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)

Stock Code : 8053

ANNUAL REPORT 2005/2006

05/06

* For identification purposes only

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This report, for which the directors of A & K Educational Software Holdings Limited (the "Directors") 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 Stock Exchange (the "GEM Listing Rules") 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)*
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)

REMUNERATION COMMITTEE

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

COMPANY SECRETARY

CHENG Sing Kau (CPA, CPA(Australia))

COMPLIANCE OFFICER

PENG Gang

QUALIFIED ACCOUNTANT

CHENG Sing Kau (CPA, CPA(Australia))

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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			
	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**10,448**	15,704	15,006	6,292
Cost of sales	**(2,470)**	(1,607)	(1,276)	(1,603)
Gross profit	**7,978**	14,097	13,730	4,689
Other revenue	**1,368**	1,931	555	2,207
Other net income	**38**	270	74	303
Distribution and selling expenses	**(836)**	(898)	(1,081)	(659)
Administrative expenses	**(5,636)**	(5,813)	(1,734)	(1,609)
Other operating expenses	**(1)**	(8)	(186)	(20)
	2,911	9,579	11,358	4,911
Share of profit of associates	**43**	–	–	–
Profit from ordinary activities before taxation	**2,954**	9,579	11,358	4,911
Taxation	**(409)**	(936)	(1,076)	(1,621)
Profit from ordinary activities after taxation	**2,545**	8,643	10,282	3,290
Basic earnings per share in RMB *(Note)*	**0.010**	0.038	0.057	0.018

SUMMARY OF CONSOLIDATED ASSETS AND LIABILITIES

	As at 31 March			
	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Total Assets	**69,106**	62,717	31,256	19,422
Total Liabilities	**(8,661)**	(4,427)	(3,042)	(1,496)
Shareholders' Funds	**60,445**	58,290	28,214	17,926

(Note)

The calculation of the basic earnings per share for the years ended 31 March 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 basic earnings per share for the year ended 31 March 2005 and 2006 is based on the weighted average number of 228,904,110 and 255,000,000 ordinary shares in issue during the year respectively.

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 2006 for the shareholders' reference.

During the reporting period, the Group had realized an audited turnover of approximately RMB10.4 million, representing a decrease of 33.5% as compared to that of last year. The profit attributable to shareholders was approximately RMB2.5 million, representing a decrease of 70.6% over last year.

During the past year, taking into account the facts and prospect, the Group decided to carry out reforms on its principal businesses and to diversify its channels of sales. In the past, the Group mainly distributed its self-developed education software on standard package basis (in the brand name of "PIONEER's" (校園先鋒)) and on project basis. The major clients were primary and secondary schools and Electronic Education Unit (電化教育館) in the PRC as well as software distributors and companies that provide education services in the PRC. Over the last financial year, the Group obtained a licence for value-added telecommunications businesses (增值電信業務經營許可證) and started operating "AK Education On-line, China" (www.akedu.com.cn) through the establishment of 江西行知教育在線有限公司. The client cover has been extended directly to teachers, students, and parents of the students. With the purchase of an on-line learning card, all users can utilise our wide-ranging on-line resources at this multi-purpose website at any time and at any place, and the Group's all-time mission of "enabling anybody to obtain the best educational resources at any time and at any place" has been achieved. In the last financial year, the Group earned revenues of approximately RMB4.5 million through the sale of on-line learning cards. The Group will continue to expand the educational resource contents and services available at the website with a view to recording sustained growth in terms of the revenues the Group earns from its on-line educational services in the future.

In order to actively support the implementation of the 興邊富民行動計畫 in the PRC, which seeks to serve the ethnic minorities and the development of regional basic education and promote the joint development and prosperity of the various ethnic groups, the Group and the 中華民族團結進步協會 of the State Ethnic Affairs Commission of the PRC (國家民族事務委員會) have formed a strategic co-operative relationship, and have decided to implement the "興邊富民助學工程A & K民族團結進步助學活動" hand-in-hand. In this project, the Group firstly donated 1000 sets of free education software to the ethnic minority schools in the remote provinces in the PRC, so as to promote the rapid development of the ethnic minorities and the educational affairs in ethnic minority regions through various services such as the provision of educational information software to ethnic minority schools, distance teacher training, and education services training in Microsoft software. In addition, to get prepared for the implementation of a series of key policies promoting the social development of the ethnic minorities as laid down by the State Council of the Central Government, the Group will develop itself into a strong provider of educational services and contents through the joint efforts with the 中華民族團結進步協會 to develop the vocational training and education market in the PRC, which in turn will extend the market of the Group's products from basic education to life long learning. At the moment, the company has started to provide on-line training for logistics practitioners and is developing the business of providing various training programmes, so as to locate more focuses of profit expansion for the Company.

Computing technology as applied to the Internet changes day by day, and the Group therefore paid full attention to the enhancement of its competitiveness in the past year, striving to raise the quality of the Company's services, the Company co-operating technically with Microsoft in China, investing RMB2.5 million and jointly setting up 微軟（江西）技術中心 with three other hi-tech enterprises in Jiangxi Province. The technology centre is entrusted with the task of supporting the development of software enterprises in Jiangxi (in particular, co-operative joint ventures) through the introduction of Microsoft technology and management methodology. As such, the Company intends to fully raise the technology standards and management levels of the Company through the co-operation project of 微軟（江西）技術中心, enabling the Company to leap forward to a new platform in terms of technology and management.

In the last financial year, the Group was under transformation and thus recorded a decrease in both revenues and profit; however, we believe that, through the efforts of all the staff of the Company and with the foundation laid in the last year, the Company will earn a better return for the shareholders of the Company in the new financial year. Lastly, on behalf of the Board of the Company, I would like to thank all the staff of the Company 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 AND PROSPECTS

Business review

Sales of self-developed education software

The Group is engaged in the provision, development and distribution and education software. The Group mainly distributes its education software on standard package basis and on project basis. The standard package education software is distributed under the brandname of "PIONEER's" basis including Electronic Lesson Preparation System, Examination Papers Database Application System v3.2 and School Administration System v1.0. The Group also develops customized education applications on project basis in accordance with the customized specifications of the users. Apart from developing education software, the Group has also utilized its experience and expertise in education software development to provide network integration and IT services.

Internet Education Business

During the year under review, the Group is preparing for strategic reorganization to re-allocate resources to develop Internet education business, combine on-line with off-line, enhance on-line training and on-line classroom and on-line database, to cooperate actively with many primary schools and middle schools and other institutes, to develop E-learning business, to expand market, finally forming more mature way of the training. The Group had set up a database as a collection of all the examination materials from famous secondary school, homework of excellent students and updated periodically. For the student who purchased our internet learning card can have the right to access those information at any time and any place. The Group will also invite famous teachers to answer questions online from the students who had purchased our internet learning card.

With the launch of membership system and the sale of internet 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 at will anytime. The 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).

PRC regulations currently restrict foreign ownership of companies that provide value-added telecommunications services, such as internet content services which we provide on our web site. As a result, we conduct our internet content services operation in the PRC through 江西行知教育在線有限公司 which is owned by our PRC employees. 江西行知教育在線有限公司 was set up in April 2005 and obtained the license to provide value-added telecommunications services in June 2005. The capital for 江西行知教育在線有限公司 was funded by the Group's wholly-owned subsidiary in PRC and recorded as interest free loans to these PRC employees. Those loans were eliminated with the capital of 江西行知教育在線有限公司 during consolidation. Under various contractual agreements, employee shareholders of 江西行知教育在線有限公司

are required to transfer their ownership to the Group's wholly-owned subsidiary in PRC when permitted by PRC laws and regulations or to designees of the Group at any time for the amount of loans outstanding. All voting rights and the appointment of directors and senior management personnel of 江西行知教育在線有限公司 are assigned to the Group's wholly-owned subsidiary in PRC. 江西行知教育在線有限公司 and the Group's wholly-owned subsidiary in PRC have also entered into exclusive technical services agreement which the Group's wholly-owned subsidiary in PRC provides technical and other services to 江西行知教育在線有限公司 in exchange for substantially all net income of it. In addition, the employee shareholders of 江西行知教育在線有限公司 have pledged all their share as collateral for the non-payment of loans or for the fees for technical and other services due to the Group's wholly-owned subsidiary in PRC. As a result of these contractual arrangements, 江西行知教育在線有限公司 is considered as a special purpose entities and we are the primary beneficiary of this entity, and accordingly we consolidate its results of operations in our consolidated financial statements.

Cooperation with Microsoft

In order to improve our software project management capability and technological personnel training, the Group signed a cooperative agreement with other 3 Jiangxi enterprises and Microsoft China in February 2005, the 江西聯微軟件技術有限公司 with a 微軟（江西）技術中心 was set up in June 2005. In which it marks a new phase on software cooperation with Microsoft in China. It will introduce all-out Microsoft management and technology and will provide the enterprises with services related to Microsoft products. In addition, by the cooperation with Microsoft, the Group will establish good image and expand market coverage, and will experience the omnifarious marrow of Microsoft in corporate culture, product development, project operation and human resources management, will take its advantage and compensate its disadvantage, will promote our corporation image, operation and management, products development and so on, and will be a foundation for further development of the Group. Our active participation in the establishment and operation of this joint venture will surely help improve our software project management capability and technological personnel training. The Group invested RMB2,500,000 and hold 25% of the share capital in this joint venture.

Prospects

The Group believes China's internet education business has huge potential and will experience significant growth in the coming years.

China Economy Monitor Center has conducted a survey to find out the Chinese attitude towards online education. According to the survey, 44.7% informants acknowledge that online education will become the mainstream of the education model in the future and 41.7% admit they can learn from the online education. Therefore, it is expected that 86.4% informants have a positive attitude toward online education.

In addition, the 2004 China Internet Education Research Report conducted by iResearch (艾瑞市場咨詢) stated that the growth rate in internet education was very fast globally. The global market for internet education was growth from 17 billion US dollar in 1999 to 231 billion US dollar in 2004 with an average growth rate (compound rate of increment) is 66%. They forecast in 2005, 2006 and 2007 the global market scale for internet education will amount to 31.4, 40.6 and 50.9 billion US dollars respectively. Although the China internet education was still at a lift off stage, when the degree of cognition on internet by the netizen in China enhanced, the size of the market on internet education will increased significantly. According to the report from iResearch, it forecast the China internet education market will be 181, 233 and 296 billion RMB for 2005, 2006 and 2007 respectively.

In next several years, the Group will focus on internet education business and utilized its dominant position in capitals and technology with the support from central and local government, to become a successful internet education provider in China.

FINANCIAL REVIEW

Turnover

The Group achieved a consolidated turnover of approximately RMB10.4 million, a decrease of approximately 33.5% in compare to year ended 31 March 2005. The following table is the breakdowns of turnover for the year ended 31 March 2006:

	RMB'000	Approximately % attributable to the turnover of the Group
Sales of self-developed education software		
Standard package basis	5,839	55.9%
Sales of internet learning card	4,533	43.4%
Network integration, IT services and others	76	0.7%
	10,448	100%

During this financial year, the sales of self-developed education software on standard package basis has dropped approximately 49.9% as compared with last year because the Group decided to carry out reforms on its principal businesses. The new sales of interest learning card has accounted for approximately 43.4% of the total turnover of the Group.

Cost of sales

The cost of sales for the year ended 31 March 2006 was approximately RMB2.5 million. It was approximately 53.7% increase as compared to last year. The reasons for the increase were the wage and salary expenses for the research and development staff and the business tax for the sale of internet learning card. During the year, the Group hired more experienced and well-known teachers from different famous schools to enrich the quality of material for our internet content.

Other revenue

The other revenue for the year ended 31 March 2006 consist of government grant of RMB1,005,000; VAT tax refund of approximately RMB127,000 and bank interest income of approximately RMB236,000. The Group received RMB600,000; RMB400,000 and RMB5,000 of government grants from the National Development and Reform Commission (國家發展及改革委員會); 南昌市信息化辦公室 and 南昌市政府 respectively for the project "Internet-based secondary and primary teaching and management platform industrialization" conducted by our Group. Those government grants were received in cash, unconditional and not repayable.

Distribution and selling expenses

For the year ended 31 March 2006, the Group's distribution and selling expenses was approximately RMB836,000. Which was only approximately 6.9% decrease from last year because the Group did not incurred excess expenses in conducting marketing activities outside Jiangxi Province. Most of the marketing plan for the internet business were beginning in March 2006, including recruit more marketing staff and promotion exhibitions.

Administrative Expenses

For the year ended 31 March 2006, the Group's administrative expenses was approximately RMB5.6 million. As compared with the year ended 31 March 2005, it was only approximately 3% decrease. The administrative expenses did not have significant difference to last year because the Group has constancy in exercising stringent cost control in order to achieve greater profitability. The administrative expenses mainly consist of staff salary, professional expenses, listing related expenses and impairment loss of trade receivables.

Earnings per shares

The earnings per share was approximately RMB0.01 for the year ended 31 March 2006 which was approximately 73.7% decrease as compared to 2005. The decrease was main to due decrease in sales in self-developed education software and the initial launch of the internet learning card.

CAPITAL STRUCTURE

There has been no change in the capital structure of the Company during the year under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

SIGNIFICANT INVESTMENTS

As at 31 March 2006, the Group did not have any significant investments.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

There had been no material acquisitions and disposals during the year. At present, the Company and the Group have no plans for any material investments or capital assets.

GEARING RATIO

The Group did not have any borrowing or long-term debts and its gearing ratio is zero as at 31 March 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2006, the shareholders' funds of the Group amounted to approximately RMB60.4 million. Current assets amounted to approximately RMB65.9 million of which approximately RMB48.3 million were cash and bank balances and approximately RMB17.4 million were trade receivables, prepayments, deposits and others receivables. The Group's current liabilities amounted to approximately RMB8.2 million.

CHARGE OF ASSETS

As at 31 March 2006, the Group did not have any charges on its assets.

CAPITAL COMMITMENT

As at 31 March 2006, the Group did not have any material capital commitments.

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.

CONTINGENT LIABILITIES

As at 31 March 2006, 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 2006 (2005: nil).

HUMAN RESOURCES

As at 31 March 2006, the Group had 53 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 business 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 year under review:

Business Objectives as set out in the Prospectus from 1 April 2005 to 31 March 2006	**Actual business progress from the Listing Date to 31 March 2006**
I. Expansion of the Group's research and development effort	
– Launch a new "PIONEER's" series standard package education software	– In view of the change in the Group business structure, all the new content in the "PIONEER's" series were uploaded to our internet database
– Launch online teaching software	– In view of the change in the Group business structure, all the development of online teaching software was change to internet platform
– Upgrade teaching materials database for junior secondary school and senior high school courses	– The Group has continuously upgraded teaching materials database for junior secondary school and senior high school courses. All those material are now uploaded to our internet database
– Develop Internet Safety software for school network	– In view of the change in the Group business structure, such development ceased
– Develop supplemental teaching graphic tools software	– In view of the change in the Group business structure, such development ceased
– Employ additional 40 database production staff	– No additional database production staff were employ

2. Expansion of the Group's sales and marketing network – Distribution

– Expand the sales coverage to Anhui Province, Hunan Province, Yuanan Province and Fujian Province and strengthen the existing sales force in Guangdong Province and other provinces and municipalities of the Group's existing network

– In order to operate in coordination with the strategic change in the Group business, the distribution plan had changed accordingly. The Group has now formula the best method in distribution of internet learning card in Jiangxi and Guangdong Province

– Employ additional 43 sales and marketing staff

– Additional sales and marketing staff were employ beginning March 2006

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

– Organise public relationship events for the Group's new products

– The Group has organised several public relationship events to promote our new internet web site and internet learning card

– Participate national and regional IT, software and education related 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 new training rooms no. 3 and no. 4

– The Group has established several new training rooms for sales and marketing staff to promote the Group's new internet education business

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

– Continue to upgrade the hardware equipment including servers, computers, routers, network equipment and broadband workstations	– The Group has acquired several high level servers, computers, routers, network equipment and broadband workstations in order to cope with the Group's strategy development

USE OF PROCEEDS

The Company was listed on GEM on 6 August 2004 (the "Listing Date"), as at 31 March 2006, the usages of the net proceeds received from the placing of the Company's shares is accordance with the Prospectus were as follows:

	As at 31st March 2006	
	Proposed	**Actual**
	RMB'000	RMB'000
Expansion of the Group's research and development effort	4,576	4,834
Expansion of the Group's sales and marketing network – Distribution	2,184	1,417
Expansion of the Group's sales and marketing network – Promotion	624	624
Establishment of a new testing centre and training facilities	1,872	1,211
Upgrade of the Group's equipment and IT infrastructure	1,872	1,683
Total	11,128	9,769

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

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance by established a formal and transparent procedure to protect the interests of the shareholders of the Company. The Company had complied with most of the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 of the GEM Listing Rules throughout the year under review. This report describes the corporate governance standards and practices used by the Company to direct and manage it business affairs. It also explains the applications of the Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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 5.67 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 the year ended 31 March 2006.

BOARD OF DIRECTORS

The Board collectively oversee the management and operation of the Group and will meet regularly during the year to discuss the operation strategy and financial performance of the Group.

The Board is presently composed of five members, comprising two executive directors, Mr. Peng Gexiong (Chairman) and Mr. Peng Gang, and three independent non-executive directors, Mr. Jiang Minghe; Mr. Law Chi Yuen and Mr. Cheng Yun Ming, Matthew. On 16 February 2006, one of the executive directors, Mr. Wang Chaoju ("Mr. Wang"), was resigned due to personal reasons at his own accord. After the resignation of Mr. Wang, the Board is now searching for another suitable person to fill such vacancy. However, the Board considers that, there is no significant effect in the management and operation performance of the Company in this circumstance.

According to the Bye-Laws of the Company, at each annual general meeting, one third of the Directors for the time being, or their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation, provided that no Director holding office as chairman or managing director shall be subject to retirement by rotation or be taken into account in determining the number of Directors to retire. In order to comply with the code provision A.4.2 of the Code, amendment to the Bye-laws of the Company will be proposed at the next general meeting of the Company for approval by the shareholders such that every directors (including the chairman and managing director) will be subject to retirement by rotation at least once every three years.

The Board held a board meeting for each quarter. Details of the attendance of the Board of Directors for the year ended 31 March 2006 are as follows:

Total number of meeting hold	4
Name of directors	No. of meeting attended
Executive directors	
Mr. Peng Gexiong *(Chairman)*	4/4
Mr. Wang Chaoju (Resigned on 16 February 2006)	4/4
Mr. Peng Gang	4/4
Independent non-executive directors	
Mr. Jiang Minghe	4/4
Mr. Law Chi Yuen	4/4
Mr. Cheng Yun Ming, Matthew	4/4

The Company has received, from each of the independent non-executive directors, an annual confirmation of their independence pursuant to Rules 5.09 of the GEM Listing Rules. The Company considers that all of the independent non-executive directors are independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under the Code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The chairman and the chief executive officer of the Company are performed by the same individual, Mr Peng Gexiong ("Mr. Peng"). Mr. Peng has been both chairman and the chief executive officer of the Company since its incorporation. The management considered that there is no imminent need to change this arrangement and believe that this structure will enable the Group to make and implement decisions promptly and efficiently.

INDEPENDENT NON-EXECUTIVE DIRECTORS

All the independent non-executive directors have been appointed for a term of two years commencing from 13 May 2004 and renewed for another one to two years commencing from 13 May 2006. According to the Company's articles of association, all of them are subject to retirement by rotation and eligible for re-election during annual general meeting.

REMUNERATION OF DIRECTORS

A remuneration committee was formed with specific written terms of reference which deal clearly with its authority and duties with the requirements of the new Code of Corporate of Governance Practices in December 2005. The remuneration committee is responsible for reviewing and developing the remuneration polices of the Directors and senior management. The committee members consist of all the three independent non-executive directors of the Company.

As at the date of this report, no meeting of this newly-formed remuneration committee has been held.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee at present. The appointment of new director(s) is therefore a matter for consideration and decision by the full Board. The Board considers that the new director(s) is expected to have professional experience and expertise in relevant area to make contribution to the Company and have sufficient time to participate in the decision making process of the Company.

There is no nomination of directors during the year.

AUDITORS' REMUNERATION

For the year ended 31 March 2006, the remuneration in respect of audit services provided by the auditors, CCIF CPA Ltd., amounted to HK$239,443. There was no significant non-audit service assignment undertaken by the auditor during the year.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and code provision C.3.1 to C.3.6 of the Code. 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 reports and announcement.

Details of the attendance of the audit committee for the year ended 31 March 2006 are as follows:

Total number of meeting hold	4
Name of members	No. of meeting attended
Mr. Jiang Minghe	4/4
Mr. Law Chi Yuen	4/4
Mr. Cheng Yun Ming, Matthew	4/4

The audit committee is of the opinion that the financial statements of the Company and the Group for the year ended 31 March 2006 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

RESPECTIVE RESPONSIBILITIES OF DIRECTOR AND AUDITORS

The Directors are responsible for the preparation of the financial statements, which give a true and fair view of the financial position of the Group. The Auditors are responsible to form an independent opinion, based on the audit, on the financial statements prepared by the Directors and report the opinion solely to the shareholders of the Company.

EXECUTIVE DIRECTOR

Mr. Peng Gexiong (**彭格雄**) (Chairman), aged 50, 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 43, 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 7 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Jiang Minghe (**蔣鳴和**), aged 60, is the independent non-executive Director and member of the Audit Committee and Remuneration 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 48, is the independent non-executive Director and member of the Audit Committee and Remuneration 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. Apart from some social services, such as Free Legal Advice Scheme, he is also member of Solicitors Disciplinary Tribunal, Obscene Articles Tribunal, Appeal Panel (Estate Agents Ordnance), HK Film Development Fund and Market Misconduct Tribunal (Securities and Future Ordinance). He joined the Group in April 2004.

Mr. Cheng Yun Ming Matthew (CPA, FCCA) (鄭潤明), aged 36, is the independent non-executive Director and member of the Audit Committee and Remuneration 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

Mr. Zeng Ruihong (曾瑞洪), aged 40, 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 35, 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 38, 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 44, 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 37, 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 2006.

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 14 to the financial statements.

An analysis of the Group's turnover and contribution to results by principal activities for the year ended 31 March 2006 are set out in note 5 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	12.7%	
Five largest customers in aggregate	42.2%	
The largest supplier		90.3%
Five largest suppliers in aggregate		100%

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 27.

The state of affairs of the Group and the Company as at 31 March 2006 are set out in the consolidated balance sheet on page 28 and the balance sheet on page 29, respectively.

The Board does not recommend the payment of any final dividend in respect of the year ended 31 March 2006 (2005: 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.

CHARITABLE DONATIONS

The Group does not made any charitable donations during the year (2005: Nil).

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in note 13 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 (Resigned on 16/2/2006)
Mr. Peng Gang

Independent non-executive directors

Mr. Jiang Minghe
Mr. Law Chi Yuen
Mr. Cheng Yun Ming, Matthew

In accordance with article 87 of the Company's Articles of Association, Mr. Peng Gang and Mr. Jiang Minghe 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 2006 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%

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.

(b) Associated corporations – interests in Shares

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%

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 2006, 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 5% 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 2006, 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 5% 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 2006, 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 2006.

COMPETING INTERESTS

For the year ended 31 March 2006, 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.

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 2006. Save as disclosed above, the Sponsor had no other interest in the Company as at 31 March 2006.

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 5.67 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 2006.

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 2006 comply with applicable accounting standards, GEM Listing Rules and that adequate disclosures have been made.

AUDITORS

The financial statements have been audited by CCIF 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, 28 June 2006

CCIF
CCIF CPA LIMITED
37/F Hennessy Centre
500 Hennessy Road
Causeway Bay Hong Kong

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 27 to 62 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 Hong Kong Standards on Auditing 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 2006 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

Kwok Cheuk Yuen
Practising Certificate Number P02412

Hong Kong, 28 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Note	2006 RMB'000	2005 RMB'000
TURNOVER	5	**10,448**	15,704
COST OF SALES		**(2,470)**	(1,607)
GROSS PROFIT		**7,978**	14,097
OTHER REVENUE	6	**1,368**	1,931
OTHER NET INCOME	6	**38**	270
DISTRIBUTION AND SELLING EXPENSES		**(836)**	(898)
ADMINISTRATIVE EXPENSES		**(5,636)**	(5,813)
OTHER OPERATING EXPENSES		**(1)**	(8)
OPERATING PROFIT		**2,911**	9,579
SHARE OF PROFIT OF ASSOCIATES		**43**	–
PROFIT BEFORE TAXATION	7	**2,954**	9,579
TAXATION	8	**(409)**	(936)
PROFIT FOR THE YEAR ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY	9	**2,545**	8,643
EARNINGS PER SHARE			
– Basic	11	**RMB0.010**	RMB0.038
– Diluted		**N/A**	N/A

The notes on pages 33 to 62 form an integral part of these financial statements.

Consolidated Balance Sheet

At 31 March 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Property, plant and equipment	*13*	**527**	788
Interest in associates	*15*	**2,648**	75
		3,175	863
Current assets			
Inventories	*16*	**204**	206
Trade receivables	*17*	**10,494**	17,657
Prepayments, deposits and other receivables		**6,897**	10,416
Cash and cash equivalents		**48,336**	33,575
		65,931	61,854
Current liabilities			
Trade payables	*18*	**25**	11
Other payables and accruals		**5,814**	3,479
Amount due to a shareholder	*19*	**1**	1
Amount due to an associate	*20*	**1,500**	–
Taxation payable		**862**	385
		8,202	3,876
Net current assets		**57,729**	57,978
Total assets less current liabilities		**60,904**	58,841
Non-current liabilities			
Deferred taxation	*21*	**459**	551
NET ASSETS		**60,445**	58,290
Capital and reserves			
Share capital	22	**27,030**	27,030
Reserves	23	**33,415**	31,260
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**60,445**	58,290

Approved and authorised for issue by the board of directors on 28 June 2006

On behalf of the board

Peng Gexiong
Director

Peng Gang
Director

The notes on pages 33 to 62 form an integral part of these financial statements.

At 31 March 2006

	Note	2006 RMB'000	2005 RMB'000
Non-current assets			
Interests in subsidiaries	*14*	**17,894**	20,143
Current assets			
Prepayments, deposits and other receivables		**–**	10,790
Current liabilities			
Accruals		**311**	265
Amount due to a subsidiary	*20*	**2,904**	2,869
		3,215	3,134
Net current (liabilities)/assets		**(3,215)**	7,656
NET ASSETS		**14,679**	27,799
Capital and reserves			
Share capital	22	**27,030**	27,030
(Deficit)/Reserves	23	**(12,351)**	769
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		**14,679**	27,799

Approved and authorised for issue by the board of directors on 28 June 2006

On behalf of the board

Peng Gexiong
Director

Peng Gang
Director

The notes on pages 33 to 62 form an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 March 2006

	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 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 and 1 April 2005	27,030	13,483	933	115	2,782	1,391	(13)	12,569	58,290
Currency translation differences	–	–	–	–	–	–	(390)	–	(390)
Profit for the year	–	–	–	–	–	–	–	2,545	2,545
Transfer to/(from) reserve	–	–	–	–	459	230	–	(689)	–
At 31 March 2006	27,030	13,483	933	115	3,241	1,621	(403)	14,425	60,445

The notes on pages 33 to 62 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2006

	2006 RMB'000	2005 RMB'000
OPERATING ACTIVITIES		
Profit from ordinary activities before taxation	**2,911**	9,579
Adjustments:		
Depreciation	**325**	539
Loss on disposal of property, plant and equipment	**–**	2
Interest income	**(236)**	(19)
Impairment loss of trade receivables	**2,801**	593
OPERATING PROFIT BEFORE CHANGES IN WORKING CAPITAL	**5,801**	10,694
Decrease/(increase) in inventories	**2**	(12)
Decrease/(increase) in trade receivables	**4,362**	(7,272)
Decrease/(increase) in prepayment, deposits and other receivables *(note a)*	**3,519**	(726)
Increase in trade payables	**14**	11
Increase in accruals and other payables	**2,335**	437
Increase in amount due to an assoicate	**1,500**	–
CASH GENERATED FROM OPERATIONS	**17,533**	3,132
Income taxes paid	**(24)**	–
NET CASH INFLOW FROM OPERATIONS ACTIVITIES	**17,509**	3,132
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(64)**	(329)
Interest received	**236**	19
Acquisition of associates	**(2,530)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(2,358)**	(310)
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	**15,151**	2,822

The notes on pages 33 to 62 form an integral part of these financial statements.

	2006 RMB'000	2005 RMB'000
FINANCING ACTIVITIES		
Decrease in amounts due from directors	–	22
Decrease in amount due from a shareholder	–	98
Increase in amount due to a shareholder	–	1
Proceeds from issuance of shares by placing *(note a)*	–	31,800
Share issue expenses	–	(10,367)
NET CASH INFLOW FROM FINANCING ACTIVITIES	–	21,554
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,151	24,376
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(390)	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	33,575	9,199
CASH AND CASH EQUIVALENTS AT END OF YEAR	48,336	33,575

Note:

(a) Included in other receivables is a proceed of nil (2005: RMB2,120,000) from issuance of shares by placement.

The notes on pages 33 to 62 form an integral part of these financial statements.

1. CORPORATE INFORMATION

The principal activity of A & K Educational Software Holdings Limited (the "Company") is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements.

The Company is incorporated in Cayman Islands as an exempted company with limited liability. The address of its principal place of business in Hong Kong is Room 607, 9 Irving Street, Progress Commercial Building, Causeway Bay, Hong Kong.

The Company's shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited since 6 August 2004.

2. PRINCIPAL ACCOUNTING POLICIES

a) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure provisions of the Listing Rules and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Group is set out below.

The consolidated financial statements of the Company have been prepared in accordance with HKFRSs.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

a) STATEMENT OF COMPLIANCE (Continued)

The adoption of new/revised HKFRSs

In 2006, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The 2005 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 2	Inventories
HKAS 7	Cash flow statements
HKAS 8	Accounting policies, changes in accounting estimates and errors
HKAS 10	Events after the balance sheet date
HKAS 12	Income taxes
HKAS 14	Segment reporting
HKAS 16	Property, plant and equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee benefits
HKAS 20	Accounting for government grants and disclosure of government assistance
HKAS 21	The effects of changes in foreign exchange rates
HKAS 23	Borrowing costs
HKAS 24	Related party disclosures
HKAS 27	Consolidated and separate financial statements
HKAS 28	Investments in associates
HKAS 32	Financial instruments: Disclosure and presentation
HKAS 33	Earnings per share
HKAS 36	Impairment of assets
HKAS 37	Provisions, contingent liabilities and contingent assets
HKAS 39	Financial instruments: Recognition and measurement
HKFRS 3	Business combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 20, 21, 23, 24, 27, 28, 33, 36, 37 and HKFRS 3, did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 20, 21, 23, 27, 28, 33, 36, 37 and HKFRS 3 had no material effect on the Group's accounting policies.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

a) STATEMENT OF COMPLIANCE (Continued)

The adoption of HKAS 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The following new Standards or Interpretations have been issued but not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new HKFRSs but is still not in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

		Effective for accounting period beginning on or after
HKAS 1 (Amendment)	Capital disclosure	1 January 2007
HKAS 19 (Amendment)	Actuarial gains or losses, group plans and disclosures	1 January 2006
HKAS 21 (Amendment)	Net investment in a foreign operation	1 January 2006
HKAS 39 (Amendment)	The fair value option	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007

b) CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries for the year ended 31 March 2006. Subsidiaries are those entities (including a special purpose entity) in which the company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; has the power to appoint or remove a majority of the members of the board of directors; or has the right to cast a majority of votes at the meetings of the board of directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material inter-company transactions and balances are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the sales proceeds and the Group's share of its net assets together with any goodwill or capital reserves which was not previously charged or recognised in the consolidated income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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 distribution of education software and internet learning card*

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 tax 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.

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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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. Rental 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 following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased.

– property, plant and equipment

– investments in subsidiaries

– investments in associates

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).

ii) Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

f) IMPAIRMENT OF ASSETS (Continued)

iii) 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 company'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 company's share of the associates' results of operations.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

i) SPECIAL PURPOSE ENTITY

To comply with laws and regulations of The People's Republic of China (the "PRC") that prohibit or restrict foreign ownership of companies that provide value-added telecommunications services, which include wireless internet services and internet content services, the Group conducts its internet content services through 江西行知教育在線有限公司 ("江西行知教育在線"), an entity legally owned by certain citizens of the PRC (the "Registered Shareholders").

Pursuant to certain contractual arrangements, 江西行知教育在線 is responsible for operating the Group's website and have been granted the right to use the domain names. In addition, the Group has the exclusive right to provide technical and consulting services in exchange for service fee which equal to substantially all of the net income of 江西行知教育在線. The Registered Shareholders are required under their contractual arrangements with the Group to transfer their interest in 江西行知教育在線 to the Group or the Group's designee upon the Group's request, provided that such transfer does not violate the PRC laws or regulations. As at 25 April 2005, the Group has a provided loan of RMB1,000,000 to the Registered Shareholders to finance their investment in 江西行知教育在線. One of the Registered Shareholders who has been provided with a loan of RMB900,000 for the investment in 江西行知教育在線 is a key management personnel of the Company's subsidiary, Jiangxi A & K Educational Software Co. Limited ("Jiangxi A & K"). The direct equity interest in 江西行知教育在線 has been pledged as collateral for the loan and when permitted under the PRC laws, the loan is to be repaid by transferring the direct equity interest in this entity to the Group.

In March 2004, HKICPA issued an Interpretation HKAS-INT-12 (March 2004), "Consolidation – Special Purpose Entities". HKAS-INT-12 (March 2004) is intended to apply the consolidation policies to special purpose entity. The Group has evaluated its relationship with 江西行知教育在線 and has concluded that this entity is a special purpose entity of Jiangxi A&K as Jiangxi A & K is the primary beneficiary.

The results of operation of this special purpose entity have been included in the consolidated financial statements.

j) RELATED PARTIES

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

k) 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.

l) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 2(f)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 2(f)).

m) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

n) 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)

o) 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.

p) 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.

q) 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 the rate at the date of transaction. Exchange differences arising are dealt with as movement in foreign currency translation.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

r) 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.

s) 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.

t) RESEARCH AND DEVELOPMENT COSTS

Research and development costs are expensed as incurred, except where the product or process is clearly defined and the costs attributable to the product or process can be separately identified and measured reliably; is technically feasible; the Group intends to produce and market, or use, the product or process; the existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the Group, can be demonstrated; and adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

Such development costs are recognised as an asset to the extend of the amount that, taken together with further development costs, related production costs, and selling and administrative costs directly incurred in marketing the product, is probable of being recovered from related future economic benefits. The excess amount is written off as incurred.

The development costs, recognized as an asset, are amortized on a straight-line basis over a period of 3-5 years to reflect the pattern in which the related economic benefits are recognised.

u) 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

v) 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.

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.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

a) Foreign currency risk

The Group is exposed to foreign currency risk primarily through sales, purchases and expenses that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily Hong Kong Dollar.

b) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. These receivables are due within 90 days from the date of billing. Debtors with overdue balances, which will be reviewed on a case-by-case basis, are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

3. FINANCIAL RISK MANAGEMENT (Continued)

c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board of directors when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group's management makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Estimated provision for impairment of associates

The Group's management assesses annually whether investments in associates have suffered any impairment in accordance with the policy stated in note 2(f). The recoverable amount of the investments in associates is determined using discounted cash flows calculations.

c) Estimated provision for impairment of trade and other receivables

The Group's management makes provision for doubtful debts based on an assessment of the recoverability of trade receivables and other receivables. Provisions are applied to trade receivables and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been charged.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

d) Estimated net realisable value of inventories

The Group's management makes provision for slow moving or obsolete inventories based on an assessment of the net realisable value of the inventories. Provisions are applied to the inventories where events or changes in circumstances indicates that the net realisable value is less than cost. The determination of net realisable value requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of the inventories and provision for inventory expenses in the period in which such estimate has been changed.

5. TURNOVER

The Group is principally engaged in the development and distribution of educational software, provision for electronic learning and provision of related information technology services in the PRC. The Group develops its own educational software and distributes such software on standard package, project basis and through internet. 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 tax as follows:

	2006	2005
	RMB'000	RMB'000
Sales of self-developed education software:		
Standard package basis	**5,839**	11,644
Project basis	**–**	4,060
	5,839	15,704
Sales of internet learning card	**4,533**	–
Network integration, IT services and others	**76**	–
Total turnover	**10,448**	15,704

6. OTHER REVENUE AND OTHER NET INCOME

	2006 RMB'000	2005 RMB'000
Other revenue		
Government grants *(note i)*	1,005	900
Interest income	236	19
Value added tax refunds *(note ii)*	127	1,012
	1,368	1,931
Other net income		
Bad debts recovered	–	2
Sundry income	38	268
	38	270

Notes:

i) During the year ended 31 March 2006, the Group received RMB600,000 and RMB400,000 government grants from the National Development and Reform Commission (國家發展及改革委員會) respectively being part of the RMB3,000,000 government grant approved in last year. During the year, the Nanchang City People Government (南昌市人民政府) also granted RMB5,000 to the Group in July 2005 for appreciation of the company's excellent achievement in 2004. During the year ended 31 March 2005, the Group received RMB900,000 government grant from the 江西省發展和改革委員會. The directors advised that the government 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 for value added tax refunds of 14%.

7. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	2006 RMB'000	2005 RMB'000
Staff cost (including directors' emoluments)		
– Wages and salaries	**1,567**	1,517
– Mandatory provident fund	**12**	14
– Social security costs	**65**	43
– Staff welfare	**149**	144
Impairment loss of trade receivables	**2,801**	593
Cost of inventories sold and services rendered	**2,470**	1,607
Depreciation of property, plant and equipment	**325**	539
Loss on disposal of property, plant and equipment	**–**	2
Operating lease rental in respect of land and building	**345**	254
Audit fee	**239**	248
Research and development cost	**2,181**	1,475

8. TAXATION

Taxation represents:

	2006 RMB'000	2005 RMB'000
Current income tax		
– Hong Kong profits tax	**–**	–
– PRC enterprise income tax	**501**	385
Deferred taxation *(note 21)*	**(92)**	551
	409	936

8. TAXATION (Continued)

a) No provision for profits tax in the Cayman Islands, British Virgin Islands ("BVI") and Hong Kong has been made as the Group has no income assessable for profits tax for the year in those jurisdictions (2005: Nil).

b) Jinagxi 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. 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:

	2006 **RMB'000**	2005 RMB'000
Profit before taxation	**2,954**	9,579
Taxation calculation at:		
– PRC statutory tax rate 33%	**975**	3,161
(Decrease)/increase in deferred taxation	**(92)**	551
Non-taxable income	**(388)**	–
Non-deductible expense	**1,616**	1,500
Effect of tax exemption of Jiangxi A & K	**(1,702)**	(4,276)
	409	936

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes a loss of approximately RMB2,008,000 (2005: RMB3,811,000) which has been dealt with in the financial statements of the Company.

10. DIVIDENDS

The Company resolved not to declare any dividend in respect of the year ended 31 March 2006 (2005: Nil).

11. EARNINGS PER SHARE

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

	2006	2005
	RMB'000	RMB'000
Profit attributable to shareholders	**2,545**	8,643

The calculation of the earnings per share for the year ended 31 March 2006 is based on the 255,000,000 ordinary shares issued (2005: the weighted average number of 228,904,110 ordinary shares issued during the relevant year).

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

i) Directors' emoluments

Year ended 31 March 2006

Name of director	**Fees**	**Basic salaries, allowances and other benefits**	**Retirement scheme contribution**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Peng Gexiong	**52**	**–**	**–**	**52**
Wang Chaoju *(Note)*	**9**	**–**	**–**	**9**
Peng Gang	**10**	**–**	**–**	**10**
Jiang Minghe	**37**	**–**	**–**	**37**
Law Chi Yuen	**83**	**–**	**–**	**83**
Cheng Yun Ming Matthew	**62**	**–**	**–**	**62**
	253	**–**	**–**	**253**

Note: Resigned as executive director with effect from 16 February 2006.

Year ended 31 March 2005

Name of director	Fees	Basic salaries, allowances and other benefits	Retirement scheme contribution	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Peng Gexiong	–	47	2	49
Wang Chaoju	–	–	–	–
Peng Gang	–	–	–	–
Jiang Minghe	22	–	–	22
Law Chi Yuen	55	–	–	55
Cheng Yun Ming Matthew	42	–	–	42
	119	47	2	168

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 2006 (2005: Nil).

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2006 RMB'000	2005 RMB'000
Basic salaries and allowances	**591**	525
Retirement scheme contributions	**13**	19
	604	543

	2006	2005
Number of directors	**3**	1
Number of employees	**2**	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:

	2006	2005
RMBNil to RMB1,040,000	**5**	5

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvement RMB'000	Computer equipment RMB'000	Furniture and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
Cost					
At 1 April 2004	308	3,412	166	758	4,644
Additions	–	312	17	–	329
Disposals	–	(3)	–	–	(3)
At 31 March 2005 and 1 April 2005	308	3,721	183	758	4,970
Additions	–	52	12	–	64
At 31 March 2006	308	3,773	195	758	5,034
Accumulated depreciation					
At 1 April 2004	161	2,977	118	388	3,644
Charge for the year	147	231	24	137	539
Disposals written back	–	(1)	–	–	(1)
At 31 March 2005 and 1 April 2005	308	3,207	142	525	4,182
Charge for the year	–	186	9	130	325
At 31 March 2006	308	3,393	151	655	4,507
Net book value					
At 31 March 2006	–	380	44	103	527
At 31 March 2005	–	514	41	233	788

14. INTERESTS IN SUBSIDIARIES

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	–	–
Amount due from subsidiaries	17,894	20,143
	17,894	20,143

(a) The amount due from subsidiary is unsecured, interest free, and has no fixed terms of payment.

(b) The following shows the details of the subsidiaries (including a special purpose entity) as at 31 March 2006:

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 Island	Investment holding	100%	–
Smart Elegant Investment Limited ("Smart Elegant")	Hong Kong	Investment holding	–	100%
Jiangxi A & K	PRC (wholly Foreign-Owned Enterprise)	Development and distribution of education software	–	100%
江西行知教育在線*	PRC	Provision of internet services in PRC	–	100%

* Special purpose entity

15. INTEREST IN AN ASSOCIATE

	2006 RMB'000	2005 RMB'000
Share of net assets	**2,648**	75

Company	Place and date of incorporation	Registered and paid up capital	Proportion of ownership interest: Group's effective interest	Proportion of ownership interest: Held by subsidiary	Principal activities
江西大江高科技有限責任公司	PRC 17 September 2002	RMB1,000,000	7.5%	7.5%	Media software research and development
江西聯微軟件技術有限公司	PRC 13 May 2005	RMB10,000,000	25%	25%	Software development and distribution and provision of software consultancy services
南昌方標電信有限公司	PRC 3 June 2005	RMB100,000	30%	30%	Hardware distribution and development and provision of technical consultancy services

15. INTEREST IN AN ASSOCIATE (Continued)

Summary financial information on associates

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenues RMB'000	Profit RMB'000
2006					
100 per cent	11,553	64	11,490	1,476	170
Group's effective interest	2,718	15	2,648	349	43
2005					
100 per cent	324	24	300	168	–
Group's effective interest	81	6	75	42	–

16. INVENTORIES

	2006 RMB'000	2005 RMB'000
Computer accessories and low value consumable	**204**	206

17. TRADE RECEIVABLES

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

	2006 RMB'000	2005 RMB'000
0 to 30 days	**665**	4,558
31 to 60 days	**69**	59
61 to 90 days	**225**	670
91 to 180 days	**7**	2,458
Over 180 days but less than one year	**5,830**	8,620
Over one year	**7,092**	1,885
	13,888	18,250
Less: Impairment losses	**(3,394)**	(593)
	10,494	17,657

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.

18. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	2006 RMB'000	2005 RMB'000
0 to 30 days	**25**	11

19. AMOUNT DUE TO A SHAREHOLDER

	2006 RMB'000	2005 RMB'000
Mr. Ye Jinxing	**1**	1

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

20. AMOUNT DUE TO AN ASSOCIATE/A SUBSIDIARY

The amounts due are unsecured, interest fee and have no fixed term of repayment

21. DEFERRED TAXATION

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

	2006 RMB'000	2005 RMB'000
Beginning balance of the year	**551**	–
Deferred tax assets	**(92)**	–
Deferred tax liabilities	**–**	551
	459	551

22. ISSUED CAPITAL

	Note	2006 Number of shares	2006 RMB	2005 Number of shares	2005 RMB
Authorised:					
Ordinary shares of HK$0.1 each	(a)	**2,000,000,000**	**212,000,000**	2,000,000,000	212,000,000
Issued capital:					
At beginning of the year	(b)	**255,000,000**	**27,030,000**	1,250	133
Capital elimination on consolidation	(c)	**–**	**–**	(1,250)	(133)
Issuance of new shares	(c)	**–**	**–**	1,000	106
Capitalisation issue	(d)	**–**	**–**	179,999,000	19,079,894
Shares issued under the placing	(e)	**–**	**–**	75,000,000	7,950,000
At the end of the year		**255,000,000**	**27,030,000**	255,000,000	27,030,000

(a) 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.

(b) Share capital in the consolidated balance sheet as at 1 April 2005 represents the registered issued share capital of A & K Software BVI comprising 1,250 shares of HK$0.1 each.

(c) 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.

(d) 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.

(e) On 6 August 2004, 75,000,000 ordinary shares of HK$0.1 each were issued through a placing on the Growth Enterprise Market 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	Retained profits RMB'000	Total RMB'000
At 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 and 1 April 2005	13,483	933	115	2,782	1,391	(13)	12,569	31,260
Currency translation differences	–	–	–	–	–	(390)	–	(390)
Profit for the year	–	–	–	–	–	–	2,545	2,545
Transfer to/(from) reserve	–	–	–	459	230	–	(689)	–
At 31 March 2006	13,483	933	115	3,241	1,621	(403)	14,425	33,415

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 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 and 1 April 2005	23,850	(19,080)	–	–	–	–	(4,001)	769
Share issue expenses	(10,791)	–	–	–	–	–	–	(10,791)
Currency translation differences	–	–	–	–	–	(321)	–	(321)
Loss for the year	–	–	–	–	–	–	(2,008)	(2,008)
At 31 March 2006	13,059	(19,080)	–	–	–	(321)	(6,009)	(12,351)

23. RESERVES (continued)

(a) Capital reserve

The capital reserve arose as a result of the increase in share capital of the Group's subsidiary, Jiangxi A & K, in May and October 1997, which represents the excess of the net assets of Jiangxi A & K over the nominal value of the share capital after the capital verification report prepared by an independent PRC accountant.

(b) Statutory common reserve

In accordance with the PRC accounting regulations and the articles of the association of Jiangxi A & K in the PRC, it 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 reserves 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 Jiangxi A & K in the PRC, it is required to appropriate 5% to 10% of their statutory profit after tax under PRC General Accepted Accounting Principal 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 2006, the Group had the following capital commitment:

	2006	2005
	RMB'000	RMB'000
Contracted but not provided for		
– Investment in an associated company	**–**	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:

	2006	2005
	RMB'000	RMB'000
Within one year	**360**	241
In the second to fifth years inclusive	**433**	404
	793	645

25. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following significant transactions with related parties:

Compensation of key management personnel of the Group

	2006	2005
	RMB'000	RMB'000
Salaries, allowances and other benefits	**691**	515
Pension scheme contribution	**19**	14
	710	529

Note: Further details of pension scheme contribution and directors' emoluments are included in note 12 to the financial statements.

26. SEGMENTAL INFORMATION

i) Business segment

The Group comprises of the following main business segments:

	2006 RMB'000	2005 RMB'000
Revenue from external customers		
Sales of self-developed education software:		
Standard package basis	5,839	11,644
Project basis	–	4,060
	5,839	15,704
Sales of internet learning card	4,533	–
Network integration, IT services and others	76	–
Total turnover	10,448	15,704
Other revenue		
Value added tax refunds on sale of self-developed education software:		
Standard package basis	127	1,012
Total operating revenue	10,575	16,716
Segmental results		
Sales of self-developed education software:		
Standard package basis	4,948	11,176
Project basis	–	3,933
	4,948	15,109
Sales of internet learning card	3,141	–
Network integration, IT services and others	16	–
	8,105	15,109
Unallocated item:		
Other revenue	1,241	919
Other net income	38	270
Selling and distribution expenses	(836)	(898)
Administration expenses	(5,636)	(5,813)
Other operating expenses	(1)	(8)
Profit from operations	2,911	9,579
Share of profit of associates	43	–
Taxation	(409)	(936)
Profit attributable to shareholders	2,545	8,643

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. PARENT AND ULTIMATE HOLDING COMPNAY

The directors consider Educators Investment Limited, a company incorporated in the BVI, to be the parent of the Company.

The directors consider Mr. Peng Gexiong through his shareholding in Educators Investment Limited as being the ultimate controlling party.

28. COMPARATIVE FIGURES

Certain items in the financial statements were reclassified as a result of changes in accounting policies. Accordingly, certain comparative figures have been reclassified to conform with current years' presentation.