



NANDASOFT
南大苏富特

JIANGSU NANDASOFT COMPANY LIMITED
江蘇南大蘇富特軟件股份有限公司
(在中華人民共和國註冊成立的股份有限公司)



2001
年 報

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

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Professor Chen Dao Xu

Ms. Zhang Yun Xia

Independent Non-executive Directors

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Professor Wang Zhi Jian

SUPERVISORS

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Professor Shi Jian Jun

Mr. Zhou Wen Da

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Mr. Zhou Ming Hai

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Professor Wang Zhi Jian

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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board of Directors") I am pleased to present the annual report for the year ended 31 December 2001 of Jiangsu Nandasoft Company Limited ("Jiangsu Nandasoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for review.

In 2001, the Group, with the support of government authorities at various level and a strong belief in "innovation as our guiding principle, technology as our foundation, market as our driving force, products as our core business, human resources as our fundamentals and management as our protection", strove for the well-being of our customers, staff and business partners. We have also successfully emerged as one of the leading network security providers in the PRC.

The results of the Group in the past year was more than satisfactory. The Company was successfully listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 24 April 2001. In April 2001, 234,000,000 H Shares in the Company were fully subscribed for by way of placing at the placing price of HK\$0.36 per share, and a net of HK\$68,200,000 has been raised.

RESULTS IN LINE WITH EXPECTATION

Turnover for the year 2001 grew approximately 16% to approximately HK\$185,729,000. As a result of considerable growth in software sales, net profit increased 89% or approximately HK\$6,599,000 over last year. The Directors do not recommend payment of any year-end final dividend.

PRODUCT RESEARCH AND DEVELOPMENT

In 2001, the Group successfully launched a number of network security products, such as SoftWall WPH, SoftWall-PS (home version and government version) and SoftOS, of which SoftWall is the only network security product in the PRC that has passed Intel's performance test. In addition, SoftOS received the sales permit from the Ministry of Public Security in April 2001. NandaSoft Network Security System (NSS-1), consisting of SoftWall, SoftOS, SoftNet, Soft-IDS and Soft-PS, passed examination by specialists in October and has laid down a solid foundation for future commercialisation.



Xie Li
Chairman and President

CHAIRMAN'S STATEMENT

MARKET DEVELOPMENT

The Group has undertaken a number of large scale and influential projects, such as the Jiangsu Province Digital Business and Commerce Integrated System and Network Security Project, network security demonstration project commissioned by Jiangsu Provincial Committee and Jiangsu Provincial People's Government and network security projects from Jiangsu Province State Administration of Taxation and Local Administration of Taxation. All these projects have served to reinforce the leading position of the Group in Jiangsu Province. Our products have at the same time started its market infiltration at a national level as we have engaged nearly a hundred agents and business partners around the country to market our network security products. In 2001, we have signed a cooperation agreement with SCC in Japan, thereby taking the first step towards developing the international market.

MARKET OUTLOOK

The 9-11 incident in the United States has heightened global concern for network security, and governments and enterprises alike have stepped up the investment in their own network security infrastructure. According to the latest prediction of a market report, the global network security market will continue to grow at the annual rate of 23%, and it is expected that the relevant market turnover will exceed US\$14 billion by the end of 2005.

It is our belief that given our comparative advantages in terms of know-how and market influence in the PRC network security market, we will emerge as one of the market leaders in the PRC network security engineering in the next few years. We will then be positioned to launch our products in the international market.

Looking ahead, our management and work force will continue to do their best and push forward innovative products to make the Group as a well known IT enterprise. By taking the greatest advantage of PRC's WTO membership, we will also develop the international market, bringing forth to our shareholders optimal return for their investment.

Xie Li

Chairman and President

Nanjing, the PRC
15 March 2002

FINANCIAL REVIEW

Results

The audited consolidated turnover of the Group for the year ended 31 December 2001 was approximately RMB185,729,000, representing a growth of approximately 16% over 2000.

The audited profit attributable to shareholders of the Group and earnings per share for the year ended 31 December 2001 were respectively approximately RMB14,013,000 and approximately RMB0.0163, representing a growth in profit attributable to shareholders of approximately 89% over last year. The substantial improvement in the financial conditions of the Group was due to a combination of sales network expansion and successful marketing efforts which provide the Group with good business development and market recognition in the PRC.

Financial Resources and liquidity

As at 31 December 2001, shareholders' funds of the Group amounted to approximately RMB163,637,000. Current assets amounted to approximately RMB157,774,000, of which approximately RMB93,221,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB37,824,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.175. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 31 December 2001, the Group had a gearing ratio of zero since the Group did not have any bank borrowing and long-term debts.

During the year ended 31 December 2001, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Others

During the year ended 31 December 2001, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies and it is the same for the comparative year ended 31 December 2000.

As at 31 December 2001 the Group had no significant investment held, and it is the same as the comparative year ended 31 December 2000.



MANAGEMENT DISCUSSION & ANALYSIS

As at 31 December 2001, there were no charges on group assets, and it is the same as the comparative year ended 31 December 2000.

As at 31 December 2001, the Group had no future plans for material investments except that capital assets will be purchased in accordance with the details set out in the section headed “Statement of business objectives” in the prospectus of the Company dated 19 April 2001.

As at 31 December 2001, the Group had no material contingent liabilities and it is the same as the comparative year ended 31 December 2000.

BUSINESS REVIEW

Sales

1. *Sales of Software*

Sales of software in 2001 was satisfactory and reached approximately RMB10,370,000. The sales of network security products alone reached approximately RMB8,300,000. The increase in software sales could be accounted for the fact that the Group successfully set up a sound sales network and entered into contracts of large-scale network security projects with a number of government authorities, such as the Jiangsu Province State Administration Taxation Network Security Project.

2. *Large Scale System Integration Projects*

Sales generated from system integration projects for 2001 were approximately RMB175,360,000. This figure included the sales generated from the computer network security demonstration project commissioned by Jiangsu Provincial Government in April 2001. The Group also undertook a number of system integration special tasks, such as Jiangsu Digital Business and Commerce System Integration Special Task, Jiangsu State Administration of Taxation & Local Administration Taxation System Integration Special Task, and Network Safety Demonstration Project Commissioned by Jiangsu Provincial Committee. These projects were each influential in their respective industries. They not only helped to consolidate the Group’s market position in Jiangsu Province but also helped the Group’s market expansion in the eastern China region.

3. *Cooperation with Domestic and Foreign Agents*

With a view to increasing the sales of products and expanding distribution outlets, the Group in 2001 made special efforts to widen distribution channels and increase the number of its sales agents. The Group established strategic distribution partnerships with many media communication agencies in Jiangsu and commenced establishing sales and distribution network at a national level by setting up a foothold in neighbouring provinces such as Jiangxi and Zhejiang. The Group also established regional sales outlets in Zhejiang, Shandong, Henan and Shanghai. As at the end of 2001, the Group had nearly one hundred distributors and business partners within and outside of Jiangsu Province.

The Group had hosted different forms of promotional and marketing activities with its agents. The Group had hosted held a series of locally influential market promotion activities with a number of agents in Jiangsu Province and Beijing. In September, the Group attended the Third PRC International Computer IT System Security Exhibition in Beijing. In October, the Group attended the Third PRC High and New Technological Product Trade Fair in Shenzhen for the purpose of introducing and promoting the Group's latest network security products. In November, the Group attended the Jiangsu Province Enterprise Computerisation Model City (Changshou) Seminar for better product and technology exposure. The Group also organised NandaSoft Network Security Exhibitions in a number of cities in Jiangsu, such as Nantong, Changzhou, Wuxi, and co-organised National Encryption Issues Tour Exhibition with State Security Bureau of Jiangsu Province.

The Group also regularly organised different training courses for the Group's distributors and agents from different parts of China to enable them to have a better understanding of our products and expertise. The Group proceeded with training of agents in a few cities in Jiangsu Province towards the end of March and held the first phase of network application technology training courses for corporate representatives from major cities and municipals of Jiangsu Province.

Apart from cooperating with agents within the PRC, the Group also established good cooperative relationship with world renowned corporations, such as Cisco, Nortel, IBM, HP, Microsoft etc, thereby paving the way for its future development in the international market.

RESEARCH AND DEVELOPMENT

The Group has completed research and development and commercialisation of NandaSoft Network Security Solution NSS-1 on the basis of security operating system and obtained the verification and approval of experts. The system consists of Soft Network Firewall (SoftWall WPH v1.2), Soft Personal Computer Security System (SoftPS), Soft Security Operation System (SoftOS), Soft Virtual Private Network (SoftVPN v1.0), Soft Intrusion Detection System (SoftNIDSO v.10). The above system has underwent a successful research and commercialisation. Our expertise in commercialising network security system was therefore greatly enhanced and a sound and solid foundation had also been laid down for future development of network security products.





The Group has also carried out research and development of security demonstration project for the provincial committee and the provincial government of Jiangsu. The system includes CA System, security mailing system, security official document circulation system and security dialing system. The smooth development of such project had not only enabled the Group to tap the government sector, but also created favourable market image that will help its future development in that particular market.

In terms of the research and development in e-commerce and ERP, the Group had focused on “high-terminal e-commerce usage”, “commercial ERP system”, “industrial ERP system”, “Internet-based consolidated OA system” as main topics. The Group will also commence practical and efficient preparation for “publication printing and distribution industry”, “Taiwanese investment or foreign investment enterprises” and “government organizations”. In addition, the Group has also commenced e-commerce and ERP business with different organizations. In early October 2001, the Group entered into an E-commerce Joint Development Agreement with Jiangsu Public Media and Communication Bureau. In November, the Group also signed a letter of intent in relation to joint development of e-commerce and ERP project with a Taiwanese firm.

The Group had set up a digital globe department because of the product demand by Kunshan City geographic information special project. This department specializes in carrying out research and development of geographical information system (GIS). This research project will add an entirely new dimension to the software development of the Group.

In response to the ever increasing demand from clients for different kinds of network security system products, the Group has endeavoured to study and launch new products. We have successfully commercialised our research results and launched the following six major products in 2001:

March 2001	NandaSoft hardware firewall (SoftWall WPH v1.2)
July 2001	NandaSoft hardware firewall (SoftWall WPH v1.2 transparent & basic version), SoftWall-PS (SoftWall-PS government version)
September 2001	SoftOS v1.0
October 2001	SoftWall-PS home version
November 2001	NandaSoft hardware firewall (SoftWall WPH v1.2 full transparent version, non-transparent basic version, three non-transparent full version)



MANAGEMENT DISCUSSION & ANALYSIS

In terms of development of educational software products, we have launched the second stage information archive for the next generation “Tutor” series multimedia development kit and commenced the development of its upgraded version. The Group has also completed the design and development of “Elite Schools” software. The Group has, in response to market demand, further developed a number of educational multimedia publication and proceeded with relevant marketing campaigns.

MANAGEMENT

The Group was listed in Hong Kong in 2001 and started to speed up the improvement in its management in every aspect. As a result, the number of employees increased from 187 at end of 2000 to 383 at end of 2001. In addition to the growth in number prompted by increasing workload, the quality of the employees had improved as well, for more than 70% of the employees are undergraduate degree holders. The Group has also retained a number of PhDs and overseas returnees.

The Group had proceeded with ISO9001: 2000 Quality Control System since September 2001 and passed the on-the-site verification at end of January 2002. The mechanism will better govern software development and flow of production of the Company. The Group obtained system integration qualification certificate issued by the Ministry of Information Industry.

BUSINESS OUTLOOK

Year 2002 was an important year after the Group’s listing. All the employees of the Group shall continue to channel their greatest efforts to the areas of marketing, research and development as well as management, so as to achieve yet more outstanding results.

Sales and Marketing

In 2002, the sales department of the Group worked hard to realise the guiding principles of “establishing a firm foothold in integration, developing sales and marketing, fortifying the industry and expanding beyond Jiangsu”. In relation to undertaking major system integration projects, the 3 major networks within Jiangsu province will initiate more government network projects. In terms of sales of network security products, the Group will expand distribution channels and stretch out to, with Jiangsu as its stronghold, eastern China region and the rest of the PRC, so that the Group’s products will achieve yet greater coverage. In terms of sales of copyright software and other software of the Group, the Group will utilise to the full extent of the present comparative advantage and channels in the area of system integration. Last, but not the least, in undertaking trade application software project, the technology department



of the Group will proceed with the necessary preparation work so as to undertake as many software projects as possible and create a breakthrough in the Group's marketing development.

Research and Development

"Catering for application, emphasis on innovation, reliance on Nanjing University and leading the country" has always been the guiding principle of technology research and development of the Group. In response to the growth of the market for network security products, as well as to the higher and increasing demand of clients, the Group's emphasis in the coming year will still be placed on developing overall network security solutions. Perceiving the above market orientation, the Group will launch a series of new network security products, such as virtual private network (SoftVPN v1.0), intrusion detection system (SoftNIDS v1.0) and gigabyte firewall. The Group aims at creating multifarious network security products and plans to launch practical security operating systems. The Group will also reinforce research in relation to security databank and continue to develop all kinds of network security systems.

To support the development of trade application software, the Group established departments of e-commerce, digital globe, overseas operations and posts and telecommunications in early 2001. The Group will also engage in software development in different fields so that the pioneering work in related fields can be done with greater specialisation and efficiency. The Group will adopt latest technology so as to strengthen the professional technology and achieve high quality solutions for the Group's products. Examples are unit based three-layer C/S structured application system, B/S application system based on J2EE and a Japanese based software development software platform. The Group will also strive to complete projects under software development contracts covering a number of large-scale special tasks, such as those commissioned by New China Publications Group (新華發行集團) and Jiangsu Multi-media Telecommunications Bureau.

Management

The Group plans to obtain CMM-2 certification by end of 2002 so that it can attain the international software development standards and adopt top quality management system.

New Opportunities Arising from the PRC Accession to WTO

As a result of China's accession to WTO, the PRC government's endeavour to protect intellectual property and crack down on pirated software will bring colossal business opportunities to as well as pose a tremendous challenge to its software industry. As one of the leading network security software developers and Internet application software developers in the PRC, it is the mission of the Group to be well prepared for international competitions. For this reason, the Group wishes to seize every opportunity and overcome any challenge to secure a firm position in the international software market. The Group will adopt the following measures in relation to cooperating with foreign enterprises in 2002:

1. the Group will endeavour to undertake promising software projects contracted out by overseas enterprises;
2. the Group will start to develop overseas markets for its products;
3. the Group will attempt to customised certain outstanding overseas software products for localised development; and
4. the Group will strengthen the communications and cooperations with multinational companies.

COMPARISON OF ACTUAL BUSINESS PROGRESS TO THE BUSINESS OBJECTIVES

The following section compares the actual business progress of the Group for the year ended 31 December 2001 to the information provided in the section headed “Statement of Business Objectives” as set out in the Prospectus as follows:

	Anticipated progress of projects	Actual progress of projects
1. Launch of new products		
1.1 Network Security Solution Software	<ul style="list-style-type: none">– Launch Linux based SoftWall kit (hardware equipment installed with SoftWall program), it has the functions of packet filter, proxy and mandatory access control, and achieves the state security standard of GB/T17900, GB/T18019 and GB/T18020– Launch Windows based SoftWall personal edition, it has the functions of hacking prevention and information protection, and launch customised SoftWall personal edition for government and military usage– Launch the Beta testing version of SoftWall personal edition, it has the functions of hacking prevention and information protection– Launch the Beta testing version of SoftNet (VPN system), it has the functions of data encryption and verification of data integrity	<ul style="list-style-type: none">– The Group launched Linux based SoftWall hardware products, and achieved the State security standard of GB/T17900, GB/T18019 and GB/T178020– The Group launched Windows based SoftWall personal edition and customised SoftWall personal edition for government and military usages– The Group launched the Beta testing version of SoftWall personal edition– The Group launched the Beta testing version of SoftNet (VPN system)

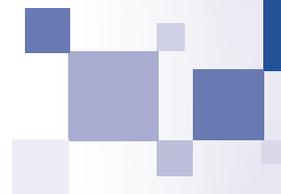
1.2 Internet Application Software

Anticipated progress of projects

- Launch the Beta testing version of next generation of office automation system. WebOA2.0
- Launch customised version of office automation system based on WebOA2.0
- Launch the Beta testing version of NandaSoft Online Payment System
- Launch public sector customised version of NandaSoft Online Payment system
- Launch the Beta testing version of electronic government platform and CA system
- Launch the Beta testing version of computer co-operative supporting system

Actual progress of projects

- The Group launched the Beta testing version of next generation of office automation system. WebOA2.0
- The Group completed the customized version of office automation system based on WebOA2.0
- The Group completed the Beta testing version of NandaSoft Online Payment System
- The Group launched the public sector customized version of NandaSoft Online Payment System
- The Group completed the testing version of electronic government platform and CA system
- Plans were amended to reflect actual market conditions. The Group launched the testing version of ERP series of software, included the commercial ERP system and the industrial ERP system



Anticipated progress of projects

Actual progress of projects

1.3 Educational Software

- Launch the Beta testing version of the next generation of “Tutor” series multimedia development tool

- The Group completed the development work of the information archive of the next generation of “Tutor” series multimedia development tool. The design and development work of the “Fame School Net” software was completed as well

- Launch the upgraded version of “Tutor” series multimedia development tool

- The Group completed the upgraded version of “Tutor” series multimedia development tool

2. Research and Development

2.1 Network Security Solution

- Research on the new functions of SoftBase system, including the design of the functions of access control, security audit, secured data archive and secured data inquiry

- The Group completed the mandatory access control of the SoftBase system and audit development of data inquiry function of SoftNet

- Design and Alpha testing of the SoftNet, VPN and intrusion detection system including relevant technologies on analyzing and tracing the behavior of hacker attacks

- The Group completed design and Alpha testing of the SoftNet, VPN and intrusion detection system

- Research and develop secured document transmission and secured e-mail systems

- The Group developed the secured e-mail systems with functions of digital signature, denial prevention, secured storage and transmission

- Develop electronic identification technology for the application of data encryption system

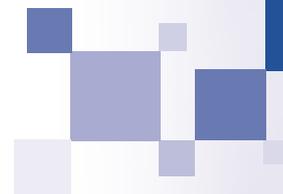
- The Group developed electronic identification technology for CA systems

- Develop B1 level NandaSoft Security Database System

- The Group developed the testing version of B1 level SoftBase Security Database System

BUSINESS OBJECTIVES REVIEW

	Anticipated progress of projects	Actual progress of projects
2.2 Internet Application	<ul style="list-style-type: none">- Develop and test electronic commerce platform- Develop and test computer co-operative technology- Develop and test electronic government platform- Develop and test NandaSoft Online Payment System	<ul style="list-style-type: none">- The Group completed the development of CA system, to be used by enterprises, of the electronic commerce platform. The finalization of overall model selection for the electronic commerce platform was also completed- The Group established a set of standards for software testing- The Group completed the development of electronic commercial data distribution system and key technology for the electronic government platform- The Group concluded the payment agreement and handling settlement transaction for the NandaSoft Online Payment System
2.3 Multimedia Application	<ul style="list-style-type: none">- Develop and test the next generation of "Tutor" series multimedia development tool- Develop and test distance multimedia education platform	<ul style="list-style-type: none">- The Group developed detailed design solution of the next generation of "Tutor" 2.0 multimedia development tool- Several multimedia educational publications were launched to meet market needs



Anticipated progress of projects

Actual progress of projects

3. Sales, Marketing and Business Development

3.1 *Network Security Solution*

- Network security product tour in major cities in Jiangsu Province and across the nation
 - Focusing efforts on marketing SoftWall to the Group's network and system integration customers and the Group's distribution agents across the PRC
 - Conduct marketing mainly to target potential customers in Jiangsu and its surrounding provinces
- The Group hosted NandaSoft Network security product tour in Nantong, Wuxi and other cities in Jiangsu Province. In addition, the Group jointly organized "National Security Issues Tour" with the Security Bureau of Jiangsu Province
 - The Group established a nationwide network which consists of nearly a hundred distribution agents to focus on promotion of SoftWall products
 - The Group participated in various types of trade shows, seminars, training activities and conferences on information technology not only to identify business opportunities brought forward by advancement of technology but also making contacts with potential customers. The above activities included: organizing SoftNet Security Alliance Conference by the end of February; and conducting training courses for distribution agents in some cities of Jiangsu Province in late March. During the same period, the first phase training courses on network application technology for corporate representatives from major cities and counties in Jiangsu Province was completed

3.2 *Internet Application Software*

Anticipated progress of projects

- Concentrate efforts on marketing WebOA to government offices in Jiangsu Province
- Collect market feedback from the trial launch of electronic commerce platform and electronic government platform
- Collect market feedback from the trial launch of online payment platform
- Concentrate efforts on marketing WebOA to the commercial Sector
- Concentrate marketing efforts of online payment platform to the public Sector

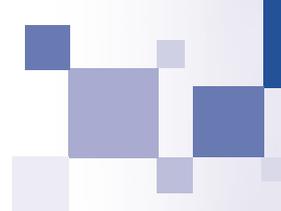
Actual progress of projects

- The Group promoted the integrated WebOA electronic government system to government sector in Jiangsu Province
- The Group conducted market surveys on electronic commercial platform, electronic government system and ERP
- The Group started collecting feedback from the trial launch of online payment platform
- The Group promoted integrated ERP system of WebOA to the commercial sector
- The Group promoted online payment platform to the public sector

3.3 *Education Software*

- Market Tutor2000 to primary and secondary schools in Jiangsu Province and the Group's distribution agents across the PRC
- Market "Tutor" series Multimedia development tool to schools in Jiangsu Province

- The Group initially promoted and marketed Tutor2000 to primary and secondary schools in Jiangsu Province and the Group's distribution agents across the PRC
- The Group began to promote "Tutor" series multimedia development tool to schools in Jiangsu Province



Anticipated progress of projects

Actual progress of projects

3.4 Trade Fairs, Training Courses and Seminars

- | | |
|---|---|
| <ul style="list-style-type: none">– Participate in the National Technology Innovation Product Trade Fairs across the PRC
– Participate in National Hi-Tech Product Trade Fair in Shenzhen
– Organize and offer network security training courses to distribution agents
– Participate in National IT Security Product Exhibition
– Sponsor seminars on the digitalization of government services in Jiangsu and its surrounding provinces | <ul style="list-style-type: none">– The Group participated in the high and innovative technology exhibitions held in Beijing, Xián, Henan and Zhijian
– In October, the Group participated in National Hi-Tech Product Trade Fair in Shenzhen
– The Group organized several technical training courses for channel distributors on network security products alongside with training courses for office professionals and seminars for Internet users
– In September, the Group participated in National IT Security Product Exhibition
– The Group sponsored seminars on digitalization of government services, including taxation, education and foreign trade, in Jiangsu Province |
|---|---|

	Anticipated progress of projects	Actual progress of projects
<p>3.5 Sales Channels and Business Development</p>	<ul style="list-style-type: none"> - Establish one to two regional distribution agents each in Jiangsu, Shangdong, Anhui and Jiangxi Provinces and Shanghai Municipality - Develop strategic and distribution partnerships with national software distributors and e-commerce operators, such as Federal Software - Set up regional sales and service offices in Anhui and Zhejiang Provinces in the PRC - Set up regional sales and service offices in Shangdong and Jiangxi Provinces and Shanghai Municipality in the PRC 	<ul style="list-style-type: none"> - The Group established a distribution agent network with nearly a hundred distribution agents across the nation - The Group established strategic partnerships with Federal Software, IBM and CISCO. Our products will be marketed through channels built by our partners - The Group began to establish a nationwide sales and distribution network, including neighbouring provinces of Jiangxi and Zhejiang - The Group established regional sales and service offices in Zhejiang, Shangdong, Henan and Shanghai
<p>3.6 Promotions and Advertising</p>	<ul style="list-style-type: none"> - Conduct advertising campaigns on public facilities in the Nanjing region - Conduct joint promotional campaigns with national software distributors and e-commerce operators, such as Federal Software 	<ul style="list-style-type: none"> - The Group conducted a series of joint product advertising and training activities with government offices, Provincial Information Centre and Provincial Confidential Information Board of Jiangsu Province - The Group conducted joint promotional activities with software distribution agents and electronic products trading firms in Beijing, Xián, Shenzhen, Henan and Jiangsu
<p>3.7 Application for Certificate of S.I. Business</p>	<ul style="list-style-type: none"> - Obtain Grade 3 certificate from Department of Information Industry of Jiangsu Province 	<ul style="list-style-type: none"> - The Group obtained Grade 3 system integration qualification certificate from Department of Information Industry of Jiangsu Province

The Board of Directors is pleased to present their annual report and the audited financial statements of the Group for the year ended 31 December 2001.

TRANSFORMATION AND LISTING

Jiangsu NandaSoft Limited Liability Company (the “Predecessor”), the predecessor of Jiangsu NandaSoft Company Limited (the “Company”), was established on 18 September 1998. The Company was established in Nanjing, the People’s Republic of China (the “PRC”) on 30 December 1999 as a joint stock limited company by way of transformation of the Predecessor.

On 3 January 2001, the China Securities Regulatory Commission (the “CSRC”) gave its consent to the Company issuing overseas listed foreign invested shares (“H Shares”) and applying for the listing of the H Shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Subsequently, the Company’s H Shares were listed on the GEM of the Stock Exchange on 24 April 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is to develop, manufacture and market network security software, Internet application software, educational software and business application software. The Company also provides system integration services including information technology consulting and sales of computer hardware products and equipment. The businesses of the subsidiaries and an associate are set out in notes 14 and 15 to the financial statements, respectively.

An analysis of the Group’s turnover and profit from operations is set out in note 5 to the financial statements.

ARTICLES OF ASSOCIATION

The Company held an extraordinary general meeting on 16 February 2001 to adopt and approve a new set of Articles of Association.

MAJOR CUSTOMERS AND SUPPLIERS

In the period under review, the Group’s sales to the five largest customers accounted for less than 30% of the Group’s turnover for the year.

Purchases from major suppliers accounted for the following percentage:

The largest supplier:	11%
Total percentage of the largest five suppliers:	36%

Save as disclosed above, as far as the Directors are aware, neither the Directors or their associates nor any management shareholders (which to the knowledge of the Directors own more than 5% of the Company’s issued capital) had any material interest in the five largest customers and five largest suppliers.

REPORT OF THE DIRECTORS

RESULTS

The Group's results and financial position for the year ended 31 December 2001 are set out in the Annual Report on pages 39 to 67.

DIVIDENDS

The Directors do not recommend the payment of a final dividend for the year.

FINANCIAL SUMMARY

A summary of the Group's results for the period from 18 September 1998 to 31 December 1998 and for each of the three years ended 31 December 2001 and the Group's assets and liabilities as at 31 December 1998, 31 December 1999, 31 December 2000 and 31 December 2001 is set out in the Annual Report on page 68.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 25 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of changes of property, plant and equipment of the Group and the Company are set out in note 12 to the financial statements.

RETIREMENT BENEFIT

Details of the retirement benefit schemes of the Group are set out in note 32 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company during the year and up to the date of this report were:

Executive directors

Professor. Xie Li (*Chairman and president*)

Mr. You Xue Gui

Non-executive directors

Mr. Zhang Jin Quan

Professor Chen Dao Xu

Ms. Zhang Yun Xia (Appointed on 19 January 2001)

Independent non-executive directors

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Supervisors

Mr. Wang Dao Wu

Mr. Shi Jian Jun

Mr. Zhou Wen Da

Mr. Xiong Xian Gen

Mr. Zhou Ming Hai

Mr. Zhou De Fan

Mr. Ge Ning

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All Directors and Supervisors have service contracts, to be expired on 29 December 2002, with the Company. The service contracts will be renewed for a service period of three years subject to the approval of the forthcoming annual general meeting of the Company.

Save as disclosed above, none of the directors nor the supervisors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment other than statutory compensation.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of directors, supervisors and senior management are set on pages 28 to 32 of the Annual Report.

DIRECTORS' REMUNERATION AND HIGHEST PAID EMPLOYEES

Details of the directors' remuneration and that of the highest paid employees are set out in note 9 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN SECURITIES

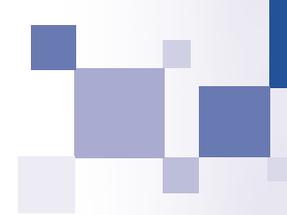
At 31 December 2001, the interest of Directors and Supervisors in the shares of the Company or any of its associated corporations (within the meaning of the Hong Kong Securities (Disclosure of Interest) Ordinance (the "SDI" Ordinance)) as recorded in the register maintained by the Company pursuant to Section 29 of SDI Ordinance were as follows:

Name	Type of interest	Number of domestic shares held	Percentage of effective interests in the Company
<i>Directors</i>			
Xie Li	Others (Note 1)	11,900,000	1.27%
Zhang Yun Xia	Personal (Note 2)	9,000,000	0.96%
You Xue Gu	Others (Note 1)	8,000,000	0.86%
Zhang Jin Quan	Others (Note 1)	1,500,000	0.16%
Chen Dao Xu	Others (Note 1)	500,000	0.05%
<i>Supervisors</i>			
Zhou Ming Hai	Others (Note 1)	5,000,000	0.54%
Xiong Xian Gen	Others (Note 1)	2,000,000	0.21%
Wang Dao Wu	Others (Note 1)	1,000,000	0.11%
Zhou Wen Da	Others (Note 1)	780,000	0.08%
Shi Jian Jun	Others (Note 1)	500,000	0.05%

Notes:

- (1) These shares are held through the Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"). The Union, being a social organisation legal person established under the laws of the PRC by changing the name from Worker Union of Jiangsu Educational Instrument Corporation on 1 July 2001, holds 110,000,000 shares, or approximately 11.78% shareholding in the Company for and on behalf of the staff of the Company including Directors and Supervisors and owns 15% equity interest in Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation")
- (2) These shares are directly held by an ex-director of the Company, who is also the spouse of Ms. Zhang Yun Xia.

Save as disclosed above, at 31 December 2001, none of the directors or supervisors or any of their associates had any interests in any securities of the Company or any of its associated corporation as defined in the SDI Ordinance.



SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in respect of the Directors and their associates, as at 31 December 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had been notified of the following substantial shareholders' interests, being 10 percent or more of the Company's issued share capital:

Shareholder	Number of domestic shares held	Percentage effective interests in the Company
Nanjing University	200,000,000	21.41%
Jiangsu Zongyi Company Limited ("Zongyi") (Note 1)	181,540,000	19.44%
Jiangsu Provincial Management Center for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 2)	136,500,000	14.61%
The Union (Note 3)	123,500,000	13.22%

Notes:

- (1) The interest of Zongyi comprises:
 - (a) 160,000,000 domestic shares (representing approximately 17.13% of the Company's issued share capital) held by Zongyi; and
 - (b) 21,540,000 domestic shares (representing approximately 2.31% of the Company's issued share capital) held through Jiangsu High-tech Industry Investment Company Limited (formerly known as Jiangsu Property Business Company Limited and adopting the present name on 26 April 2001), which is approximately 53.85% owned by Zongyi.
- (2) Jiangsu Management Center is a professional unit entity established by changing the name from Jiangsu Educational Instrument Corporation on 1 July 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's issued share capital) held by Jiangsu Management Center; and
 - (b) 76,500,000 domestic shares (representing approximately 8.19% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Center.
- (3) The interest of the Union comprises:
 - (a) 110,000,000 domestic shares (representing approximately 11.78% of the Company's issued share capital) held by the Union; and
 - (b) 13,500,000 domestic shares (representing approximately 1.44% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 15% owned by the Union.

Save as disclosed above, the Company had not been notified of any other interests representing 10% or more of the Company's issued share capital as at 31 December 2001.

REPORT OF THE DIRECTORS

As mentioned in the prospectus dated 19 April 2001, each of the Promoters, Directors and the Initial Management Shareholders made commitment to the Company and the Stock Exchange that they would not be allowed to sell, transfer or in any other way dispose any issued share owned by them disclosed above within two years starting from the date of H shares commenced trading on the Growth Enterprise Market (“GEM”). Shareholdings of the Directors and the Initial Management Shareholders remained unchanged from the listing date to the report date.

DIRECTORS’ INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SPONSOR’S INTEREST

As updated and notified by the Company’s sponsor, Core Pacific - Yamaichi Capital Limited (“Core Pacific - Yamaichi”), neither Core Pacific - Yamaichi nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2001 pursuant to Rules 6.35 and 18.63 of the Rules Governing the Listing of Securities on GEM (the “GEM Listing Rules”).

Pursuant to an agreement dated 18 April 2001 entered into between the Company and Core Pacific - Yamaichi, Core Pacific - Yamaichi has received and will receive a fee for acting as the Company’s retained sponsor for the period from 24 April 2001 to 31 December 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Pursuant to the Company’s share option scheme approved by a resolution of the shareholders of the Company dated 8 December 2000 (the “Share Option Scheme”), the Company may grant options to executive directors and employees of the Company or its subsidiaries to subscribe for the H Shares in the Company for a consideration of HK\$1 for each lot of share options granted. The Share Option Scheme will remain valid for a period of ten years commencing on 8 December 2000. Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options. The subscription price is not less than the higher of (a) the closing price of the Company’s H Shares as quoted on the date of the grant of the options, (b) the average closing prices of the Company’s H Shares for the five business days immediately preceding the date of the grant of the options and (c) the nominal value of the H Shares. However, for employees who are PRC national and have taken up any options to subscribe for the Company’s H Shares, they shall not be entitled to exercise the options until:

- (1) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC national from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and
- (2) The CSRC or other relevant government authorities in the PRC have approved the new issue of shares upon the exercise of any options which may be granted under the Share Option Scheme.

The total number of H Shares subject to the Share Option Scheme and any other share option schemes must not, in aggregate, exceed 30% of issued H Shares of the Company in issue from time to time. In determining the said 30% limit, the following shares shall be excluded:

- (i) H Shares to be issued pursuant to the Share Option Scheme and any other share option schemes; and
- (ii) Any pro rata entitlements to subscribe for further H Shares pursuant to the issue of H Shares mentioned in (i) above during the period of 10 consecutive years commencing on 8 December 2000.

The total number of H Shares available for issue under options granted under the Share Option Scheme and any other schemes must not, in aggregate, exceed 10% of the number of the H Shares of the Company in issue from time to time. The Company may seek approval from shareholders in general meeting for renewing the 10% limit or for granting further options beyond the 10% limit, provided that the options in excess of the 10% limit are granted only to participants specifically identified by the Company before such approval is sought.

No executive directors or employees of the Company or its subsidiaries shall be granted an option which, if exercised in full, would result in such person's maximum entitlement exceeding 25% of the aggregate number of H Shares for the time being issued or issuable under the Share Option Scheme.

No option had been granted by the Company under the Share Option Scheme since its adoption.

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and neither the directors, supervisors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CONNECTED TRANSACTIONS

The connected transactions as specified in the GEM Listing Rules undertaken by the Group are set out in note 33 to the financial statements.

In accordance with the conditions agreed with the Stock Exchange with respect to certain connected transactions, the independent non-executive directors have reviewed the connected transactions set out in note 33 to the financial statements. In their opinion, these transactions entered into by the Group were:

- (i) in the ordinary and usual course of business of the Group;
- (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- (iv) within the relevant cap amounts as agreed with the Stock Exchange.

REPORT OF THE DIRECTORS

Other than those transactions described above, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

AUDIT COMMITTEE

The Company established an audit committee on 8 December 2000 with written terms of reference in compliance with Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent non-executive directors, Mr. Xu Huan Liang and Professor Wang Zhi Jian, and one executive director, Professor Xie Li. The audit committee had held three meetings so far since its establishment.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Chapter 5.28 to 5.39 of the GEM Listing Rules since its listing on 24 April 2001.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITORS

A resolution to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting to be held on 17 May 2002.

On behalf of the Board
Xie Li
Chairman and President

Nanjing, the PRC
15 March 2002

To: All Shareholders

Jiangsu Nandasoft Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2001, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year we carefully reviewed the use of the proceeds raised in strict compliance with the plan of use of proceeds disclosed in the prospectus of the Company and provided reasonable suggestions and advice on the operations and development plans to the board and strictly and effectively monitored whether the policies and decisions made had conformed with the state laws and regulations and the Articles of Association of the Company or safeguarded the interests of the shareholders.

After investigation, we consider that the financial statement of the Company, audited by Deloitte Touche Tohmatsu, truly and sufficiently reflects the operating results and asset positions of the Company. We also reviewed the Report of the Directors and the profit distribution proposal. We consider that the above report and proposal meets the requirements of the relevant regulations and associations of the Company. We have attended the meeting of the Board of Directors. We consider that the members of the Board of Directors, the general manager and other officers have strictly complied with the principle of honesty and trustworthiness, worked diligently and sincerely acted in the best interests of the Company. Up to now, none of the Directors, general manager and the officers have abused their powers, caused damage to the interests of the Company and infringed upon the interests of the company and its staff, nor have they violated any laws, regulations or the Company's Articles of Association.

We are satisfied with the various tasks achieved as well as the cost-effectiveness gained and are confident about the prospects of future development of the Company.

On behalf of the Supervisory Committee

WANG DAO WU

Chairman of the Supervisory Committee

Nanjing, the PRC

15 March 2002

DIRECTORS

Executive Directors

Professor Xie Li, (謝立), 60, Chairman and President of the Company, and the Professor and PhD student mentor of Nanjing University. Professor Xie was graduated from the Department of Mathematics in Nanjing University majored in mathematical logic. He had been the visiting scholar of the Department of Computer Science in New York State University, Albany. He taught in the Department of Mathematics and Department of Computer Science in Nanjing University and had served consecutively as the Deputy Director of the Computer Software Research Institute, Assistant to the University President, Deputy Academic Dean, Dean of the Department of Computer Science, Director of the Computer Application Research Institute and Vice President of Nanjing University. Professor Xie is also serving as the Director of Jiangsu Province Software Project Research Center, standing member of China Computer Society, Deputy Director of the Open System Professional Committee. Professor Xie has engaged in the research of computer software over a long period of time, and had received 12 awards, including 4 national class awards, for his research achievements in fields of operating system, distribution computing, parallel processing and advanced operating system. He has published 4 monographs and more than 190 academic papers. Professor Xie joined the Company in September 1998.

Mr. You Xue Gui, (尤學貴), 47, executive Director and Vice President of the Company, and Senior Engineer with a university degree. Mr. You also serves as the General Manager of Jiangsu Educational and Chairman of the Board of Directors of Jiangsu Co-Creation. Mr. You was awarded the Jiangsu Province Science and Technology Advancement second prize, two national inventor's patents, two practical new invention patents and seven exterior design patents. He also edited and published 18 books on Technological Activities and 20 books on "physics teaching materials" for secondary and primary schools. Mr. You joined the Company in December 1999.

Non-Executive Directors

Mr. Zhang Jin Quan, (張錦泉), 63, non-executive Director of the Company and a professor class senior engineer. Mr. Zhang has been the Deputy Director of the 28th Institute of the Ministry of Electronics Industry and the Chief Director of the Department of Electronic Industry of Jiangsu Province. He presided over the designing of the combat commanding automation system for the China Air Force, and won the Science and Technology Advancement special-class award of the Ministry of Electronics Industry and National Science and Technology Advancement first prize. As the Deputy Chief Designer of the Air Force Combat Commanding Automation System, he won the Science and Technology Advancement first prize of the Ministry of Electronics Industry. In addition, he was in charge of the research and development of the first generations of air traffic control automation system and city traffic control automation system in the PRC. Mr. Zhang joined the Company in September 1998.

Professor Chen Dao Xu, (陳道蓄), 55, non-executive Director of the Company and a Professor. Professor Chen graduated from the Department of Computer Science in Nanjing University majored in Computer Software. He is now a Professor, PhD student mentor and Dean of the Department of Computer Science and Technology in Nanjing University and Chairman of the Jiangsu Province Computer Society. Professor Chen has engaged in the research and development of computer software over a long period of time and his recent research work concentrated in distributive processing, parallel calculation, computer network and computer support co-processing. He has undertaken more than 10 major national science and technology projects. Professor Chen obtained 4 ministry or provincial class science and technology advancement awards and 1 National Education Committee award. He has published two co-authored books and more than 30 academic papers. Professor Chen joined the Company in July 1999.

Ms. Zhang Yun Xia, (張雲霞), 38, is a university graduate and a senior designer of Zongyi. Ms. Zhang was fashion designer working in Tongzhou Embroidery Factory (通州市刺繡廠) in 1989. She worked in the technology department of Nantong Golden (Group) Co. Ltd. (南通黃金(集團)股份公司) during the period from 1990 to 1996. From 1997 to 1999, Ms. Zhang took courses in New York University, U.S.A.. Ms. Zhang currently serves in Zongyi's Shenzhen branch office. Ms. Zhang joined the Company in January 2001.

Independent non-executive Directors

Mr. Xu Huan Liang, (徐煥亮), 60, post-graduate of the Department of Mathematics in Nanjing University majored in mathematical logic in 1967. Mr. Xu has served successively as Technical Officer, Engineer, Deputy Director of the Design Institute and Deputy Chief Engineer for Nanjing Cable Wire Factory since 1968. He was appointed to be the Deputy Plant Director in 1984 and he also served as the Chief Engineer for Nanjing High and New Technologies Development Zone from 1988 to 1991. He has been engaged in the development of editing and translating procedures, management programs, operating systems and various military and civil computer systems since 1964. Mr. Xu has served as a committee member of the Computer Technology Committee of the Ministry of Electronic Industry, appraiser of Electronic Industry Technology Achievements, member of the Military Computer Professional Group of State Commission of Science, Technology and National Defence Industry.

Professor Wang Zhi Jian, (王志堅), 44, Deputy Dean of the Department of Information Technology in Hehai University (河海大學) and a member of the Standing Committee of Nanjing Political Consultative Conference. He graduated from the Department of Computer Science in Nanjing University in 1982 and has served as an Assistant Engineer of Jiangsu Province Computer Technology Research Institute. From 1983 to 1986, Professor Wang obtained a master degree and a doctoral degree from the Department of Computer Science in Nanjing University and remained with as a faculty member of the University thereafter. After being transferred to Hehai University in 1995, he has served as a standing director of Jiangsu Province Computer Association. Professor Wang has been engaged in the education and research in computer science and technology over a long period and his research focuses include software engineering, logic program design, inductive reasoning, software automation and facing object technology.

MEMBERS OF SUPERVISORY COMMITTEE

Supervisory committee in the PRC has similar functions as audit committee, which mainly reviews the financial results of the company and the decisions made by the company's board. Supervisors can represent the interest of shareholders or employees (sometimes appointed by worker's union), or they can be Independent Third Parties. Four of the Company's Supervisors, namely Mr. Wang Dao Wu, Professor Shi Jian Jun, Dr. Xiong Xian Gen and Mr. Zhou Ming Hai, are appointed by the Company's Promoters, namely, Jiangsu IT Industrial, Nanjing University, Jiangsu Property and Jiangsu Educational respectively. Mr. Zhou Wen Da is appointed by the Company's employees. In addition, the Company has appointed two independent Supervisors, namely, Mr. Zhou De Fan and Mr. Ge Ning, who are not employees of the Company nor own any interests in the shareholding of the Company.

Mr. Wang Dao Yu, (王道五), 59, chairman of Supervisory Committee of the Company, Senior Engineer, Chairman of Jiangsu IT Industrial and Deputy Director of the Department of Information Property of Jiangsu Province. Mr. Wang was the Deputy Director of Jiangsu Province Electronics Department and chairman of the Board of Directors and Managing Director of Jiangsu Hong Tu Electronic Information Group Company. Mr. Wang joined the Company in September 1998.

Professor Shi Jian Jun, (施建军), 47, member of Supervisory Committee of the Company, Master of Economics, and the Vice President, Professor and PhD student mentor in Nanjing University. Professor Shi is currently the Vice Chairman of China Statistics Society and Vice Chairman of China Education Accounting Society. He lectured undergraduate and postgraduate courses of Principles of Statistics, International Economic statistics and National Economic Equilibrium Analysis. Professor Shi has presided over about 20 national or provincial science research projects. He was awarded the 4th National Huo Ying Dong Outstanding Teaching Achievement Award, second prize in the National Outstanding Teaching Achievement Award and second prize of the National Science and Technology Committee Sci-Tech Advancement Award. He has authored a total of 18 books and teaching materials, and published over 100 academic papers. Professor Shi joined the Company in September 1998.

Mr. Zhou Wen Da, (周文达), 39, post-graduate, Supervisor and the General Manager of the Development Division of the Company. He graduated from the Computer Science and Technology Department of Nanjing University. He had served as the general manager of Nanjing Turing Software Company Limited. He frequently participated in major state projects and the development and research of the State 863 project. He has been awarded the second prize in Technology Advancement of ministerial and provincial level. Mr. Zhou joined the Company in December 1998.

Dr. Xiong Xian Gen, (熊先根), 38, PhD, a Supervisor of the Company. Professor Xiong is the executive director and general manager of Jiangsu Property and a director of Jiangsu Lianhuan Pharmaceutical Company Limited. He also held position in Jiangsu International Trust and Investment Company. Mr. Xiong joined the company in December 1999.

Mr. Zhou Ming Hai, (周明海), 52, a Supervisor of the Company and Chinese Communist Party member. He has a university degree in Economic Administration. He is the Deputy Party Secretary and Chairman of the Union of Jiangsu Educational. He also serves as the Chairman of the Association of Jiangsu Educational Instrument and Equipment Industry. Mr. Zhou joined the Company in December 1999.

MEMBERS OF THE INDEPENDENT SUPERVISORY COMMITTEE

Mr. Zhou De Fan, (周德藩), 62, a State Education Inspector, research executive of the State Education Development Centre and President of Jiangsu Province Education Society. As a part-time Professor at Nanjing Normal University (南京師範大學) and Eastern Normal University (華東師範大學), Professor Zhou has published dozens of books such as “Curriculum of Quality Education” 《素質教育論教程》. He has also published nearly 100 academic papers in national and provincial magazines, including “High School Education Structure Study” 《高中階段教育結構研究》 which was awarded the second prize of the State Education Treatise. At present, Professor Zhou presides over the keynote research of science education for the Ministry of Education that concentrates on the effect of science education on personal potential development. Professor Zhou joined the Company in October 2000.

Mr. Ge Ning, (葛宁), 44, graduate of the Department of Electronic Engineering in Southeastern University (東南大學) in 1981, Senior Engineer of the Department of Computers in Southeastern University, member of Jiangsu Province Computer Society and member of the Academic Committee of Jiangsu Province Youth Computer Technology Forum. After working for the Department of import and export in Southeastern University from 1983 to 1989, Mr. Ge was transferred to the Singapore Technology Group by the Ministry of Education from 1989 to 1992. He held the post of Deputy General Manager of Dongda Microelectronic Company Limited (東大微電子有限公司) from 1992 to 1994 and has been the Deputy Director and General Manager of Dongda Wiscom Software Co. Ltd. (東大金智軟件股份有限公司) since 1995. Mr. Ge joined the Company in October 2000.

SENIOR MANAGEMENT

Professor Xie Jun Yuan, (謝俊元), 41, Vice President of the Company, Master of Science. He is also a professor and graduated from the Computer Science and Technology Department of Nanjing University. He also serves as the director of China Artificial Intelligence Society, Deputy Director of Computer Software Engineering Centre and a Director of the Artificial Intelligence Research Laboratory of the Computer Science and Technology Department of Nanjing University. He was responsible for the completion of the State 863 project and 15 provincial development projects. He has published more than 20 academic papers and has awarded the second prize of Provincial Technology Advancement for four times. Professor Xie joined the Company in September 1998.

Ms. Yang Xu, (楊旭), 38, Vice President of the Company, Master in Management, Senior Engineer and the Deputy Supervisor of the Computer Software Engineering Centre of Nanjing University. As a graduate of the management major of Nanjing University, she has served as an assistant to the Head of the Computer Science and of Computer Technology Department in Nanjing University. Ms. Yang has been working in the management field and has published 8 academic papers in the PRC and overseas, which has awarded the second prize in Provincial Technology Advancement. She joined the Company in September 1998.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Yim Hing Wah, Terence (嚴慶華), 37, is the qualified accountant and company secretary of the Company. He has over nine years of experience in auditing, accounting and financial management. Prior to joining the Group in January 2001, he was the audit manager with an international accounting firm. Mr. Yim had worked with a number of large size listed companies in various industries and various public offerings on the Stock Exchange, as well as stock exchanges in the PRC and the United States. Mr. Yim holds a bachelor degree in accounting from Hong Kong Polytechnic University, and is an associate member of the Hong Kong Society of Accountants and a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Securities Institute.

Mr. Yuan Feng (袁峰), 34, Vice President of the Company, graduate of the Department of Computer Science of Nanjing University. Before joining the Company, he founded the Nanjing New Integrated Technology Company Limited and Nanjing New Renjia Computer Network System Company Limited. Mr. Yuan had about ten years of market experience in network application technology and software development. He joined the Company in April 2002 to oversee market operation and product promotion.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of Jiangsu Nandasoft Company Limited (the “Company”) will be held at Room 502, NandaSoft Tower, No.8, Jingyin Street, Nanjing, the PRC on 17 May 2002 (Friday) at 9:00 a.m. for the following purposes:

I. To pass the following matters as ordinary resolutions:

- (1) To consider and pass the reports of the Directors for the year 2001;
- (2) To consider and pass the reports of the Supervisory Committee for the year 2001;
- (3) To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2001;
- (4) To consider and pass the resolution of final dividend distribution for the year 2001;
- (5) To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2001;
- (6) To consider and pass plans to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2002 and to authorise the Board of Directors to fix their remunerations;
- (7) To appoint directors and supervisors; and
- (8) To handle any other matters.

II. To pass the following matters as special resolutions:

1. To consider and resolve that, subject to the approval of China Securities Regulatory Commission and/or other relevant statutory authorities in the People’s Republic of China and/or the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the proposed allotment and issue of new H Shares and/or Domestic Shares, the Board of Directors be authorised to:
 - (a) to issue and/or place H Shares and/or Domestic Shares within a period of 12 months from the date of this resolution, provided that the total number of H Shares and/or Domestic Shares to be placed and/or issued shall not exceed 20% (the “20% Limit”) of the number of H Shares and/or Domestic Shares of the Company in issue respectively;
 - (b) subject to the 20% Limit, to decide the number of H Shares and/or Domestic Shares to be placed and/or issued and to deal with any matter arising from or related to the placing or issue of the new Shares mentioned above;
 - (c) to amend, in accordance with the increase in registered capital of the Company, the relevant articles contained in the Articles of Association in relation to the registered capital of the Company and any other articles that require corresponding amendments; and

NOTICE OF ANNUAL GENERAL MEETING

- (d) if any chronological variation of the wordings or numbering of the articles contained in the Articles of Association of the Company is necessary upon application to the companies examination and approval authority authorised by the State Council and China Securities Regulatory Commission for examination and approval, to make corresponding amendments to the Articles of Association as required by such authority and China Securities Regulatory Commission.
2. To consider and resolve that the Board of Directors be authorised to deal with the procedures required by law for the change of registered address of the Company and to deal with any other matters in relation thereto, provided that the new registered address of the Company must be within Jiangsu Province.
3. To consider and resolve that, subject to the approval of the companies examination and approval authority authorised by the State Council, the Articles of Association of the Company be amended as follows:
- (a) Since Jiangsu Educational Instrument Corporation, The Worker Union of Jiangsu Educational Instrument Corporation and Jiangsu Property Business Company Limited (all of them being the Promoters and Shareholders of the Company) have changed their respective company names, and Jiangsu Co-Creation Education Development Company Limited and Jiangsu Educational Instrument Corporation have changed their respective legal representatives:
- (i) all information of the Promoters under Paragraph 2 of Article 1 be deleted and replaced with the following:

Nanjing University

Legal Representative: Jiang Shu Sheng

Legal Address: No.22 Hankou Road, Nanjing, the PRC

Jiangsu Zong Yi Company Limited

Legal Representative: Zan Sheng Da

Legal Address: Huangjin Village, Xingdong Town, Tongzhou, the PRC

The Worker Union of Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School (formerly known as The Worker Union of Jiangsu Educational Instrument Corporation)

Legal Representative: Zhou Ming Hai

Legal Address: No.207 Shanghai Road, Nanjing, the PRC

Jiangsu Provincial IT Industrial Investment Company Limited

Legal Representative: Wang Dao Wu

Legal Address: 2/F., Block 03, Pukou Gaoxin District, Nanjing, the PRC

Jiangsu Co-Creation Education Development Company Limited

Legal Representative: Wei Zhan Rong

Legal Address: No.207 Shanghai Road, Nanjing, the PRC

Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School (formerly known as Jiangsu Educational Instrument Corporation)

Legal Representative: Wei Zhan Rong

Legal Address: No.207 Shanghai Road, Nanjing, the PRC

Jiangsu Advanced Technological Property Investment Company Limited (formerly known as Jiangsu Property Business Company Limited)

Legal Representative: Xiong Xian Gen

Legal Address: No.1418, 455 Zhujiang Road, Nanjing, the PRC

(ii) In Article 16:

The original wordings “The Worker Union of Jiangsu Educational Instrument Corporation has subscribed for 11,000,000 shares (sub-divided into 110,000,000 shares), representing 15.72% of the total number of ordinary shares to be issued by the Company at the time of its establishment.” be deleted and replaced with “The Worker Union of Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School has subscribed for 11,000,000 shares (sub-divided into 110,000,000 shares), representing 15.72% of the total number of ordinary shares to be issued by the Company at the time of its establishment.”

The original wordings “Jiangsu Educational Instrument Corporation has subscribed for 6,000,000 shares (sub-divided into 60,000,000 shares), representing 8.57% of the total number of ordinary shares to be issued by the Company at the time of its establishment.” be deleted and replaced with “Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School has subscribed for 6,000,000 shares (sub-divided into 60,000,000 shares), representing 8.57% of the total number of ordinary shares to be issued by the Company at the time of its establishment.”

NOTICE OF ANNUAL GENERAL MEETING

The original wordings “Jiangsu Property Business Company Limited has subscribed for 4,000,000 shares (sub-divided into 40,000,000 shares), representing 5.71% of the total number of ordinary shares to be issued by the Company at the time of its establishment.” be deleted and replaced with “Jiangsu High-tech Industry Investment Company Limited has subscribed for 4,000,000 shares (sub-divided into 40,000,000 shares), representing 5.71% of the total number of ordinary shares to be issued by the Company at the time of its establishment.”

- (b) Paragraph 1 of Article 95 be deleted and replaced with:

“The Company shall set up a board of directors (hereinafter, the “Board”) with not less than five members. The Board shall be composed of one chairman and one vice-chairman. Of the five Board members, more than one half shall be external directors (i.e. directors not working with the Company) and more than two of them shall be independent directors (i.e. directors independent from the shareholders of the Company and not working with the Company).”

- (c) Paragraph 1 of Article 117 be deleted and replaced with:

“The supervisory committee shall be composed of not less than three supervisors, one of whom shall act as the chairman of the supervisory committee. The term of office of a supervisor is three years. A supervisor is eligible for re-election upon expiry of office.”

- (d) The terms “General Manager” and “Deputy General Manager(s)” in the Articles of Association of the Company shall all be changed to “General Manager/President” and “Deputy Manager(s)/Vice President(s)” respectively.

On behalf of the Board
Jiangsu Nandasoft Company Limited
Xie Li
Chairman and President

Nanjing, the PRC
20 March 2002

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.

NOTICE OF ANNUAL GENERAL MEETING

2. To be valid, a form of H shares proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with the Company's H Share Registrar, Hong Kong Registrars Limited, 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong, not less than 24 hours before the time for holding the meeting or appointed time of voting.
3. Shareholders or their proxies shall present proofs of identities upon attending the AGM.
4. The Registrar of members will be closed from 17 April 2002 to 17 May 2002, both days inclusive. All transfers accompanied by relevant share certificates must be lodged with Company's Share Registrar not less than 4:00 p.m. on 16 April 2002.
5. Shareholders entitled to attend the AGM are requested to deliver the reply slip for attendance to the Company Registrar before 27 April 2002.

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF JIANGSU NANDASOFT COMPANY LIMITED

江蘇南大蘇富特軟件股份有限公司

(established in the People's Republic of China with limited liability)

We have audited the financial statements on pages 39 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes 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 judgments 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 December 2001 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.

Deloitte Touche Tohmatsu
Certified Public Accountants

15 March 2002, Hong Kong

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTES	2001 <i>RMB</i>	2000 <i>RMB</i>
Turnover	4 & 5	185,729,008	160,581,930
Cost of sales		(155,180,033)	(140,675,229)
Gross profit		30,548,975	19,906,701
Other revenue	6	3,413,826	4,040,417
Distribution costs		(9,981,482)	(8,177,748)
Research and development costs		(950,631)	(491,628)
Administrative expenses		(9,406,529)	(6,571,758)
Profit from operations	7	13,624,159	8,705,984
Finance costs	8	(20,072)	(8,735)
Share of results of an associate		172,737	–
Profit before taxation		13,776,824	8,697,249
Taxation	10	324,946	(1,306,031)
Profit before minority interests		14,101,770	7,391,218
Minority interests		(88,753)	22,734
Profit attributable to shareholders	25	14,013,017	7,413,952
Earnings per share	11	0.0163	0.0106

There were no recognised gains or losses other than the profit attributable to shareholders.

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2001

	NOTES	2001 <i>RMB</i>	2000 <i>RMB</i>
Non-current assets			
Property, plant and equipment	12	37,017,961	35,304,229
Intangible assets	13	6,877,018	2,334,941
Interest in an associate	15	522,737	–
Investments in securities	16	1,145,572	836,000
Deferred taxation	17	1,066,000	1,870,000
		<u>46,629,288</u>	<u>40,345,170</u>
Current assets			
Inventories	18	12,406,940	7,860,788
Trade debtors	19	43,507,340	18,881,878
Deposits, prepayments and other debtors		8,429,275	18,622,621
Investments in securities	16	8,070	745,420
Amount due from an associate	20	201,236	–
Cash and bank balances		93,220,776	39,730,442
		<u>157,773,637</u>	<u>85,841,149</u>
Current liabilities			
Trade creditors	21	19,375,999	20,664,748
Receipt in advance, other creditors and accrued expenses		11,158,258	15,328,660
Amounts due to shareholders	22	4,001,523	6,937,897
Provision for taxes and levies	23	3,288,500	5,745,145
		<u>37,824,280</u>	<u>48,676,450</u>
Net current assets		<u>119,949,357</u>	<u>37,164,699</u>
Total assets less current liabilities		166,578,645	77,509,869
Minority interests		2,941,642	154,701
		<u>163,637,003</u>	<u>77,355,168</u>
Capital and reserves			
Share capital	24	93,400,000	70,000,000
Reserves	25	70,237,003	7,355,168
		<u>163,637,003</u>	<u>77,355,168</u>

The financial statements on pages 39 to 67 were approved and authorised for issue by the Board of Directors on 15 March 2002 and are signed on its behalf by:

Xie Li
CHAIRMAN AND PRESIDENT

You Xue Gui
DIRECTOR

BALANCE SHEET

AT 31 DECEMBER 2001

	NOTES	2001 <i>RMB</i>	2000 <i>RMB</i>
Non-current assets			
Property, plant and equipment	12	35,490,563	34,808,611
Intangible assets	13	5,960,351	2,334,941
Interest in subsidiaries	14	3,744,984	1,062,725
Investments in securities	16	1,145,572	836,000
		<u>46,341,470</u>	<u>39,042,277</u>
Current assets			
Inventories	18	7,820,402	4,144,951
Trade debtors		35,740,968	11,017,807
Deposits, prepayments and other debtors		5,646,623	17,165,045
Investments in securities	16	–	745,420
Cash and bank balances		85,430,289	22,098,345
		<u>134,638,282</u>	<u>55,171,568</u>
Current liabilities			
Trade creditors		11,996,444	5,434,392
Receipt in advance, other creditors and accrued expenses		6,006,750	6,096,955
Amounts due to shareholders	22	4,002,471	6,937,897
Provision for taxes and levies	23	1,927,174	420,738
		<u>23,932,839</u>	<u>18,889,982</u>
Net current assets		<u>110,705,443</u>	<u>36,281,586</u>
		<u>157,046,913</u>	<u>75,323,863</u>
Capital and reserves			
Share capital	24	93,400,000	70,000,000
Reserves	25	63,646,913	5,323,863
		<u>157,046,913</u>	<u>75,323,863</u>

Xie Li
CHAIRMAN AND PRESIDENT

You Xue Gui
DIRECTOR

CONSOLIDATED CASH FLOW STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

	NOTES	2001 <i>RMB</i>	2000 <i>RMB</i>
NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES	26	(8,298,228)	2,615,832
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received		708,695	257,927
Interest paid		(1,069)	—
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		707,626	257,927
TAXATION			
PRC income tax paid		(676,428)	(180,956)
INVESTING ACTIVITIES			
Deferred development costs		(5,005,818)	(912,880)
Purchases of property, plant and equipment		(2,721,398)	(3,676,861)
Expenditure incurred in construction in progress		(1,272,373)	(9,222,715)
Purchase of investment securities		(770,000)	—
Investment in an associate		(350,000)	—
Advance to an associate		(201,236)	—
Purchase of a subsidiary	27	192,557	—
Proceeds from disposal of investment securities		100,000	—
Purchase of additional interest in a subsidiary		—	(312,725)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(10,028,268)	(14,125,181)
NET CASH OUTFLOW BEFORE FINANCING		(18,295,298)	(11,432,378)
FINANCING	28		
Issue of new overseas listed foreign invested shares (net of expenses of RMB17,126,670)		72,268,818	—
Capital contribution by minority shareholders of subsidiaries		2,453,188	50,000
(Repayment to) advance from shareholders		(2,936,374)	6,507,521
NET CASH INFLOW FROM FINANCING		71,785,632	6,557,521
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		53,490,334	(4,874,857)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		39,730,442	44,605,299
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		93,220,776	39,730,442
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		93,220,776	39,730,442

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

1. GENERAL INFORMATION OF THE COMPANY

The Company was established in the People's Republic of China (the "PRC") under the Company Law of the PRC as a joint stock limited company on 30 December 1999. The Company's predecessor, Jiangsu NandaSoft Limited Liability Company (the "Predecessor") was established on 18 September 1998. By way of transformation of the Predecessor (the "Transformation"), the Company was established on 30 December 1999. Upon its establishment, the Company assumed the subsidiary of the Predecessor, Nanjing NandaSoft System Integration Company Limited which is engaged in the sale of computer hardware and equipment, and continued to develop, manufacture and market network security software, internet application software, education software and business application software, and provides system integration services which include the provision of information technology consulting and sales of computer hardware products and equipment.

The shares of the Company were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited on 24 April 2001. Details of the Transformation are set out in the prospectus issued by the Company dated 19 April 2001.

2. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new or revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

The adoption of these new/revised SSAPs have not had any effect on the results for the current and prior periods, accordingly, no prior period adjustments were required.

SSAP 14 (revised) has introduced some amendments to the basis of accounting for finance/operating leases, and to the disclosures specified for the Group's leasing arrangements. These changes have not had any material effect on the results for the current or prior periods, and accordingly no prior period adjustment has been required. Disclosure for the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14 revised. Comparative amounts have been restated in order to achieve a consistent presentation.

SSAP 26 specifies the basis of identification and the disclosure of financial information of reportable segments. The Group has presented, in accordance with SSAP 26, the segment information of each reportable segments, details of which are set out in note 5.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

2. ADOPTION OF NEW OR REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (continued)

For goodwill arising on acquisition after 1 January 2001, the adoption of SSAP 30 requires the capitalisation of goodwill arising on acquisitions. Such goodwill would be amortised over its estimated useful life. Negative goodwill arising on acquisition after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted. Goodwill arising on acquisition prior to 1 January 2001 was charged to the income statement. The adoption of SSAP 30 has not resulted in any effect on the results for the current or prior periods.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the valuation of investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from and up to their effective dates of acquisition and disposal, respectively.

All significant intra-group transactions and balances have been eliminated on consolidation.

Goodwill

Goodwill arising on acquisition represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight line basis over its economic useful life.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate over the cost of acquisition.

Negative goodwill arising on acquisitions after 1 January 2001 is presented as deduction from assets and will be released to income based on an analysis of the circumstances from which the balances resulted. There is no negative goodwill prior to 1 January 2001.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates on acquisition less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost less accumulated depreciation.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following annual rates:

Land in the PRC	Over the term of the lease
Buildings	3%, or over the term of the lease, whichever is shorter
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	16%

Construction in progress

Construction in progress is stated at cost which includes all development expenditure and other direct costs attributable to such project. Costs on completed construction work are transferred to the appropriate category of property, plant and equipment. No depreciation is provided on construction in progress until the construction is completed and the relevant asset has been put into commercial use.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, which is usually no more than five years.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group intends to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium arising on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities (continued)

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Revenue recognition

(i) *Sale of goods*

Sales of goods are recognised when goods are delivered and title has passed.

(ii) *Service income*

Income from provision of consulting and system integration services is recognised on the percentage of completion method. Other service income is recognised over the terms of the contracts.

(iii) *Disposal of securities*

Revenue from disposal of securities is recognised on a trade-date basis.

(iv) *Interest income*

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Operating leases

Rental payment under operating leases are charged to the income statement on a straight line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits cost

Retirement benefits cost, which represents the amount payable in accordance with the regulations promulgated by the local PRC government, is charged to the income statement as incurred.

4. TURNOVER

Turnover, which is stated net of valued added tax and other sales tax and returns in the PRC, represents amounts invoiced to customers for sales of computer software products and hardware products and equipment, except in respect of provision of IT consulting services where turnover represents the value of work done during the year.

	2001	2000
	<i>RMB</i>	<i>RMB</i>
Sales of computer software products	10,369,647	3,261,099
System integration	175,359,361	157,320,831
	<u>185,729,008</u>	<u>160,581,930</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

For management purposes, the Group is currently organised into two operating activities comprising (i) sales of computer software products and (ii) system integration including sales of computer hardware products and equipment and provision of IT consulting services, which are the basis on which the Group reports its primary segment information.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Segment information about these businesses is presented below.

	Sales of computer software products		System integration		Total	
	2001	2000	2001	2000	2001	2000
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
TURNOVER						
External sales	10,369,647	3,261,099	175,359,361	157,320,831	185,729,008	160,581,930
RESULT						
Segment result	5,618,858	1,821,107	5,648,040	3,607,249	11,266,898	5,428,356
Investment income					2,702,666	3,612,681
Unallocated corporate expenses					(345,405)	(335,053)
Profit from operations					13,624,159	8,705,984
Other information						
Depreciation	1,229,527	305,670	747,079	269,680	2,321,167	684,265
Provision for doubtful debts	–	–	899,596	117,062	899,596	117,062
ASSETS						
Segment assets	34,831,164	4,075,431	62,156,756	30,678,721	96,987,920	34,754,152
Unallocated assets					107,415,005	91,432,167
Consolidated total assets					204,402,925	126,186,319
LIABILITIES						
Segment liabilities	765,309	400,000	21,777,079	25,613,324	22,542,388	26,013,324
Unallocated liabilities					15,281,892	22,663,126
Consolidated total liabilities					37,824,280	48,676,450

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments

The Group's operations are situated in the PRC and derived revenue principally from the PRC. Accordingly, no geographical segments were presented.

6. OTHER REVENUE

	2001 <i>RMB</i>	2000 <i>RMB</i>
Interest on bank deposits	708,695	257,927
Gain on disposal of listed securities	1,993,971	3,354,754
PRC value added tax refund	649,007	427,736
Others	62,153	—
	<u>3,413,826</u>	<u>4,040,417</u>

7. PROFIT FROM OPERATIONS

	2001 <i>RMB</i>	2000 <i>RMB</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	411,000	—
Bad debt provision	899,596	117,062
Depreciation and amortisation on:		
– property, plant and equipment	2,321,167	684,265
– intangible assets	463,741	—
Goodwill written off	—	126,063
Impairment loss on investment securities	360,428	—
Loss on disposal of intangible assets	—	399,917
Minimum lease payment for land and buildings under operating leases	280,758	16,917
Staff costs (including directors' and senior executives' emoluments)	7,983,418	5,465,092
	<u>7,983,418</u>	<u>5,465,092</u>

8. FINANCE COSTS

	2001 <i>RMB</i>	2000 <i>RMB</i>
Interest on bank borrowings wholly repayable within five years	1,069	—
Bank charges	19,003	8,735
	<u>20,072</u>	<u>8,735</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2001	2000
	RMB	RMB
Directors' emoluments:		
Salaries and other benefits		
Executive directors	316,312	288,391
Non-executive directors	79,399	35,000
	395,711	323,391
Supervisors' emoluments:		
Salaries and other benefits	193,099	97,126

For the year ended 31 December 2001, the remuneration paid to each of the two executive directors, three non-executive directors and two independent non-executive directors were RMB227,201, RMB89,111, RMB28,697, RMB16,676, RMB11,342, RMB11,342 and RMB11,342, respectively.

For the year ended 31 December 2000, the remuneration paid to each of the two executive directors, two non-executive directors and two independent non-executive directors were RMB202,881, RMB85,510, RMB20,000, RMB5,000, RMB5,000 and RMB5,000, respectively.

During both years, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors have waived any emoluments during both years.

Employees' emoluments:

For the year ended 31 December 2001, the five highest paid individuals of the Group included one director and one supervisor (2000: two directors). The details of emoluments paid to directors and supervisors are set out above. Details of remuneration of the remaining three highest paid individuals are as follows:

	2001	2000
	RMB	RMB
Salaries and other benefits	718,047	359,212

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

10. TAXATION

	2001	2000
	RMB	RMB
The (credit) charge comprises:		
PRC income tax		
Current year	2,047,085	3,176,031
Overprovision in prior years	(3,176,031)	–
Deferred taxation (<i>note 17</i>)	804,000	(1,870,000)
	(324,946)	1,306,031

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality dated 27 December 1999, the Company has been designated as a new and high technology entity and is exempted from PRC income tax for two years starting from their first profit making years, followed by a 50% reduction for the next three years. Accordingly, the Company is exempted from PRC income tax for the two years ended 31 December 2000 and a reduced income tax rate of 16.5% starting from the year 2001.

The amount of overprovision of PRC income tax in prior years represent the reversal of the provision of the PRC income tax of Nanjing NandaSoft System Integration Company Limited, the Company's subsidiary, in accordance with the relevant PRC tax rules and regulations.

The subsidiaries of the Company are subject to income tax rate of 33%.

Details of the deferred taxation are set out in note 17.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB14,013,017 (2000: RMB7,413,952) and on the weighted average number of 861,556,164 (2000: 700,000,000) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended 31 December 2001 as there were no potential ordinary shares in existence for both years.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

12. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Constr- uction in progress	Leasehold improve- ments	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE GROUP						
COST						
At 1 January 2001	31,302,590	372,252	–	3,682,391	873,438	36,230,671
Additions	–	1,272,373	121,000	1,997,300	644,226	4,034,899
Transfer	1,644,625	(1,644,625)	–	–	–	–
At 31 December 2001	32,947,215	–	121,000	5,679,691	1,517,664	40,265,570
DEPRECIATION						
At 1 January 2001	220,000	–	–	626,708	79,734	926,442
Provided for the year	1,279,895	–	2,200	868,529	170,543	2,321,167
At 31 December 2001	1,499,895	–	2,200	1,495,237	250,277	3,247,609
NET BOOK VALUE						
At 31 December 2001	31,447,320	–	118,800	4,184,454	1,267,387	37,017,961
At 31 December 2000	31,082,590	372,252	–	3,055,683	793,704	35,304,229
THE COMPANY						
COST						
At 1 January 2001		31,302,590	372,252	3,172,265	873,438	35,720,545
Additions		–	1,272,373	1,562,066	–	2,834,439
Transfer		1,644,625	(1,644,625)	–	–	–
At 31 December 2001		32,947,215	–	4,734,331	873,438	38,554,984
DEPRECIATION						
At 1 January 2001		220,000	–	612,200	79,734	911,934
Additions		1,279,895	–	731,095	141,497	2,152,487
At 31 December 2001		1,499,895	–	1,343,295	221,231	3,064,421
NET BOOK VALUE						
At 31 December 2001		31,447,320	–	3,391,036	652,207	35,490,563
At 31 December 2000		31,082,590	372,252	2,560,065	793,704	34,808,611

The land and buildings and the construction in progress of the Group and the Company are situated in the PRC and held under medium term leases.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

13. INTANGIBLE ASSETS

Deferred development cost

	THE GROUP <i>RMB</i>	THE COMPANY <i>RMB</i>
COST		
At 1 January 2001	2,334,941	2,334,941
Additions	5,005,818	4,005,818
	<hr/>	<hr/>
At 31 December 2001	7,340,759	6,340,759
AMORTISATION		
Provided for the year and balance at 31 December 2001	463,741	380,408
	<hr/>	<hr/>
NET BOOK VALUES		
At 31 December 2001	6,877,018	5,960,351
	<hr/>	<hr/>
At 31 December 2000	2,334,941	2,334,941
	<hr/>	<hr/>

14. INTEREST IN SUBSIDIARIES

	2001 <i>RMB</i>	2000 <i>RMB</i>
Unlisted shares, at cost	3,744,984	1,062,725
	<hr/>	<hr/>

The particulars of the Company's subsidiaries at 31 December 2001 are as follows:

Name of subsidiary	Place of registration and operation	Registered capital	Percentage of registered capital directly held by the Company	Principal activities
Nanjing NandaSoft System Integration Company Limited	PRC	RMB1,050,000	95%	System Integration
Jiangsu NandaSoft Xin Yi Software Company Limited	PRC	RMB5,000,000	51%	Sale of computer hardware products and equipment
Nanjing Co-Creation Education Technology Company Limited	PRC	RMB500,000	51%	Sale of computer hardware products and equipment

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

15. INTEREST IN AN ASSOCIATE

THE GROUP

	2001 RMB	2000 RMB
Share of net assets	<u>522,737</u>	<u>—</u>

Details of the Group's associate at 31 December 2001 are as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of registered capital indirectly held by the Company	Principal activity
Nanjing NandaSoft Information Processing Company Limited	PRC	RMB1,000,000	35%	Sale of computer hardware products and equipment

16. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2001 RMB	2000 RMB	2001 RMB	2000 RMB
Investment securities				
Unlisted investments	<u>1,145,572</u>	<u>836,000</u>	<u>1,145,572</u>	<u>836,000</u>
Other investments				
Unlisted investments	<u>2,270</u>	<u>319,510</u>	—	<u>319,510</u>
Listed shares in the PRC	<u>5,800</u>	<u>425,910</u>	—	<u>425,910</u>
	<u>8,070</u>	<u>745,420</u>	—	<u>745,420</u>
	<u>1,153,642</u>	<u>1,581,420</u>	<u>1,145,572</u>	<u>1,581,420</u>
Market value of listed shares	<u>19,520</u>	<u>680,400</u>	—	<u>680,400</u>
Carrying amount analysed for reporting purposes as:				
Current	<u>8,070</u>	<u>745,420</u>	—	<u>745,420</u>
Non-current	<u>1,145,572</u>	<u>836,000</u>	<u>1,145,572</u>	<u>836,000</u>
	<u>1,153,642</u>	<u>1,581,420</u>	<u>1,145,572</u>	<u>1,581,420</u>

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

17. DEFERRED TAXATION

THE GROUP

	2001 <i>RMB</i>	2000 <i>RMB</i>
At 1 January	1,870,000	—
(Charge) credit for the year (<i>Note 10</i>)	(804,000)	1,870,000
At 31 December	<u>1,066,000</u>	<u>1,870,000</u>

At the balance sheet date, the deferred tax asset represents:

	2001 <i>RMB</i>	2000 <i>RMB</i>
Tax effect of timing differences because of deferred service income	<u>1,066,000</u>	<u>1,870,000</u>

18. INVENTORIES

	2001 <i>RMB</i>	2000 <i>RMB</i>
THE GROUP		
Computer hardware products, equipment and software products	<u>12,406,940</u>	<u>7,860,788</u>
THE COMPANY		
Computer hardware products, equipment and software products	<u>7,820,402</u>	<u>4,144,951</u>

At the balance sheet date, all inventories are carried at cost.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

19. TRADE DEBTORS

The credit terms of the Group are 90 days. The aged analysis of trade debtors is stated as follows:

THE GROUP

	2001	2000
	RMB	RMB
Aged:		
0 – 90 days	32,383,390	15,933,724
91 – 180 days	7,303,722	2,825,930
181 – 360 days	2,884,211	122,224
Over 365 days	936,017	–
	<u>43,507,340</u>	<u>18,881,878</u>

20. AMOUNT DUE FROM AN ASSOCIATE

The amount due from an associate of the Group is unsecured, non-interest bearing and has no fixed repayment term.

21. TRADE CREDITORS

The aged analysis of trade creditors is stated as follows:

	2001	2000
	RMB	RMB
THE GROUP		
Aged:		
0 – 90 days	14,353,986	19,921,673
91 – 180 days	2,750,687	723,700
181 – 365 days	689,329	–
over 365 days	1,581,997	19,375
	<u>19,375,999</u>	<u>20,664,748</u>

22. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders of the Group and the Company are unsecured, non-interest bearing and have no fixed repayment terms.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

23. PROVISION FOR TAXES AND LEVIES

	THE GROUP		THE COMPANY	
	2001 RMB	2000 RMB	2001 RMB	2000 RMB
Value added tax	1,738,058	2,484,363	1,288,535	359,011
Income and profits tax	1,310,881	3,116,255	476,372	—
Business tax	151,749	44,765	88,809	38,365
Other taxes	87,812	99,762	73,458	23,362
	3,288,500	5,745,145	1,927,174	420,738

24. SHARE CAPITAL

Registered, issued and fully paid:

	Number of shares	Amount RMB
Total domestic shares of RMB1.0 each at 1 January 2000	70,000,000	70,000,000
Sub-division of domestic shares from RMB1.0 each to RMB0.1 each	630,000,000	—
Total domestic shares of RMB0.1 each at 31 December 2000	700,000,000	70,000,000
Issue of overseas listed foreign invested shares (“H shares”) of RMB0.1 each upon listing on the GEM on 24 April 2001	234,000,000	23,400,000
Total domestic shares and H Shares of RMB0.1 each at 31 December 2001	934,000,000	93,400,000

Domestic shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H Shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H Shares rank *pari passu* with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

24. SHARE CAPITAL (continued)

On 30 December 1999, the Company was established in the PRC under the Company Law of the PRC as a joint stock limited company with registered share capital of RMB70,000,000 divided into 70,000,000 domestic shares of RMB1.0 each.

On 28 October 2000, the Company convened an extraordinary general meeting at which it was resolved that each of the Company's domestic share of nominal value of RMB1.0 each was sub-divided into 10 shares of RMB0.1 each.

On 8 December 2000, the Company convened another extraordinary meeting, at which it was resolved, among others, that the 700,000,000 shares in issue be classified as domestic shares and the 234,000,000 shares to be issued pursuant to the listing on GEM be classified as H Shares.

In April 2001, the Company issued 234,000,000 H Shares of nominal value of RMB 0.1 each, for consideration of HK\$0.36 per H Share.

The Company intends to use the net proceeds from the new issue of shares to finance the Group's expansion of its research and development department, sponsoring co-development program with Nanjing University for developing the latest network security and internet application technologies, building national sales channel and branch network, brand building and marketing, and general working capital requirements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

25. RESERVES

	Share premium RMB	Statutory surplus reserve RMB (note b)	Statutory public welfare fund RMB (note c)	Retained earnings RMB (note d)	Total RMB
THE GROUP					
At 1 January 2000	–	3,103	1,551	(63,438)	(58,784)
Profit for the year	–	–	–	7,413,952	7,413,952
Appropriations (note a)	–	533,087	266,544	(799,631)	–
At 1 January 2001	–	536,190	268,095	6,550,883	7,355,168
Premium arising on issue of H Shares (net of expenses)	48,868,818	–	–	–	48,868,818
Profit for the year	–	–	–	14,013,017	14,013,017
Appropriations (note a)	–	902,855	451,428	(1,354,283)	–
At 31 December 2001	<u>48,868,818</u>	<u>1,439,045</u>	<u>719,523</u>	<u>19,209,617</u>	<u>70,237,003</u>
THE COMPANY					
At 1 January 2000	–	3,103	1,551	(255,730)	(251,076)
Profit for the year	–	–	–	5,574,939	5,574,939
Appropriations (note a)	–	533,087	266,544	(799,631)	–
At 1 January 2001	–	536,190	268,095	4,519,578	5,323,863
Premium arising on issue of H Shares (net of expenses)	48,868,818	–	–	–	48,868,818
Profit for the year	–	–	–	9,454,232	9,454,232
Appropriations (note a)	–	902,855	451,428	(1,354,283)	–
At 31 December 2001	<u>48,868,818</u>	<u>1,439,045</u>	<u>719,523</u>	<u>12,619,527</u>	<u>63,646,913</u>

Notes:

(a) Basis of appropriations to reserves

The transfers to statutory surplus reserve and statutory public welfare fund are based on the net profit in the financial statements prepared under the PRC accounting standards.

(b) Statutory surplus reserve

The Company's Articles of Association requires the appropriation of 10% of its profit after taxation prepared under the PRC accounting standards each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operations. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

25. RESERVES (continued)

(c) Statutory public welfare fund

Pursuant to the PRC Company Law, the Company shall make allocation from its profit after taxation prepared under the PRC accounting standards at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employee collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

(d) Retained earnings

The reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under PRC accounting standards and that determined under the accounting principles generally accepted in Hong Kong after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

The retained earnings of the Group include RMB172,737 (2000: nil) retained by an associate of the Group.

In the opinion of the directors, the reserve available for distribution to the shareholders at 31 December 2001 was RMB12,234,266 (2000: RMB4,519,578).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

26. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	RMB	RMB
Profit before taxation	13,776,824	8,697,249
Share of results of an associate	(172,737)	–
Interest expense	1,069	–
Interest income	(708,695)	(257,927)
Bad debt provision	899,596	117,062
Loss on disposal of intangible assets	–	399,917
Depreciation on property, plant and equipment	2,321,167	684,265
Amortisation of intangible assets	463,741	–
Goodwill written off	–	126,063
Impairment loss of investment securities	360,428	–
Increase in inventories	(4,024,413)	(5,685,177)
Increase in trade debtors	(25,525,058)	(17,485,574)
Decrease (increase) in deposits, prepayments and other debtors	10,649,086	(18,054,594)
Decrease (increase) in other investments	737,350	(641,670)
(Decrease) increase in trade creditors	(1,313,581)	17,522,542
(Decrease) increase in receipt in advance, other creditors and accrued expenses	(5,111,734)	14,750,965
(Decrease) increase in provision for taxes and levies	(651,271)	2,442,711
	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	(8,298,228)	2,615,832

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

27. ACQUISITION OF A SUBSIDIARY

On 30 November 2001, the Group acquired 51% of the issued share capital of Nanjing Co-Creation Education Technology Company Limited (“Nanjing Co-Creation”), for a consideration of RMB255,000. This acquisition has been accounted for by the acquisition method of accounting. The profit after taxation of Nanjing Co-Creation included in the consolidated income statement for the year ended 31 December 2001 was negligible.

	2001	2000
	RMB	RMB
Net assets acquired		
Property, plant and equipment	41,128	—
Inventories	521,739	—
Deposits, prepayments and other debtors	455,740	—
Cash and bank balances	447,557	—
Trade creditors	(24,832)	—
Other creditors and accrued expenses	(941,332)	—
	500,000	—
Minority interests	(245,000)	—
Total consideration satisfied by cash	255,000	—
Net cash inflow arising on acquisition		
Cash consideration	(255,000)	—
Cash and bank balances	447,557	—
	192,557	—

The subsidiary acquired during the year did not have any significant impact on the Group's cash flow for the year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital (including share premium) <i>RMB</i>	Amounts due to shareholders <i>RMB</i>	Minority interests <i>RMB</i>
At 1 January 2000	70,000,000	430,376	314,097
Advances	–	6,507,521	–
Contribution by minority shareholders	–	–	50,000
Share of loss by minority shareholders	–	–	(22,734)
Acquisition of additional interest in a subsidiary	–	–	(186,662)
At 31 December 2000	70,000,000	6,937,897	154,701
Repayment	–	(2,936,374)	–
Issue of H Shares (net of expenses of RMB17,126,670)	72,268,818	–	–
Share of profit by minority shareholders	–	–	88,753
Contributions by minority shareholders	–	–	2,453,188
Minority interests on acquisition of a subsidiary	–	–	245,000
At 31 December 2001	<u>142,268,818</u>	<u>4,001,523</u>	<u>2,941,642</u>

29. CONTINGENT LIABILITIES

There were no material contingent liabilities for the Group or the Company as at 31 December 2001 and 31 December 2000.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

30. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payment under non-cancellable operating leases which fall due as follows:

THE GROUP

	2001 <i>RMB</i>	2000 <i>RMB</i>
Within one year	550,182	56,834
In the second to fifth year inclusive	1,660,797	43,333
Over five years	1,001,143	—
	<u>3,212,122</u>	<u>100,167</u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. The leases are negotiated for an average terms of two to five years.

The Company had no operating lease commitment at the year end date.

31. CAPITAL COMMITMENTS

THE GROUP AND THE COMPANY

	2001 <i>RMB</i>	2000 <i>RMB</i>
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	—	220,946

32. RETIREMENT BENEFIT SCHEME

The Group has participated in a retirement benefit scheme established by the local PRC Social Insurance Industry Management Centre in the favour of employees. Such assets are held separately from the assets of the Group. Under the scheme, contributions made by the Group are calculated on the basis of 20% of the enrolled employee' salaries.

During the year, the amount of such contribution charged to the income statement amounted to RMB374,274 (2000: RMB59,593).

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

33. CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS

During the year, the Group had the following significant transactions with the following related parties:

Name of related party	Nature of transactions	2001 RMB	2000 RMB
Revenue:			
Nanjing University	Sales (note a)	949,558	554,910
Jiangsu Provincial Management Centre for Education Equipment and Self Supporting School ("Jiangsu Management Centre")	Sales (note a)	64,764	—
Jiangsu Educational Instrument Science Centre	Sales (note a)	898,676	—
Beijing Federal Software Company Limited ("Federal Software")	Sales (note b)	—	1,025,641
Nanjing Ze Tong Technology Company Limited	Sales (note a)	38,412	—
Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation")	Agency income (note c)	50,000	—
Expense:			
Nanjing Ze Tong Technology Company Limited	Purchase (note a)	88,035	—
Nanjing University	Revenue sharing (note d)	83,000	—
Nanjing University	Technical and support fees (note e)	600,000	1,275,600
Nanjing University	Service fees (note f)	—	159,737
Jiangsu Co-Creation	Purchase (note a)	—	476,676
Jiangsu Educational Instrument Science Centre	Purchase (note a)	—	22,597,536
Nanjing University Science and Technology Group	Rental (note g)	—	125,000
Others:			
Nanjing University	Disposal of intangible assets (note h)	—	6,500,000
Nanjing University	Construction of property (note i)	—	12,323,700

Nanjing University is a shareholder of the Company.

Jiangsu Co-Creation is a shareholder of the Company.

Jiangsu Management Centre (formerly known as Jiangsu Educational Instrument Corporation) is a shareholder of the Company and wholly owns Jiangsu Educational Instrument Science Centre.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2001

33. CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS (continued)

Nanjing Ze Tong Technology Company Limited is a minority shareholder of Nanjing Co-Creation, a subsidiary of the Company acquired in the current year.

Jiangsu Zhongyi Company Limited, a shareholder of the Company, holds a 53.75% interest in the capital of Federal Software.

Nanjing University Science and Technology Group is wholly owned by Nanjing University.

Notes:

- (a) These transactions were made at terms which were comparable with similar transactions with unrelated parties.
- (b) Pursuant to the distribution agency agreement dated 18 September 2000 entered into between the Company and Federal Software, the Company appointed Federal Software as distribution agent for products development by the Company. For the year ended 31 December 2000, the Company made sales amounting to RMB1,025,641 to Federal Software under the said distribution agency agreement. The terms of the sales were comparable with similar transactions with unrelated parties.
- (c) Pursuant to an agency agreement dated 10 December 2001 entered into between Nanjing NandaSoft System Integration Company Limited (“NandaSoft S.I.”) and Jiangsu Co-Creation, Jiangsu Co-Creation appointed NandaSoft S.I. as its agent for purchase of computer hardware and equipment, at an agency fee of RMB50,000 as set out in the agency agreement.
- (d) For the year ended 31 December 2001, the Group paid a revenue sharing fee of RMB83,000 to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for jointly development of software products.
- (e) For the year ended 31 December 2001, the Group paid technical and support fees in an aggregate of RMB600,000 (2000: RMB1,275,600) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for the jointly development of software products. The amounts for both years have been capitalised as intangible assets at the balance sheet date.
- (f) For the year ended 31 December 2000, the Group paid service fees of RMB159,737 to Nanjing University for the provision of training services to the employees of the Company in accordance with various agreements entered into between the Company and Nanjing University.
- (g) The Group’s rental paid to Nanjing University Science and Technology Group is for rental of office premises, in accordance with rental agreement entered into between them.
- (h) Pursuant to five contracts entered into between the Company and Nanjing University on 1 January 2000, the Company re-assigned five application software technologies, which were contributed by Nanjing University as part of its paid-up capital at the date of establishment of the Predecessor, to Nanjiang University at an aggregate consideration of RMB6,500,000, which represented the aggregate net book values of the five application software technologies as at the contract date.
- (i) Pursuant to a construction agreement dated 15 September 1999 entered into between the Company and Nanjing University, the Company appointed Nanjing University as its agent for construction of the office building. As at 31 December 2000, the construction work of the building had been substantially completed. The construction fee payable to Nanjing University under the agreement for the year ended 31 December 2000 amounted to RMB12,323,700. The Company is not liable for payment of any fee (including agency fee) more than the construction costs save as disclosed herein.

FINANCIAL SUMMARY

RESULTS

	18.9.1998 to 31.12.1998 <i>RMB</i>	1.1.1999 to 31.12.1999 <i>RMB</i>	1.1.2000 to 31.12.2000 <i>RMB</i>	1.1.2001 to 31.12.2001 <i>RMB</i>
Turnover	521,949	29,549,317	160,581,930	185,729,008
Cost of sales	(419,020)	(26,949,975)	(140,675,229)	(155,180,033)
Gross profit	102,929	2,599,342	19,906,701	30,548,975
Other revenue	78,098	929,837	4,040,417	3,413,826
Distribution costs	(16,359)	(443,542)	(8,177,748)	(9,981,482)
Research and development costs	(68,833)	(1,746,035)	(491,628)	(950,631)
Administration expenses	(397,268)	(865,554)	(6,571,758)	(9,406,529)
Profit (loss) from operations	(301,433)	474,048	8,705,984	13,624,159
Finance costs	(40)	(30,772)	(8,735)	(20,072)
Share of results of an associate	–	–	–	172,737
Profit (loss) before taxation	(301,473)	443,276	8,697,249	13,776,824
Taxation	(13,594)	(122,896)	(1,306,031)	324,946
Profit (loss) before minority interests	(315,067)	320,380	7,391,218	14,101,770
Minority interests	–	(64,097)	22,734	(88,753)
Profit (loss) attributable to shareholders	(315,067)	256,283	7,413,952	14,013,017

ASSETS AND LIABILITIES

	31.12.1998 <i>RMB</i>	31.12.1999 <i>RMB</i>	31.12.2000 <i>RMB</i>	31.12.2001 <i>RMB</i>
Total assets	44,726,618	74,405,590	126,186,319	204,402,925
Total liabilities	(5,041,685)	(4,150,277)	(48,676,450)	(37,824,280)
Minority interests	–	(314,097)	(154,701)	(2,941,642)
Shareholders' funds	39,684,933	69,941,216	77,355,168	163,637,003

Notes: The result for the period from 18 September 1998 to 31 December 1998 and for each of the two years ended 31 December 2000 and the assets and liabilities as at 31 December 1998, 31 December 1999 and 31 December 2000 were extracted from the Company's prospectus dated 19 April 2001.

The financial summary has been prepared based on the results and net assets of Jiangsu NandaSoft Limited Liability Company (the "Predecessor") for the period from 18 September 1998 (date of establishment of the Predecessor) to 30 December 1999 (date of the transformation of the Predecessor), and the results and net assets of the Company and Nanjing NandaSoft System Integration Company Limited for the period from 30 December 1999 to 31 December 2000, presented as a continuing reporting entity.