no fixed terms of repayment. At 31 March 2004, there was no outstanding overdue interest and provision has not been made for the amount due.

18. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2005	2004
	RMB'000	RMB'000
0 to 30 days	**11**	–

19. AMOUNT DUE TO A SHAREHOLDER

	2005	2004
	RMB'000	RMB'000
Mr. Ye	**1**	–

The amount due to a shareholder is unsecured, interest free and has no fixed term of repayment.

20. AMOUNT DUE TO A RELATED COMPANY

The amount represents expense paid by a related company on behalf of the Company and is unsecured, interest free and has no fixed terms of repayment.

21. DEFERRED TAXATION

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheets are as follows:

	2005	2004
	RMB'000	RMB'000
At beginning of the year	**–**	(1,076)
Deferred tax assets utilised during the year	**–**	1,076
Deferred tax liabilities	**551**	–
At end of the year	**551**	–

22. ISSUED CAPITAL

		2005		2004	
	Note	**Number of shares**	**RMB**	Number of shares	RMB
Authorised:					
Ordinary shares of HK$0.1 each	(a)	**–**	**–**	10,000	1,060
Ordinary shares of HK$0.1 each	(b)	**2,000,000,000**	**212,000,000**	–	–
		2,000,000,000	**212,000,000**	10,000	1,060
Issued capital:					
At beginning of the year	(c)	**1,250**	**133**	20,000,000	20,000,000
Capital elimination on consolidation	(d)	**(1,250)**	**(133)**	–	–
Issuance of new shares	(d)	**1,000**	**106**	1,000	106
Norminal value of share capital of subsidiaries acquired		**–**	**–**	(20,000,000)	(20,000,000)
Allotment of shares on conversion of convertible note		**–**	**–**	250	27
Capitalisation issue	(e)	**179,999,000**	**19,079,894**	–	–
Shares issued under the placing	(f)	**75,000,000**	**7,950,000**	–	–
At end of the year		**255,000,000**	**27,030,000**	1,250	133

22. ISSUED CAPITAL (Continued)

(a) Authorised share capital of 2004 represents the authorised share capital of A & K Software BVI.

(b) The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 October 2003 with an authorised share capital of HK$200 million divided into 2,000 million ordinary shares of HK$0.1 each of which one subscriber share then issued was subsequently transferred on 13 May 2004, nil paid, to and held by Educators Investment Limited.

(c) Share capital in the combined balance sheet as at 1 April 2003 represents the registered issued share capital of Jiangxi A & K comprising 20,000,000 shares of RMB1 each. Share capital in the consolidated balance sheet as at 1 April 2004 represents the registered issued share capital of A & K Software BVI comprising 1,250 shares of HK$0.1 each.

(d) On 14 April 2003, A & K Software BVI was incorporated in BVI with an authorised share capital of HK$1,000 divided into 10,000 shares of HK$0.1 each. Pursuant to the written resolutions of the shareholders of the Company passed on 13 May 2004, as part of the Reorganisation and as consideration for the acquisition of the entire share capital of A & K Software BVI, the Company issued 1,000 shares of HK$0.1 each, credited as fully paid shares at par.

(e) Pursuant to the written resolutions of the shareholders of the Company passed on 13 May 2004, an amount of HK$17,999,900 standing to the credit of the share premium account of the Company was capitalised by applying such sum in paying up in full at par 179,999,000 shares of HK$0.1 each for allotment and issue to holders of shares whose names appear on the register of members of the Company at the close of business on 13 May 2004 in proportion to their then existing shareholders of the Company.

(f) On 6 August 2004, 75,000,000 ordinary shares of HK$0.1 each were issued through a placing on the GEM of The Stock Exchange of Hong Kong Limited.

23. RESERVES

Group

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB'000	Foreign currency translation reserve RMB'000	(Accumulated loss)/ Retained profits RMB'000	Total RMB'000
At 1 April 2003	–	–	110	–	–	–	(2,184)	(2,074)
Effect of the reorganisation	–	–	5	–	–	–	–	5
Contributed surplus on Group reorganisation	–	20,013	–	–	–	–	–	20,013
Translation adjustment	–	–	–	–	–	(13)	–	(13)
Profit for the year	–	–	–	–	–	–	10,283	10,283
Transfer to/(from) reserve	–	–	–	810	405	–	(1,215)	–
At 31 March 2004 and 1 April 2004	–	20,013	115	810	405	(13)	6,884	28,214
Issue of shares on listing	23,850	–	–	–	–	–	–	23,850
Capitalisation of share premium	–	(19,080)	–	–	–	–	–	(19,080)
Profit for the year	–	–	–	–	–	–	8,643	8,643
Share issue expenses	(10,367)	–	–	–	–	–	–	(10,367)
Transfer to/(from) reserve	–	–	–	1,972	986	–	(2,958)	–
At 31 March 2005	13,483	933	115	2,782	1,391	(13)	12,569	31,260

Company

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Statutory common reserve RMB'000	Statutory welfare reserve RMB"000	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 April 2003	–	–	–	–	–	–	–	–
Loss for the year	–	–	–	–	–	–	(190)	(190)
At 31 March 2004 and 1 April 2004	–	–	–	–	–	–	(190)	(190)
Issue of share on listing	23,850	–	–	–	–	–	–	23,850
Capitalisation of share premium	–	(19,080)	–	–	–	–	–	(19,080)
Loss for the year	–	–	–	–	–	–	(3,811)	(3,811)
At 31 March 2005	23,850	(19,080)	–	–	–	–	(4,001)	769

(a) Capital reserve

The capital reserve arose as a result of the increase in share capital of the Company in May and October 1997, which represents the excess of the net assets of the Company over the nominal value of the share capital after the capital verification report prepared by an independent PRC accountant.

23. RESERVES (Continued)

(b) Statutory common reserve

In accordance with the PRC accounting regulations and the articles of the association of the Group's subsidiary, Jiangxi A & K in the PRC, is required to appropriate at least 10% of profit after tax after offsetting prior year's losses to the statutory common reserve fund. Thereafter, any further appropriation can be made at the directors' discretion.

The common reserve fund can be utilised to offset prior years' losses, or to increase the capital on the condition that the common reserve fund shall be maintained at a minimum of 50% of the registered capital after such increase.

(c) Statutory welfare reserve

In accordance with the company law of the PRC and the articles of association of the Group's subsidiary in the PRC, it is required to appropriate 5% to 10% of their statutory profit after tax under PRC General Accepted Accounting Principles after offsetting prior years' losses to the statutory welfare reserve. Such reserve can be used for collective employees benefits, but cannot be used to pay for employees' welfare expenses.

24. COMMITMENTS

a) Capital commitment

At 31 March 2005, the Group had the following capital commitment:

	2005	2004
	RMB'000	RMB'000
Contracted but not provided for		
– Investment in an associated company *(Note 29)*	**1,000**	–

b) Operating lease commitment

At each balance sheet date, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	**241**	219
In the second to fifth years inclusive	**404**	28
	645	247

25. RELATED PARTY TRANSACTIONS

The Group entered into the following material transactions with following related parties during the relevant year.

	2005 RMB'000	2004 RMB'000
Sales of self-developed education software		
Jinagxi Province Yi Sheng Software System Co., Ltd. ("Yi Sheng")	–	299

i) Mr. Peng Gang, being the director of the Company, is also the director and controlling shareholder (28.3% of the entire registered capital) of the related company. Mr. Shu, being the shareholder of the Company, was also a controlling shareholder (26.7% of the entire registered capital) of Yi Sheng.

ii) The directors are of the opinion that the transactions were conducted on normal commercial terms in the normal course of business at prices and terms not less than those charged to or contracted with other third parties.

iii) The directors do not expect the above transactions will continue in the future.

	2005 RMB'000	2004 RMB'000
Disposal of other investment	–	1,400

i) On 28 August 2003, the Group has disposed its entire unlisted investments of Jinagxi De Qiang to Former Shareholders at cost.

ii) The directors are of the opinion that the transaction was conducted on normal commercial terms in the normal course of business.

26. SEGMENTAL INFORMATION

i) Business segment

The Group comprises of the following main business segments:

	2005 RMB'000	2004 RMB'000
Revenue from external customers		
Sales of self-developed education software:		
Standard package basis	**11,644**	11,838
Project basis	**4,060**	3,092
	15,704	14,930
Network integration, IT services and others	**–**	76
Total turnover	**15,704**	15,006
Other revenue		
Value added tax refunds on sale of self-developed education software:		
Standard package basis	**1,012**	528
Total operating revenue	**16,716**	15,534
Segmental results		
Sales of self-developed education software:		
Standard package basis	**11,176**	11,240
Project basis	**3,933**	2,995
	15,109	14,235
Network integration, IT services and others	**–**	23
	15,109	14,258
Unallocated item:		
Other revenue	**919**	27
Other net income	**270**	74
Selling and distribution expenses	**(898)**	(1,081)
Administration expenses	**(5,813)**	(1,734)
Other operating expenses	**(8)**	(186)
Profit from operations	**9,579**	11,358
Taxation	**(936)**	(1,076)
Profit attributable to shareholders	**8,643**	10,282

26. SEGMENTAL INFORMATION (Continued)

i) Business segment (Continued)

No business segment information for the assets, liabilities, capital contribution, depreciation and other non-cash expenses of the Group is shown as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

ii) Geographical segment

The Group derived all of its revenue and profit from customers who are located in the PRC. Hence, no separate geographical analysis of the segment profit and loss is presented.

27. ULTIMATE HOLDING COMPANY

The directors consider Educators Investment Limited, a company incorporated in the BVI, to be the ultimate holding company.

28. COMPARATIVE FIGURES

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

29. SIGNIFICANT SUBSEQUENT EVENT

On 25 February, 2005, the subsidiary of the Company, Jiangxi A & K, together with other three investors namely, 泰豪軟件股份有限公司, 江西思創數碼科技有限公司及南昌金廬軟件園軟件評測培訓有限公司, signed an agreement with 微軟(中國)有限公司 to establish a new company, 江西聯微軟件技術有限公司 in the PRC.

As at 10 May 2005, Jiangxi A & K made initial capital injection of RMB1,000,000 into 江西聯微軟件技術有限公司 according to the aforesaid agreement.