



JIANGSU NANDASOFT COMPANY LIMITED

江蘇南大蘇富特軟件股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)



ANNUAL | REPORT | 2002

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Corporate Information

DIRECTORS OF THE COMPANY

Executive Directors

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Non-executive Directors

Mr. Wei Zhan Rong

Professor Chen Dao Xu

Ms. Zhang Yun Xia

Independent Non-executive Directors

Mr. Xu Huan Liang

Professor Wang Zhi Jian

SUPERVISORS

Mr. Wang Dao Wu

Professor Shi Jian Jun

Mr. Zhou Wen Da

Mr. Xiong Xian Gen

Mr. Zhou Ming Hai

Mr. Zhou De Fan

Mr. Ge Ning

QUALIFIED ACCOUNTANT

Ms. Tong Sze Wan, *AHKSA, ACCA*

COMPANY SECRETARY

Ms. Tong Sze Wan, *AHKSA, ACCA*

AUDIT COMMITTEE

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Professor Xie Li

COMPLIANCE OFFICER

Professor Xie Li

AUTHORISED REPRESENTATIVES

Professor Xie Li

Ms. Tong Sze Wan, *AHKSA, ACCA*

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

SPONSOR

Core Pacific — Yamaichi Capital Limited

LEGAL ADVISERS

Fong & Ng in association with Goodmans

PRINCIPAL BANKERS

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China Industrial and Commercial Bank,

Nanjing Branch, South Town sub-branch

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Prof. Xie Li *Chairman and President*

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report for the year ended 31 December 2002 of Jiangsu NandaSoft Company Limited ("Jiangsu NandaSoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for their review.

The Company had its first whole financial year in the year 2002 since its public floatation on 24 April 2001. Aiming to become a scalable establishment with its distinctive image and international reach, we maintained a dedicated team who continued to contribute to the accumulation of technological expertise, innovation in management structure and enrichment of our human talents. With its core competence in security products, the Group has the mission of becoming a professional IT enterprise in the PRC with a focus in e-government and e-commerce. As at the end of the year 2002, the Group has become a prestigious IT enterprise in Jiangsu Province with a headcount of more than 600 and net assets of RMB178,132,000.

BUSINESS RESULTS

For the 2002 financial year, the Group recorded a turnover of approximately RMB311,406,000 and a net profit of approximately RMB14,495,000, representing an increase of 67.67% and an increase of 3.44% respectively as compared to those of the previous year. The substantial increase in turnover was attributable to the expansion in the scale of the Group and the large-scale projects undertaken during the year. The Board of Directors recommended a final dividend of RMB0.5 cent per share for the year ended 31 December 2002.

DISTINCTIVE PRODUCTS WON NUMEROUS NATIONAL AWARDS

During 2002, with its solid foundation of security products, the Company carried on to develop and roll out its professional products with various versions, including Softwall WPH v1.2.4, SoftOS and SoftPS, representing over 80% market share in Jiangsu Province. Meanwhile, the Softwall WPH v1.2, being a national Outstanding Software Product 2002 (Outstanding System Tool and Application Software), passed the preliminary review process. Network Security Solution NSS-1, which is based on security enhancement operating system and has run for more than a year since its launch, has achieved an advanced level of technology and has been granted a Grade 1 Technological Advancement Award 2002 of Jiangsu Province. The Company also made progress in its Internet value-added services in the development of e-government, e-commerce and digital cities.

Chairman's Statement

EXPANDED SCALE IN BOTH THE VERTICAL AND HORIZONTAL DIMENSIONS

Regarding market expansion, the Group has established its image of "security integration" by promoting its Soft Network Security total solutions. The Group explored new clients including those from the industrial and commercial sectors, government planning authorities, public security authorities, navigation and water infrastructure constructions, laying a solid client base for its market development in 2003. At the same time, we expanded our marketing channels nationwide and saw an increase in market share in various provinces across the country.

To further expand the scale of the Group, Nanjing NandaSoft System Integration Company Limited, a subsidiary of the Group, increased its share capital from RMB1 million to RMB5 million. In addition, the Group invested in six other subsidiaries in Shanghai, Beijing, Suzhou etc., revamping the corporate structure of the Group.

In late 2002, the Company entered into an agreement with the Government of Xuan Wu District, Nanjing City in relation to the construction of a software park for NandaSoft. The software park will be primarily used for the development of a security research and development centre and for the construction of a training centre, which is aimed at senior and mid-level personnel, in collaboration with Microsoft (China).

FOCUSED MARKETING EFFORTS ON THE INTERNATIONAL DEVELOPMENT OF BUSINESSES

The Company entered into an important strategic cooperation agreement as well as a memorandum with Microsoft in 2002 in relation to the development of a "senior and mid-level personnel training centre", a key project for the international reach of the Company. Pursuant to the agreement, the Jiangsu Planning Commission and Microsoft will support the development of Jiangsu Software Engineering Research Centre which is backed by NandaSoft and will build on the experience of Jiangsu Software Engineering Research Centre to assist software enterprises in Jiangsu Province to reach an internationally advanced level in their project management and technical know-how in software products. While software products and services of Jiangsu Province are on the way to the international market, Microsoft will also take an active role in supporting and assisting the development of enterprises in Jiangsu including NandaSoft. The signing of this agreement was a milestone for our in-depth development of international collaboration.

Shanghai NandaSoft Information Technology Company Limited, one of our investments, is primarily engaged in undertaking software subcontract projects from overseas. Despite its inception for only half a year, its software export value reached JAPANESE YEN 26,000,000 in 2002.

MARKET OUTLOOK

Looking ahead, our workforce is confident to establish the Company's foothold as a nationally well-known IT enterprise and to bring satisfactory return to its shareholders.

Xie Li

Chairman and President

Nanjing, PRC
21 March 2003

FINANCIAL REVIEW

The audited consolidated turnover of the Group for the year ended 31 December 2002 was approximately RMB311,406,000, representing an increase of approximately 67.67% over 2001.

The audited profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2002 were approximately RMB14,495,000 and RMB0.0155 respectively, representing an increase in profit attributable to shareholders of approximately 3.44%. The substantial increase in the profit of the Company was due to the increase of the corporate scale and sales network of the Group and the large-scale projects undertaken during the year.



Financial resources and liquidity



As at 31 December 2002, shareholders' funds of the Group amounted to approximately RMB178,132,000. Current assets amounted to approximately RMB198,803,000, of which approximately RMB77,278,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB67,448,000, comprising mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.191. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 31 December 2002, the Group had a gearing ratio of zero since the Group did not have any bank borrowing or long-term debts.

During the year ended 31 December 2002, as substantially all the Group's sales and purchases were 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 2002, the Group had no material acquisitions and disposals of subsidiaries and associated companies and it is the same for the comparative year ended 31 December 2001.

As at 31 December 2002, there were no charges on group assets.

As at 31 December 2002, the Group had no material contingent liabilities.

Management Discussion and Analysis

The Company has entered into an agreement with the Government of Xuan Wu District, Nanjing City on 27 December 2002 in relation to the acquisition of a piece of land for the construction of a software park for NandaSoft. Pursuant to the agreement, the Company acquired a piece of land with an area of 500 mu from the Government of Xuan Wu District at a consideration of RMB50,000,000, which would be satisfied in three installments. A supplemental agreement entered into at a later stage provided that a first installment of RMB25,000,000 shall be paid within three months from the date on which the planning approval was obtained. A second installment of RMB15,000,000 shall be paid within 12 months from the date on which the land use rights certificate in respect of the land was obtained. A third installment of RMB10,000,000 shall be paid within 24 months from the date on which the land use rights certificate in respect of the land was obtained. The first installment will be paid out of the internal resources of the Company while the second and third installments will be financed by bank borrowings. The main purpose of the construction of the software park for NandaSoft is to leverage on the support from the Government of Nanjing City to attract more investors for NandaSoft, thereby realizing a more diversified development for the Group.

Except stated above, there was no other significant investment held during the year.

Save as disclosed above, the Company did not have any future plan on material acquisitions or disposals as at 31 December 2002.

BUSINESS REVIEW

Sales

1. *Sales of software*

The year 2002 saw a great leap forward in market growth for the sales of software. Among other things, the sales of self-owned software surged to RMB14,890,000 whilst approximately 500 sets of network security products were sold, representing over 80% share in the firewall market in Jiangsu Province. Meanwhile, sales in other provinces also had remarkable performance. A situation has evolved where the sales of self-owned software drives the development of security integration.

2. *Large scale system integration projects*

In 2002, driven by Soft security total solutions, system integration business of the Group has become one which features security integration. We have established an image associated with "Soft Security Integration" in the market, boosting the core competence of the Company in the system integration arena. In 2002, the contracted value of the system integration projects of the Group amounted to RMB296,516,000. The Group undertook large scale projects such as the Jiangsu Public Security Jindun Project and the Jiangsu

Planning Commission Vertical Network Project. It also explored new clients including those from the industrial and commercial sectors, water infrastructure constructions, land resources and navigation, laying a solid client base for its market development in the future.

3. *Cooperation with domestic and foreign agents*

In 2002, the Group continued to consolidate its strategic cooperative relationships with world-renowned corporations, such as IBM, CISCO, Nortel, Oracle and Microsoft. It also expanded its network of distributors throughout the country. In January, the Group successfully organized a meeting for distributors nationwide. With the assistance from cooperative partners and distributors, we managed to provide solutions for our clients and succeeded in enhancing the prestige of our Soft brand name and its market position in the country.

To better promote its product, a hyperlink was established in the SINA website to enable connection to the website of the Company and it has proved to be effective. In April, the Company organized the “Shandong Seminar on Encryption Technology” in collaboration with Shandong Bureau of Network Encryption, which further expanded the Group’s presence in Shandong Province. The Company also held new product release ceremonies in Jinan, Hangzhou etc. to help enhance the market position of our Soft brand name in various provinces of the country.

Research and development



Network security total solutions

The Group completed research and development and commercialization of NandaSoft Network Security Solution (the “NSS-1”) on the basis of security enhancement operating system. This product was technologically advanced from an international perspective and was granted a Grade 1 Technological Advancement Award 2002 of Jiangsu Province. Developed on the basis of a security operating system with its own copyright, the system took a leading position as a security total solution. The successful creation of the system and the accreditation it obtained further established the leading position of the Group among

other security total solution providers in the PRC.

Network information security demonstration project commissioned by the provincial government has been successfully completed. The system includes CA system, security mailing system, security official document circulation system and security dialing system. It passed the evaluation and verification of the relevant authorities

Management Discussion and Analysis

under the Office of Science and Technology of Jiangsu Province and will be marketed in Jiangsu Province in the years to come. All these laid a solid foundation for the Group to further undertake other electronic government projects in different cities in Jiangsu Province.



Internet value-added services

The research and development of e-commerce and ERP has been steered to the direction of “formulating solutions for the logistics computerisation for large scale corporations” and has been applied to the publication printing and distribution industry. In 2002, the Company agreed with Jiangsu New China Publishing Group to undertake a chained operation information system project as the first step for the Group to expand into the publishing industry. In the meantime, the “applied information integration platform based on workflow engine” and the “new generation small and medium sized manufacturing resource planning (MRP) III” projects were designated as “R & D (private sector) projects in information industries of the Year 2002” by the Ministry of Information Industry of the PRC.

Research and development on digital cities continued during the year. The Kunshan City digital city project undertaken by the Company was a pilot project in Kunshan City designated by the province and the State. The concept of a digital city and that of an e-government are closely related. Successful research and development on digital cities has enhanced the competitive edge of the Company in the e-government arena.

Launch of products

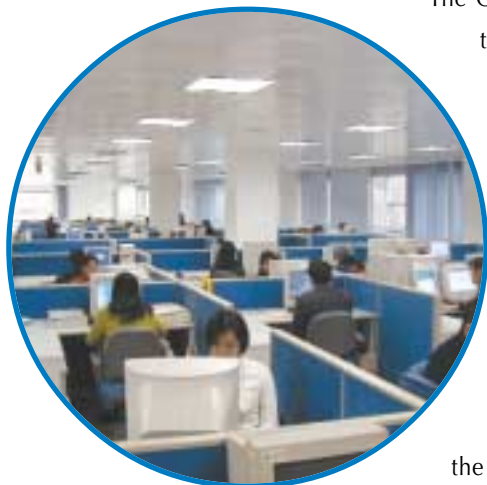
Building on the original version of firewall, Softwall v1.2.4, which offered enhanced firewall functions, was introduced in 2002. Meanwhile, the Softwall WPH v1.2 produced by the Company, being a national Outstanding Software Product (Outstanding System Tool and Application Software), passed the preliminary review process. As for firewalls for individual use, the Softwall personal edition in Windows 2000 version and XP version was introduced to satisfy market demands.

Obtaining relevant qualifications

SoftBase v3.0, a constituent of our Soft Security Total Solutions, passed the examination of the Bureau of Public Security in April 2002 and has been issued a sales permit. SoftCA v1.0 also passed the examination in September 2002 and will be issued a sales permit soon.

In expanding its business in the system integration arena, the Company was publicly granted a “Grade 1 Specialized Qualification for System Integration Providers in Building Intelligent Subordinate Systems” by the Ministry of Construction on 18 December 2002, marking our first move towards the construction of intelligent large-scale system integration projects.

Management and corporate development



The Company put in great efforts in shaping its corporate culture during the year 2002. It upheld the idea of “innovation, dedication and trustworthiness” as a source of momentum to motivate its staff.

The Company strived to establish a modern corporate management system with human touch. Management staff members are given greater power and in turn educated to shoulder more responsibilities, which would better drive up their motivation.

Regarding corporate quality management, the Group proceeded with the ISO 9001: 2000 Quality Control System to offer further guarantee to the quality of its products.

The Group experienced a period of rapid growth during the year 2002. In line with its overall direction of development, the Company invested in six new subsidiaries, including Shanghai NandaSoft Information Technology Company Limited which is engaged in undertaking overseas software projects, Jiangsu Nanda Jin An Information Processing Centre Company Limited which is engaged in IT project supervision and security testing, Nanjing NandaSoft Electronic Technology Company Limited which is engaged in IT hardware product distribution, Beijing NandaSoft Digital Technology Company Limited which is engaged in the development of the Beijing market and Suzhou NandaSoft Technology Company Limited which is engaged in serving the information technology construction in the Suzhou area. The establishment of these subsidiaries provides a strong support for the sustained growth of the Company, and at the same time lays a solid foundation for the Company’s development in the IT industry both in terms of product range and geographical expansion.

BUSINESS OUTLOOK

The year 2003 will mark the fifth anniversary of the Company and will also be a year of crucial importance in the Company’s attempt to become a nationally prestigious IT enterprise. The Group will commit itself to becoming “a high-tech enterprise rooted in China” and build up an image of a software enterprise of the Chinese nation. In 2003, it aims at becoming a leading IT enterprise in Jiangsu Province and a prestigious IT enterprise in the nation.

Management Discussion and Analysis

Sales and marketing

Given the existing strong market presence in Jiangsu Province, the Company will further consolidate its operation and enhance competitive strength of its products in 2003. Combining the introduction of new security products and improvement in its system solutions, marketing activities will continue to strength the Company's image as a distinguished system integration provider. Client resources in the industry will be fully explored to deepen the Company's position in the industry and forming a solid base for further addition of new clients. The Company will establish a sales framework with multiple dimensions and strengthen the distributorship of software products. Benefiting from the resources of its subsidiaries, the Company will establish its security brand image across the PRC.

Research and development

Network security total solutions

Security will be the focal point for refining our security total solutions. On this basis, it is intended that security products such as security desktop operating system (Softinux), virtual private network (Softvpn v1.0), intrusion detection system (Soft IDS v1.0) and security computers will be introduced to enrich the product range. Studies will be conducted to explore possibility for combination of e-government and security and to introduce security e-government solutions with added security contents.

Internet value-added services

e-government: Regarding security integration projects from government authorities, the "two way effects between selling software products and conducting marketing activities" will be the rule of thumb. A sound and comprehensive package of e-government solutions will help promote our NandaSoft e-government solution offerings and establishing a more influential position from the perspective of the public sector. On the other hand, small and medium scale e-government application software products with reasonable marketing value and profitability will be developed to expand our client base, realize technological accumulation and expand to the nationwide market.

e-commerce: Development will be tilted towards the construction of logistics information technology infrastructure for large scale corporations. Enterprise Resource Planning (ERP) systems suitable for large scale corporations will be developed. Application in the book publishing industry will be a breakthrough to formulate an e-commerce application system featuring security solutions. Sophistication of the projects will be followed by product commercialization, and e-commerce application software products will be developed. The Group will conduct marketing activities with a view to generating a greater economic benefit.

Management Discussion and Analysis

Digital cities: With the accumulated technological know-how and market experience from the Kunshan digital city pilot project, the Group will continue to develop digital city projects with a focus on southern Jiangsu Province and to establish our Soft brand name in land resources industries.

Management

With its continual development, the Group will achieve a rational allocation of group resources and enhance its operation efficiency and overall strengths by way of reorganizing the internal corporate structure and seeking to discover the core competence of different companies comprising the Group. Performance management will be implemented in the Company to motivate staff members at different rankings. As to the formation of our team of human talents, we will endeavour to raise the management level of senior and mid-level management staff by conducting training programmes and by other suitable means to establish a hierarchical structure encompassing professional talents in different rankings and to form a momentum to motivate the key personnel. The Group will take a result-oriented approach and strengthen the management of and control over processes, enhance efficiency and reduce operating costs.



External cooperation

The planning and construction of a “NandaSoft” software park further ensured the collaborative construction of a senior and mid-level software personnel training centre with Jiangsu Government and Microsoft (China), laying a foundation for subsequent cooperation with other foreign companies.

In addition, the Group will rely on the subcontracted software projects undertaken by its Shanghai subsidiary to plan and construct a research and development base for overseas software projects. It will enlarge the scale of its software export and also strengthen its performance in this aspect to make it a new point of profit growth of the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2002, total remuneration cost for the Group is RMB19,964,000 (2001: RMB7,983,000) and the Group had 605 employees (2001: 383 employees). Remuneration is determined by reference to market terms and performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contribution to retirement scheme, medical scheme, unemployment insurance and housing fund.

Business Objectives Review

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 2002 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		
	Formal launch the family and corporate version of SoftWall personal edition, which includes information filter technology	Completed in April
	Launch SoftNet (VPN system), it has the functions of data encryption and verification of data integrity	Completed in February
	Launch Linux based SoftWall kit that can be integrated with VPN and with more advanced information filter and intrusion prevention technologies	Completed in February
	Launch the β testing version of B1 level SoftOS, it has the functions of mandatory access control, prevention of false identity, security audit, intrusion detection and Chinese customization, and achieves the State security standard of GB17859	Completed in March

Business Objectives Review

Anticipated progress of projects

1st Launch the β testing version of B1 level SoftBase, it has the functions of mandatory access control, establishing authorised visiting route and information protection

Launch SoftNet (Intrusion Detection System) with network intrusion prevention technologies

Launch B1 level SoftOS, it has the functions of mandatory access control, prevention of false identity, security check, intrusion detection and Chinese customization, and achieves the State security standard of GB17859

Launch B1 level SoftBase, it has the functions of mandatory access control, establishing authorized visiting route and information protection

Actual progress of projects

Completed in April

Completed all software development as scheduled and submit the products to the relevant authorities for their examination

Achieved all functions as scheduled, passed the security examination of the State Bureau of Public Security and was granted sales permit in February 2003

Completed trial-use version and passed the security examination of public security authorities

Launched the Soft Network Security System (NSS-1) based on security operating system and was granted a Grade 1 Technological Advancement Award of Jiangsu Province

Launched the Soft Network Firewall (SoftWall v1.2.4)

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
1.2 Internet Application Software		Launched the personal edition of firewall software SoftPS (with family version and government version)
	Launch electronic government platform	Completed the electronic government platform overall planning and under trial run stage
	Launch computer co-operative supporting system	Plan had amended according to actual market condition. The Group had completed the application development of ERP in library publication business
	Launch the β testing version of electronic commerce platform and CA system	Had launched the electronic commerce platform of library publication and β testing version of CA system
	Launch the upgraded version of electronic government platform	Completed e-government solution and completed the e-government solution software for Jiangsu Government
	Launch electronic commerce platform targeting at various large scale enterprises	Researched on corporate computerisation solution for large scale enterprises and application was achieved in the book publishing industry
	Launch the beta testing version of information extraction tools	Applied such technology in relation to e-government and e-commerce project

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
1.3 Educational Software	Launch the β testing version of distance multimedia education platform	Plan had amended according to actual market condition. The Group had focused on the development of GIS system
	Launch distance multimedia education material	Researched on the application of geographical information system (GIS) in land resources management, launched land resources government management solution, and completed the development of land resources e-government system which was marketed and put into practical use with its first application in Kunshan Bureau of Land Resources
	Launch distance multimedia education platform	
2. Research and development		
2.1 Network Security Solution	1st Research on Level-B network security co-operative technology	Completed in March
	1st Develop and test B1 level of SoftOS and SoftBase	Completed in March
	Research on network security path selection technology, including encrypted data transfer and encrypted information path technologies	Completed in March
	Research on server network security technology	Completed in April
	Research on TCP/IP network security technology	Completed in April

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
2.2 Internet application	Design and develop the next generation of WebOA, an integrated (hardware and software) web based office automation solution based on the existing infrastructure of the Group's WebOA and WebOA2.0	Integrated with e-government to develop applicable government office WebOA
	Develop and test data extraction tools	Developed and Used in both e-government and e-commerce
2.3 Multimedia application	No further research and development plan at this stage	

	Anticipated progress of projects	Actual progress of projects
3. Sales, Marketing and Business Development		
3.1 Network Security Solution	<p>Focusing efforts on marketing SoftOS SoftNet and to the Group's network and system integration customers and the Group's distribution agents across the PRC</p> <p>Focusing efforts on marketing security database to the Group's network terminals, system integration customers and the Group's distribution agents across the PRC</p>	<p>Completed in May</p> <p>The Group focused its resources on promoting its network security solutions to customers in various sectors including government, education sector, finance sector and enterprises and managed to establish a market position in the industry. At the same time, the Group's healthy sales channels had been established to cover various places across the country. The Group managed to promote its network security system through its distributors and cooperative partners</p>
3.2 Internet Application Software	<p>Market electronic commerce platform to corporate customers in Jiangsu Province, distribution agents across the PRC and Internet companies</p>	<p>Launched its e-commerce platform in the book publishing industry</p>

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
	Market electronic government platform to the government sector	Succeeded in promoting its e-government platforms to government authorities, including the Jiangsu Province e-government portal platform — and the vertical portal project for Jiangsu Province Development and Planning Commission and so on.
3.3 Educational Software	1st Launch the β testing version of distance multimedia education platform	Plan had amended according to actual market condition. The Group had focused on the development of GIS system
	Launch distance multimedia education material	Plan had amended according to actual market condition. The Group had focused on the development of GIS System
3.4 Trade Fairs, Training Courses and Seminars	1st Participate in the National Technology Innovation Product Trade Fairs across the PRC	Completed to arrange the national roadshow for network security solution
	1st Participate in the National Electronic & Software Product Exhibition in Beijing	Completed in January
	Participate in National Hi-Tech Product Trade Fair in Shenzhen	Participate in National Hi-Tech Product Trade Fair in Shanghai instead of Shenzhen
	Participate in National IT Security Product Exhibition	Participated in some other regional exhibitions and compunet China Expo of International Network Security Facilities in Shanghai in April 2002

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
3.5 Sales Channels and Business Development	1st Complete the development of sales and distribution channel in eastern region of the PRC	Completed in May
	1st Set up regional sales and service offices in Hubei and Fujian Provinces and Beijing and Tianjin Municipality in the PRC	Had set up offices in Shandong, Zhejiang, Shanghai, Fujian, Anhui and Beijing
	Hold a national annual meeting for distributors	Completed in January
	Set up regional sales and services offices in Guangdong, Hunan and Shanxi Provinces in the PRC	Sold software products through its subsidiaries in PRC cities including Beijing, Shanghai and Suzhou. Expanding regional sales to Guangdong and Hunan by 2003
3.6 Promotions and Ads	Post advertisements on national IT related publications	Established a hyperlink in SINA.com website in July to September 2002
		Held two new product release ceremonies in Jinan and Hangzhou
3.7 Application for certificate of S.I. business	Apply for Grade 2 certificate to Ministry of Information Industry	Under application

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
3.8 <i>Application for certificates of system integration business</i>	Obtained Grade 2 Certificate	<p>Granted “Grade 1 Specialized Qualification for System Integration Providers in Building Intelligent Subordinate Systems” by the Ministry of Construction on 18 December 2002 Grade 2 Certificate will obtain at 2003</p> <p>Accredited by the Jiangsu Provincial Government as an AVAYA Senior Cooperative Partner in the Industry on 1 October 2002</p> <p>Granted an IBM Eastern China Cooperative Partner Application Development Award 2002</p> <p>Granted a 3COM (China) Silver Medal Distributor Award 2003</p>

USE OF PROCEEDS

The proceeds from the issue of new shares pursuant to a placing exercise of the Company in April 2001, after deduction of related expense, amount to approximately RMB73,200,000. During the year ended 31 December 2002, approximately RMB26,572,000 (2001: approximately RMB19,759,000) was used for developing and rolling out its professional products with various versions, including Softwall WPH v1.2.4, SoftOS and SoftPS, and investment in the new subsidiaries.

Details of the spending and progress of the investment projects are set out in the Comparison of the Business Plans and Actual Progress. The balance of the proceeds amounted to approximately RMB26,869,000 will continue to be used in the projects disclosed in the Prospectus and is currently deposited in banks.

Business Objectives Review

As at 31 December 2002, the cost of implementation of business objectives of the Group are compared as follows:—

	2002		2001	
	Actual	Estimated	Actual	Estimated
Research and Development	15,436,000	16,000,000	13,293,000	15,200,000
Sales and Marketing	6,641,000	7,000,000	4,441,000	4,000,000
Promotion and Business	4,495,000	4,500,000	2,025,000	3,000,000
	<u>26,572,000</u>	<u>27,500,000</u>	<u>19,759,000</u>	<u>22,200,000</u>

Report of the Directors

PRINCIPAL ACTIVITIES

The principal activity of the Company is to the development, manufacture and marketing of network security software, internet application software, educational software and business application software. The Company also provides systems integration services including information technology consulting and sales of computer hardware products and equipment. The activities of the subsidiaries and an associate are set out in notes 15 and 16 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to its five largest customers accounted for less than 30% of the Group's turnover for the year.

Purchases from major suppliers accounted for the following percentages:

The largest supplier	3.7%
The five largest suppliers	11.2%

As far as the Directors are aware, neither the Directors nor 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 suppliers.

RESULTS AND DIVIDENDS

The Group's results and financial position for the year ended 31 December 2002 are set out in the Annual Report on pages 41 to 74 of the financial statements.

The directors recommend the payment of a final dividend of RMB0.5 cent per ordinary share to shareholders on the register of member on 23 April 2003.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 26 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 13 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 (Resigned on 17 May 2002)

Non-Executive directors

Professor Chen Dao Xu

Ms. Zhang Yun Xia

Mr. Wei Zhan Rong (Appointed on 17 May 2002)

Mr. Zhang Jin Quon (Resigned on 12 April 2002)

Independent non-executive directors

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Supervisors

Mr. Wang Dao Wu

Professor Shi Jian Jun

Mr. Zhou Wen Da

Dr. Xiong Xian Gen

Mr. Zhou Ming Hai

Mr. Zhou De Fan

Mr. Ge Ning

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

All Directors (include Executive Directors, Non-Executive Directors and Independent Non-Executive directors) and Supervisors have service contracts with the Company which are to be expired on 29 December 2005. 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 of compensation other than statutory compensation.

Report of the Directors

DIRECTOR'S 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.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SECURITIES

As at 31 December 2002, the interests of the Directors, chief executives 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
Directors			
Xie Li	Others (Note 1)	11,900,000	1.27%
Zhang Yun Xia	Personal (Note 2)	9,000,000	0.96%
Chen Dao Xu	Others (Note 1)	500,000	0.05%
Supervisors			
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 Centre 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 2002, 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARE

Save as disclosed above, during year ended 31 December 2002, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2002, none of the Directors or the Supervisors had any rights to acquire H shares in the Company.

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 highest 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 China Securities Regulatory Commission (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 which equivalent to 23,400,000 H Shares as at 31 December 2002 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.

Report of the Directors

Under the Share Option Scheme, the share options of the Group can only be granted to eligible employees. The directors are of the view that the purpose of a share option scheme is to enable the Group to grant share options to elected participants as incentive or records for their contribution to the Group. Without limiting to the class of eligible employees.

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.

SUBSTANTIAL SHAREHOLDERS

Other than the interests as disclosed above in respect of the Directors and their associates, as at 31 December 2002, 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 percentage or more of the Company's issued share capital:

Shareholder	Number of domestic shares held	Percentage in the Company's total issued share capital
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 2002.

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 of Hong Kong Limited (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.

Report of the Directors

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("Sponsor"), as at 31 December 2002, Core Pacific-Yamaichi Securities, Tokyo, an associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) of the Sponsor, held 30,000 shares of the Company. Save as disclosed herein, neither the Sponsor nor its directors, employees or associates had any interest in the share capital of the Company as at 31 December 2002.

Pursuant to an agreement dated 18 April 2001 entered into between the Company and the Sponsor, the Sponsor 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.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

CHARGE ON GROUP ASSETS

As at 31 December 2002, none of the Group's assets was pledged as security for liabilities. (2001: Nil).

FOREIGN CURRENCY RISK

As the Group's operations are situated in PRC and substantially all the Group's sales & purchases were denominated in RMB consequently, there is no foreign currency risk would affect the Group's results of operations.

MATERIAL ACQUISITIONS/DISPOSALS AND SIGNIFICANT INVESTMENTS

Throughout the year in 2002, the Group did not make any material acquisitions or disposals and no proceeds was invested in any significant financial instruments.

CAPITAL COMMITMENTS

As at 31 December 2002, the Group had an authorized and contracted for capital commitments of approximately RMB50 million in respect of acquisition of a piece of land located at the Software Property Park, Zhujiang Road, Nanjing City, the PRC. These commitments or plans for investments in capital assets synchronized with the business objectives as stated in the Prospectus.

CONNECTED TRANSACTIONS

The connected transactions as specified in the GEM Listing Rules undertaken by the Group are set out in note 34 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 34 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.

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 provide supervision over the financial reporting process and internal control of the Group and also reviewing the draft annual report and accounts, half-year report and quarterly reports of the Group and providing advice and comments thereon. 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 meeting had held four meetings for current year.

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.

Report of the Directors

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.

On behalf of the Board

Xie Li

Chairman & President

Nanjiang, the PRC
21 March 2003

Report of the Supervisory Committee

To: All Shareholders

Jiangsu Nandasoft Company Limited has complied with the Company Law of the PRC during the year ended 31 December 2002, 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

21 March 2003

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Professor Xie Li (謝立), 61, 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), 48, 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. Wei Zhan Rong (魏占榮), 50, a Director of the Group, graduated from the Nanjing University Graduate School in 1998. He is currently director of the Jiangsu Provincial Management Center for Education Equipment and Self-supporting School, Jiangsu Department of Education. Mr. Wei is responsible for the administration relating to educational equipment, self-supported studies, center for educational facilities and services as well as the Control Company and the Popular Bookstore. Mr. Wei has long been engaged in the financial management function of education authorities. He has been employed under Jiangsu Department of Education to take care of education financial management function for the whole province and has been in charge of the province-wide education statistics work. Mr. Wei joined the Group in May 2002.

Directors, Supervisors and Senior Management

Professor Chen Dao Xu, (陳道蓄), 56, 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), 39, 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.

Mr. Zhang Jin Quan, (張錦泉), 64, 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. Mr. Zhang had resigned on 12 April 2002.

Independent non-executive Directors

Mr. Xu Huan Liang, (徐煥亮), 61, was appointed as an independent non-executive Director of the Company on 8 December 2000. Mr. Xu is 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

Directors, Supervisors and Senior Management

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), 45, was appointed as an independent non-executive Director of the Company on 8 December 2000. Mr. Wang is Deputy Dean of the Department of Information Technology in Hehai University (河南大學) 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), 60, 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, (施建軍), 48, 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

Directors, Supervisors and Senior Management

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, (周文達), 40, 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), 39, 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), 53, 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), 63, 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, (葛寧), 45, 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

Directors, Supervisors and Senior Management

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

Mr. Yuan Feng (袁峰), 35, 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.

Professor Xie Jun Yuan (謝俊元), 42, 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), 39, 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.

Ms. Tong Sze Wan (唐詩韻), 30, is the qualified accountant and company secretary of the Company. Prior to joining the Group in November 2002, she had over 7 years experience in auditing and accounting and had worked for an international accounting firm as well as a listed company in Hong Kong. She obtained a Bachelor degree in Accountancy and Law in Hong Kong Baptist University. She is also an associate member of the Hong Kong Society of Accountants and the Association of Chartered Certified Accountants.

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 23 May 2003 (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 2002;
 - (2) To consider and pass the reports of the Supervisory Committee for the year 2002;
 - (3) To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2002;
 - (4) To consider and pass the resolution of final dividend distribution for the year 2002;
 - (5) To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2002;
 - (6) To consider and pass plans to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2003 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 consider and if right fit, pass with or without modifications, the following resolution as a special resolution:

“THAT :

- (a) subject to paragraph (c), (d) and (e) below, the exercise of the Board of Directors of the Company (the “Board”) during the Relevant Period (as defined in paragraph (f) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the “Domestic Shares”) and/or overseas-listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the “H Shares”) be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorize the Board to make an offer or agreement or grant an option during the Relevant Period which would or might require Domestic Shares and/or H Shares to be allotted and issued either during or after the end of the Relevant Period;

Notice of Annual General Meeting

- (c) the aggregate nominal value of Domestic Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraphs (a) and (b) above shall not exceed 20% of the aggregate nominal value of the Domestic Shares then in issue at the date of the passing of this resolution;
- (d) the aggregate nominal value of H Shares to be allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approval in paragraph (a) and (b) above shall not exceed 20% of the aggregate nominal value of the H Shares then in issue at the date of the passing of this resolution;
- (e) the approval in paragraph (a) above will be exercised in accordance with the PRC Company Law and be conditional upon the approval of China Securities Regulatory Commission and/or other relevant authorities in the People's Republic of China and/or the Growth Enterprise Market of the Stock Exchange of Hong Kong being obtained by the Company;
- (f) for the purpose of this special resolution:

“Relevant Period” means the period from the passing of this special resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;
 - (ii) the expiration of a period of 12 months following the passing of this special resolution; or
 - (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting.
- (g) the Board be and is hereby authorized to make such amendments to the articles of association of the Company as it thinks fit so as to increase the registered share capital and to reflect the new capital structure of the Company as a result of the allotment and issue of shares of the Company pursuant to the approval granted under paragraph (a).

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

Nanjing, the PRC
28 March 2003

Notice of Annual General Meeting

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.
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, Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, 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 24 April 2003 to 23 May 2003, 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 23 April 2003.
5. Shareholders entitled to attend the AGM are requested to deliver the reply slip for attendance to the Company Registrar before 2 May 2003.

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 41 to 74 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 2002 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

21 March 2003, Hong Kong

Consolidated Income Statement

For the year ended 31 December 2002

	Notes	2002 RMB	2001 RMB
Turnover	4 & 5	311,405,868	185,729,008
Cost of sales		(261,348,530)	(155,180,033)
Gross profit		50,057,338	30,548,975
Other operating income	6	3,952,207	3,413,826
Distribution costs		(18,779,758)	(9,981,482)
Research and development costs		(1,957,435)	(950,631)
Administrative expenses		(16,361,828)	(9,406,529)
Profit from operations	7	16,910,524	13,624,159
Finance costs	8	(56,686)	(20,072)
Share of results of an associate		94,824	172,737
Profit before taxation		16,948,662	13,776,824
Taxation	10	(1,469,384)	324,946
Profit before minority interests		15,479,278	14,101,770
Minority interests		(984,728)	(88,753)
Profit attributable to shareholders		14,494,550	14,013,017
Dividend	11	4,670,000	—
Earnings per share	12	0.0155	0.0163

Consolidated Balance Sheet

At 31 December 2002

	Notes	2002 RMB	2001 RMB
Non-current assets			
Property, plant and equipment	13	38,074,264	37,017,961
Intangible assets	14	14,257,152	6,877,018
Interest in an associate	16	444,824	522,737
Investments in securities	17	967,694	1,145,572
Deferred taxation	18	1,990,000	1,066,000
		<u>55,733,934</u>	<u>46,629,288</u>
Current assets			
Inventories	19	27,347,163	12,406,940
Trade debtors	20	79,318,566	43,507,340
Deposits, prepayments and other debtors		14,830,937	8,429,275
Investments in securities	17	28,300	8,070
Amount due from an associate	21	—	201,236
Cash and bank balances		77,278,194	93,220,776
		<u>198,803,160</u>	<u>157,773,637</u>
Current liabilities			
Trade creditors	22	41,832,186	19,375,999
Receipt in advance, other creditors and accrued expenses		14,616,021	11,158,258
Amounts due to shareholders	23	5,219,836	4,001,523
Amount due to an associate	24	66,735	—
Provision for taxes and levies	25	5,712,767	3,288,500
		<u>67,447,545</u>	<u>37,824,280</u>
Net current assets		<u>131,355,615</u>	<u>119,949,357</u>
Total assets less current liabilities		187,089,549	166,578,645
Minority interests		8,957,996	2,941,642
		<u>178,131,553</u>	<u>163,637,003</u>
Capital and reserves			
Share capital	26	93,400,000	93,400,000
Reserves		84,731,553	70,237,003
		<u>178,131,553</u>	<u>163,637,003</u>

The financial statements on pages 41 to 74 were approved and authorised for issue by the Board of Directors on 21 March 2003 and are signed on its behalf by:

Xie Li

Chairman and President

Xu Huan Liang

Director

Balance Sheet

At 31 December 2002

	Notes	2002 RMB	2001 RMB
Non-current assets			
Property, plant and equipment	13	35,025,676	35,490,563
Intangible assets	14	12,598,819	5,960,351
Investments in subsidiaries	15	15,559,984	3,744,984
Investments in securities	17	967,694	1,145,572
		<u>64,152,173</u>	<u>46,341,470</u>
Current assets			
Inventories	19	13,998,001	7,820,402
Trade debtors		58,365,346	35,740,968
Deposits, prepayments and other debtors		9,097,486	5,646,623
Investments in securities	17	22,500	—
Amounts due from subsidiaries		4,862,914	—
Dividend receivable		5,740,590	—
Cash and bank balances		60,567,067	85,430,289
		<u>152,653,904</u>	<u>134,638,282</u>
Current liabilities			
Trade creditors		30,309,740	11,996,444
Receipt in advance, other creditors and accrued expenses		5,166,580	6,006,750
Amounts due to shareholders	23	5,033,573	4,002,471
Provision for taxes and levies	25	3,449,529	1,927,174
		<u>43,959,422</u>	<u>23,932,839</u>
Net current assets		<u>108,694,482</u>	<u>110,705,443</u>
		<u>172,846,655</u>	<u>157,046,913</u>
Capital and reserves			
Share capital	26	93,400,000	93,400,000
Reserves	28	79,446,655	63,646,913
		<u>172,846,655</u>	<u>157,046,913</u>

Xie Li
Chairman and President

Xu Huan Liang
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2002

	Share capital RMB	Share premium RMB	Statutory surplus reserve RMB (note 28b)	Statutory public welfare fund RMB (note 28c)	Retained earnings RMB (note 28d)	Dividend reserve RMB	Total RMB
THE GROUP							
At 1 January 2001	70,000,000	—	536,190	268,095	6,550,883	—	77,355,168
Issue of overseas listed foreign invested shares ("H Shares") of RMB0.1 each upon listing on the Growth Enterprise Market on 24 April 2001	23,400,000	—	—	—	—	—	23,400,000
Premium arising on issue of H Shares	—	65,995,488	—	—	—	—	65,995,488
Expenses incurred on issue of H Shares	—	(17,126,670)	—	—	—	—	(17,126,670)
Profit attributable to shareholders	—	—	—	—	14,013,017	—	14,013,017
Appropriations (note 28a)	—	—	902,855	451,428	(1,354,283)	—	—
At 1 January 2002	93,400,000	48,868,818	1,439,045	719,523	19,209,617	—	163,637,003
Profit attributable to shareholders	—	—	—	—	14,494,550	—	14,494,550
2002 dividend declared	—	—	—	—	(4,670,000)	4,670,000	—
Appropriations (note 28a)	—	—	874,295	437,147	(1,311,442)	—	—
At 31 December 2002	93,400,000	48,868,818	2,313,340	1,156,670	27,722,725	4,670,000	178,131,553

Consolidated Cash Flow Statements

For the year ended 31 December 2002

	Note	2002 RMB	2001 RMB
Operating activities			
Profit before taxation		16,948,662	13,776,824
Adjustment for:			
Share of results of an associate		(94,824)	(172,737)
Interest expense		21,240	1,069
Interest income		(2,578,190)	(708,695)
Allowance for doubtful debts		2,430,726	899,596
Gain on disposal of investments in securities		(351,521)	—
Loss on disposal of property, plant and equipment		33,319	—
Depreciation of property, plant and equipment		2,375,368	2,321,167
Amortisation of intangible assets		1,396,594	463,741
Impairment loss of investments in securities		177,878	360,428
		<u>20,359,252</u>	<u>16,941,393</u>
Operating cash flows before movements in working capital		20,359,252	16,941,393
Increase in inventories		(14,940,223)	(4,024,413)
Increase in trade debtors		(38,241,952)	(25,525,058)
(Increase) decrease in deposits, prepayments and other debtors		(6,401,662)	10,649,086
Increase (decrease) in trade creditors		22,456,187	(1,313,581)
Increase (decrease) in receipt in advance, other creditors and accrued expenses		3,457,763	(5,111,734)
Increase in amounts due to shareholders		1,218,313	—
Increase (decrease) in provision for taxes and levies		2,170,305	(651,271)
		<u>(9,922,017)</u>	<u>(9,035,578)</u>
Cash used in operating activities		(9,922,017)	(9,035,578)
PRC income tax paid		(2,139,422)	(676,428)
		<u>(12,061,439)</u>	<u>(9,712,006)</u>
Net cash used in operating activities		(12,061,439)	(9,712,006)
Investing activities			
Interest received		2,578,190	708,695
Proceeds from disposal of investments in securities		768,331	100,000
Repayment from (advance to) an associate		267,971	(201,236)
Dividends received from an associate		172,737	—
Decrease in other investments		—	737,350
Expenditure on product development		(7,776,728)	(5,005,818)
Purchases of property, plant and equipment		(3,464,990)	(2,721,398)
Purchase of investment securities		(437,040)	(770,000)
Expenditure incurred on construction in progress		—	(1,272,373)
Acquisition of a subsidiary	29	—	192,557
Investment in an associate		—	(350,000)
		<u>(7,891,529)</u>	<u>(8,582,223)</u>
Net cash used in investing activities		(7,891,529)	(8,582,223)

Consolidated Cash Flow Statements

For the year ended 31 December 2002

	2002 RMB	2001 RMB
Financing activities		
Capital contribution by minority shareholders of subsidiaries	4,184,000	2,453,188
Dividend paid to a minority shareholder of a subsidiary	(152,374)	—
Interest paid	(21,240)	(1,069)
Repayment to shareholders	—	(2,936,374)
Issue of new overseas listed foreign invested shares	—	89,395,488
Expenses incurred on issue of H Shares	—	(17,126,670)
	<u>4,010,386</u>	<u>71,784,563</u>
Net cash from financing		
	<u>4,010,386</u>	<u>71,784,563</u>
Net (decrease) increase in cash and cash equivalents	(15,942,582)	53,490,334
Cash and cash equivalents at beginning of the year	93,220,776	39,730,442
	<u>93,220,776</u>	<u>39,730,442</u>
Cash and cash equivalents at end of the year	77,278,194	93,220,776
	<u>77,278,194</u>	<u>93,220,776</u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	77,278,194	93,220,776
	<u>77,278,194</u>	<u>93,220,776</u>

Notes to the Financial Statements

For the year ended 31 December 2002

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 systems 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 Company 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 1 (Revised)	Presentation of financial statements
SSAP 15 (Revised)	Cash flow statements
SSAP 34	Employee benefits
SSAP 35	Accounting for Government Grants and Disclosure of Government Assistance

The adoption of these SSAPs has resulted in a revised presentation of the cash flow statement and introduced the statement of changes in equity as well as additional disclosures. The adoption of these new or revised SSAPs has not had any material effect on the results for the current or prior periods.

Notes to the Financial Statements

For the year ended 31 December 2002

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 or disposed of during the year are included in the consolidated income statement from or up to their effective dates of acquisition or 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 is capitalised and amortised on a straight line basis over its economic useful life.

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.

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 less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses.

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 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%

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 not 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.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

(i) **Sale of goods**

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

(ii) **Service income**

Income from the provision of consulting and systems 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.

Long term contracts

When the outcome of a contract for the provision of consulting and system integration services can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

Where it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Notes to the Financial Statements

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Grants related to depreciable assets are deducted from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are deducted in reporting the related expense.

Operating leases

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

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.

Notes to the Financial Statements

For the year ended 31 December 2002

4. TURNOVER

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

	2002	2001
	RMB	RMB
Sales of computer software products	14,890,088	10,369,647
System integration	296,515,780	175,359,361
	<u>311,405,868</u>	<u>185,729,008</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) systems integration services 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 2002

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	
	2002	2001	2002	2001	2002	2001
	RMB	RMB	RMB	RMB	RMB	RMB
TURNOVER	14,890,088	10,369,647	296,515,780	175,359,361	311,405,868	185,729,008
RESULT	4,993,106	5,618,858	9,339,123	5,648,040	14,332,229	11,266,898
Investment income					2,929,711	2,702,666
Unallocated corporate expenses					(351,416)	(345,405)
Profit from operations					16,910,524	13,624,159
Finance costs					(56,686)	(20,072)
Share of results of an associate					94,824	172,737
Profit before taxation					16,948,662	13,776,824
Taxation					(1,469,384)	324,946
Profit before minority interests					15,479,278	14,101,770
Other information						
Amortisation	—	—	1,396,594	463,741	1,396,594	463,741
Depreciation	1,605,869	1,229,527	623,503	747,079	2,375,368	2,321,167
Allowance for doubtful debts	—	—	2,430,726	899,596	2,430,726	899,596
ASSETS						
Segment assets	46,747,007	34,831,164	120,547,161	62,156,756	167,294,168	96,987,920
Unallocated assets					87,242,926	107,415,005
Consolidated total assets					254,537,094	204,402,925
LIABILITIES						
Segment liabilities	1,252,792	765,309	49,385,570	21,777,079	50,638,362	22,542,388
Unallocated liabilities					16,809,183	15,281,892
Consolidated total liabilities					67,447,545	37,824,280

Notes to the Financial Statements

For the year ended 31 December 2002

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segments

The Group's operations are situated in the PRC and revenue is derived principally from the PRC. Accordingly, no geographical analysis of financial information is presented.

6. OTHER OPERATING INCOME

	2002 <i>RMB</i>	2001 <i>RMB</i>
Interest on bank deposits	2,578,190	708,695
PRC value added tax refund	981,993	649,007
Gain on disposal of investments in securities	351,521	1,993,971
Others	40,503	62,153
	<u>3,952,207</u>	<u>3,413,826</u>

7. PROFIT FROM OPERATIONS

	2002 <i>RMB</i>	2001 <i>RMB</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	398,000	411,000
Allowance for doubtful debts	2,430,726	899,596
Depreciation and amortisation on:		
— property, plant and equipment	2,375,368	2,321,167
— intangible assets (included in research and development costs)	1,396,594	463,741
Impairment loss of investments in securities	177,878	360,428
Loss on disposal of property, plant and equipment	33,319	—
Minimum lease payment for land and buildings under operating leases	2,098,310	280,758
Staff costs (including directors' and senior executives' emoluments)	19,963,696	7,983,418
	<u>19,963,696</u>	<u>7,983,418</u>

Notes to the Financial Statements

For the year ended 31 December 2002

8. FINANCE COSTS

	2002	2001
	<i>RMB</i>	<i>RMB</i>
Interest on borrowings wholly repayable within five years	21,240	1,069
Bank charges	35,446	19,003
	<u>56,686</u>	<u>20,072</u>

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2002	2001
	<i>RMB</i>	<i>RMB</i>
Directors' fees	—	—
Directors' emoluments:		
Salaries and other benefits		
Executive directors	455,700	316,312
Non-executive directors	48,000	79,399
	<u>503,700</u>	<u>395,711</u>
Supervisors' emoluments:		
Salaries and other benefits	<u>185,717</u>	<u>193,099</u>

For the year ended 31 December 2002, the remuneration paid to one executive director, three non-executive directors and two independent non-executive directors were RMB455,700, RMB12,000, RMB8,000, RMB12,000, RMB8,000 and RMB8,000, respectively.

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.

Notes to the Financial Statements

For the year ended 31 December 2002

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS (Continued)

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 has waived any emoluments during either year.

Employees' emoluments:

For the year ended 31 December 2002, the five highest paid individuals of the Group included one director and one supervisor (2001: one director and one supervisor). 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:

	2002	2001
	RMB	RMB
Salaries and other benefits	<u>701,293</u>	<u>718,047</u>

10. TAXATION

The (charge) credit comprises:

PRC income tax

Current year

Overprovision in prior years

Deferred taxation (note 18)

	2002	2001
	RMB	RMB
Current year	(2,393,384)	(2,047,085)
Overprovision in prior years	—	3,176,031
Deferred taxation (note 18)	<u>924,000</u>	<u>(804,000)</u>
	<u>(1,469,384)</u>	<u>324,946</u>

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.

Notes to the Financial Statements

For the year ended 31 December 2002

10. TAXATION (Continued)

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 18.

11. DIVIDENDS

Ordinary shares:

Final, proposed — RMB0.5 cent per share (2001: nil)

2002	2001
RMB	RMB
4,670,000	—

The final dividend of RMB0.5 cent per share (2001: nil) has been proposed by the directors and is subject to approval by the shareholders in general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB14,494,550 (2001: RMB14,013,017) and on 934,000,000 (2001: weighted average number of 861,556,164) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended 31 December 2002 as there were no potential ordinary shares in existence for both years.

Notes to the Financial Statements

For the year ended 31 December 2002

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings <i>RMB</i>	Leasehold improvements <i>RMB</i>	Furniture, fixtures and equipment <i>RMB</i>	Motor vehicles <i>RMB</i>	Total <i>RMB</i>
THE GROUP					
COST					
At 1 January 2002	32,947,215	121,000	5,679,691	1,517,664	40,265,570
Additions	—	130,000	1,877,688	1,457,302	3,464,990
Disposals	—	—	(537,293)	—	(537,293)
At 31 December 2002	<u>32,947,215</u>	<u>251,000</u>	<u>7,020,086</u>	<u>2,974,966</u>	<u>43,193,267</u>
DEPRECIATION					
At 1 January 2002	1,499,895	2,200	1,495,237	250,277	3,247,609
Provided for the year	897,000	45,903	1,145,996	286,469	2,375,368
Eliminated on disposals	—	—	(503,974)	—	(503,974)
At 31 December 2002	<u>2,396,895</u>	<u>48,103</u>	<u>2,137,259</u>	<u>536,746</u>	<u>5,119,003</u>
NET BOOK VALUES					
At 31 December 2002	<u><u>30,550,320</u></u>	<u><u>202,897</u></u>	<u><u>4,882,827</u></u>	<u><u>2,438,220</u></u>	<u><u>38,074,264</u></u>
At 31 December 2001	<u><u>31,447,320</u></u>	<u><u>118,800</u></u>	<u><u>4,184,454</u></u>	<u><u>1,267,387</u></u>	<u><u>37,017,961</u></u>

Notes to the Financial Statements

For the year ended 31 December 2002

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Land and buildings <i>RMB</i>	Furniture, fixtures and equipment <i>RMB</i>	Motor vehicles <i>RMB</i>	Total <i>RMB</i>
THE COMPANY				
COST				
At 1 January 2002	32,947,215	4,734,331	873,438	38,554,984
Additions	—	921,713	612,015	1,533,728
Disposals	—	(508,414)	—	(508,414)
	<u>32,947,215</u>	<u>5,147,630</u>	<u>1,485,453</u>	<u>39,580,298</u>
At 31 December 2002	<u>32,947,215</u>	<u>5,147,630</u>	<u>1,485,453</u>	<u>39,580,298</u>
DEPRECIATION				
At 1 January 2002	1,499,895	1,343,295	221,231	3,064,421
Additions	897,000	926,524	159,884	1,983,408
Eliminated on disposals	—	(493,207)	—	(493,207)
	<u>2,396,895</u>	<u>1,776,612</u>	<u>381,115</u>	<u>4,554,622</u>
At 31 December 2002	<u>2,396,895</u>	<u>1,776,612</u>	<u>381,115</u>	<u>4,554,622</u>
NET BOOK VALUES				
At 31 December 2002	<u>30,550,320</u>	<u>3,371,018</u>	<u>1,104,338</u>	<u>35,025,676</u>
At 31 December 2001	<u>31,447,320</u>	<u>3,391,036</u>	<u>652,207</u>	<u>35,490,563</u>

The land and buildings 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 2002

14. INTANGIBLE ASSETS

	Development costs <i>RMB</i>	Intellectual property <i>RMB</i>	Total <i>RMB</i>
THE GROUP			
COST			
At 1 January 2002	7,340,759	—	7,340,759
Additions	7,776,728	1,000,000	8,776,728
At 31 December 2002	<u>15,117,487</u>	<u>1,000,000</u>	<u>16,117,487</u>
AMORTISATION			
At 1 January 2002	463,741	—	463,741
Provided for the year	1,338,260	58,334	1,396,594
At 31 December 2002	<u>1,802,001</u>	<u>58,334</u>	<u>1,860,335</u>
NET BOOK VALUES			
At 31 December 2002	<u>13,315,486</u>	<u>941,666</u>	<u>14,257,152</u>
At 31 December 2001	<u>6,877,018</u>	<u>—</u>	<u>6,877,018</u>

	Development costs <i>RMB</i>
THE COMPANY	
COST	
At 1 January 2002	6,340,759
Additions	7,776,728
At 31 December 2002	<u>14,117,487</u>
AMORTISATION	
At 1 January 2002	380,408
Provided for the year	1,138,260
At 31 December 2002	<u>1,518,668</u>
NET BOOK VALUES	
At 31 December 2002	<u>12,598,819</u>
At 31 December 2001	<u>5,960,351</u>

Notes to the Financial Statements

For the year ended 31 December 2002

15. INVESTMENTS IN SUBSIDIARIES

	2002	2001
	RMB	RMB
Unlisted shares, at cost	<u>15,559,984</u>	<u>3,744,984</u>

The particulars of the Company's subsidiaries at 31 December 2002 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	RMB5,000,000	80%	System Integration
Jiangsu NandaSoft Xin Yi Software Company Limited	PRC	RMB5,000,000	51%	Sale of computer hardware products and equipment
Nanjing NandaSoft Ze Tong Technology Company Limited (formerly known as Nanjing Co-Creation Education Technology Company Limited)	PRC	RMB1,000,000	51%	Sale of computer hardware products and equipment
Nanjing NandaSoft Electronic Technology Company Limited	PRC	RMB1,000,000	51%	Sale of computer hardware products and equipment

Notes to the Financial Statements

For the year ended 31 December 2002

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of registration and operation	Registered capital	Percentage of registered capital directly held by the Company	Principal activities
Jiangsu Nanda Jing An Information Technology Centre Company Limited	PRC	RMB1,000,000	90%	Sale of computer hardware products and equipment
Shanghai NandaSoft Information Technology Company Limited	PRC	RMB5,000,000	51%	Sale of computer hardware products and equipment
Beijing NandaSoft Digital Technology Company Limited	PRC	RMB2,000,000	80%	Sale of computer hardware products and equipment
Suzhou NandaSoft Technology Company Limited	PRC	RMB3,600,000	83%	Sale of computer hardware products and equipment

All of the subsidiaries are limited liability company.

16. INTEREST IN AN ASSOCIATE

THE GROUP

Share of net assets

	2002 RMB	2001 RMB
Share of net assets	<u>444,824</u>	<u>522,737</u>

Notes to the Financial Statements

For the year ended 31 December 2002

16. INTEREST IN AN ASSOCIATE (Continued)

Details of the Group's associate at 31 December 2002 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

17. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002 RMB	2001 RMB	2002 RMB	2001 RMB
Investment securities				
Unlisted investments	<u>967,694</u>	<u>1,145,572</u>	<u>967,694</u>	<u>1,145,572</u>
Other investments				
Unlisted investments	<u>22,500</u>	<u>2,270</u>	<u>22,500</u>	<u>—</u>
Listed shares in the PRC	<u>5,800</u>	<u>5,800</u>	<u>—</u>	<u>—</u>
	<u>28,300</u>	<u>8,070</u>	<u>22,500</u>	<u>—</u>
	<u>995,994</u>	<u>1,153,642</u>	<u>990,194</u>	<u>1,145,572</u>
Market value of listed shares	<u>13,410</u>	<u>19,520</u>	<u>—</u>	<u>—</u>
Carrying amount analysed for reporting purposes as:				
Current	<u>28,300</u>	<u>8,070</u>	<u>22,500</u>	<u>—</u>
Non-current	<u>967,694</u>	<u>1,145,572</u>	<u>967,694</u>	<u>1,145,572</u>
	<u>995,994</u>	<u>1,153,642</u>	<u>990,194</u>	<u>1,145,572</u>

Notes to the Financial Statements

For the year ended 31 December 2002

18. DEFERRED TAXATION

THE GROUP

	2002 RMB	2001 RMB
At 1 January	1,066,000	1,870,000
Credit (charge) for the year (note 10)	<u>924,000</u>	<u>(804,000)</u>
At 31 December	<u><u>1,990,000</u></u>	<u><u>1,066,000</u></u>

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

	2002 RMB	2001 RMB
Tax effect of timing differences because of service income received in advance	<u><u>1,990,000</u></u>	<u><u>1,066,000</u></u>

Service income is recognised for tax purposes when it is received and is recognised as revenue when service is rendered.

19. INVENTORIES

	2002 RMB	2001 RMB
THE GROUP		
Computer hardware products, equipment and software products	<u><u>27,347,163</u></u>	<u><u>12,406,940</u></u>
THE COMPANY		
Computer hardware products, equipment and software products	<u><u>13,998,001</u></u>	<u><u>7,820,402</u></u>

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

Notes to the Financial Statements

For the year ended 31 December 2002

20. TRADE DEBTORS

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

THE GROUP

	2002	2001
	RMB	RMB
Aged:		
0 — 90 days	57,531,584	32,383,390
91 — 180 days	7,878,584	7,303,722
181 — 365 days	9,532,666	2,884,211
Over 365 days	4,375,732	936,017
	<u>79,318,566</u>	<u>43,507,340</u>

Included in the above are trade receivables from related parties amounted to RMB1,418,235 (2001: nil). The receivables are arising from connected transactions/related party transactions (*note 34*).

21. AMOUNT DUE FROM AN ASSOCIATE

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

22. TRADE CREDITORS

The aged analysis of trade creditors is stated as follows:

	2002	2001
	RMB	RMB
THE GROUP		
Aged:		
0 — 90 days	32,283,672	14,353,986
91 — 180 days	3,529,492	2,750,687
181 — 365 days	4,586,580	689,329
Over 365 days	1,432,442	1,581,997
	<u>41,832,186</u>	<u>19,375,999</u>

Notes to the Financial Statements

For the year ended 31 December 2002

23. 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.

24. AMOUNT DUE TO AN ASSOCIATE

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

25. PROVISION FOR TAXES AND LEVIES

	THE GROUP		THE COMPANY	
	2002 RMB	2001 RMB	2002 RMB	2001 RMB
Value added tax	3,587,345	1,738,058	3,160,719	1,288,535
Income and profits tax	1,564,843	1,310,881	—	476,372
Business tax	339,662	151,749	114,360	88,809
Other taxes	220,917	87,812	174,450	73,458
	<u>5,712,767</u>	<u>3,288,500</u>	<u>3,449,529</u>	<u>1,927,174</u>

26. SHARE CAPITAL

Registered, issued and fully paid:

	Number of shares	Amount RMB
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	<u>234,000,000</u>	<u>23,400,000</u>
Total domestic shares and H Shares of RMB0.1 each at 31 December 2001 and 2002	<u>934,000,000</u>	<u>93,400,000</u>

Notes to the Financial Statements

For the year ended 31 December 2002

26. SHARE CAPITAL (Continued)

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.

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 intended 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.

27. SHARE OPTIONS

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 nationals 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 nationals from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and

Notes to the Financial Statements

For the year ended 31 December 2002

27. SHARE OPTIONS (Continued)

- (2) The China Securities Regulatory Commission 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.

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

28. RESERVES

	Share premium RMB	Statutory surplus reserve RMB (note b)	Statutory public welfare fund RMB (note c)	Retained earnings RMB (note d)	Dividend reserve RMB	Total RMB
THE COMPANY						
At 1 January 2001	—	536,190	268,095	4,519,578	—	5,323,863
Premium arising on issue of H Shares	65,995,488	—	—	—	—	65,995,488
Expenses incurred on issue of H Shares	(17,126,670)	—	—	—	—	(17,126,670)
Profit attributable to shareholders	—	—	—	9,454,232	—	9,454,232
Appropriations (note a)	—	902,855	451,428	(1,354,283)	—	—
At 1 January 2002	48,868,818	1,439,045	719,523	12,619,527	—	63,646,913
Profit attributable to shareholders	—	—	—	15,799,742	—	15,799,742
2002 dividend declared	—	—	—	(4,670,000)	4,670,000	—
Appropriations (note a)	—	874,295	437,147	(1,311,442)	—	—
At 31 December 2002	<u>48,868,818</u>	<u>2,313,340</u>	<u>1,156,670</u>	<u>22,437,827</u>	<u>4,670,000</u>	<u>79,446,655</u>

Notes to the Financial Statements

For the year ended 31 December 2002

28. RESERVES (Continued)

Notes:

(a) **Basis of appropriation 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.

(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 reserves available for distribution to shareholders are 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 including RMB267,561 (2001: RMB172,737) retained by an associate of the Group.

In the opinion of the directors, the reserves available for distribution to the shareholders at 31 December 2002 amounted to RMB19,665,773 (2001: RMB12,234,266).

Notes to the Financial Statements

For the year ended 31 December 2002

29. 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 of 31 December 2001 was negligible.

	2001 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)
	<u>500,000</u>
Minority interests	(245,000)
	<u>255,000</u>
Net cash inflow arising on acquisition	
Cash consideration	(255,000)
Cash and bank balances	447,557
	<u>192,557</u>

The subsidiary acquired during the year ended 31 December 2001 did not have any significant impact on the Group's cash flow for that year.

Notes to the Financial Statements

For the year ended 31 December 2002

30. CONTINGENT LIABILITIES

There were no material contingent liabilities for the Group or the Company as at 31 December 2002 and 31 December 2001.

31. OPERATING LEASE COMMITMENTS

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

THE GROUP

	2002 RMB	2001 RMB
Within one year	1,244,416	550,182
In the second to fifth year inclusive	2,427,105	1,660,797
Over five years	490,560	1,001,143
	<u>4,162,081</u>	<u>3,212,122</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.

32. CAPITAL COMMITMENTS

THE GROUP AND THE COMPANY

	2002 RMB	2001 RMB
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	<u>50,000,000</u>	<u>—</u>

Notes to the Financial Statements

For the year ended 31 December 2002

33. 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 employees' salaries.

During the year, the amount of such contribution charged to the income statement amounted to RMB969,202 (2001: RMB374,274).

34. CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2002 RMB	2001 RMB
Revenue:			
Nanjing University	Sales (note a)	957,653	949,558
Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation")	Sales (note a)	212,585	—
Jiangsu Provincial Management Centre for Education Equipment and Self Supporting School ("Jiangsu Management Centre")	Sales (note a)	3,060	64,764
Jiangsu Educational Instrument Science Centre	Sales (note a)	—	898,676
Nanjing Ze Tong Technology Company Limited	Sales (note a)	392,470	38,412
Nanjiang Nandasoft Information Processing Company Limited	Sales (note a)	242,476	—
Jiangsu Co-Creation	Agency income (note b)	—	50,000

Notes to the Financial Statements

For the year ended 31 December 2002

34. CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS (Continued)

Name of related party	Nature of transactions	2002 RMB	2001 RMB
Expense:			
Nanjiang Nandasoft Information Processing Company Limited	Purchase (note a)	730,038	—
Jiangsu Co-Creation	Purchase (note a)	487,348	—
Nanjing Ze Tong Technology Company Limited	Purchase (note a)	—	88,035
Nanjing University	Revenue sharing (note c)	140,000	83,000
Nanjing University	Technical and support fees (note d)	750,000	600,000

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.

Nanjing Ze Tong Technology Company Limited is a minority shareholder of Nanjing Nandasoft Ze Tong Technology Company Limited (formerly known as Nanjing Co-Creation), a subsidiary of the Company acquired in the last year.

Notes:

- These transactions were made at terms which were comparable with similar transactions with unrelated parties.
- 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.
- For the year ended 31 December 2002, the Group paid a revenue sharing fee of RMB140,000 (2001: RMB83,000) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for jointly development of software products.
- For the year ended 31 December 2002, the Group paid technical and support fees in an aggregate of RMB750,000 (2001: RMB600,000) 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.

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>	1.1.2002 to 31.12.2002 <i>RMB</i>
Turnover	521,949	29,549,317	160,581,930	185,729,008	311,405,868
Cost of sales	(419,020)	(26,949,975)	(140,675,229)	(155,180,033)	(261,348,530)
Gross profit	102,929	2,599,342	19,906,701	30,548,975	50,057,338
Other operating income	78,098	929,837	4,040,417	3,413,826	3,952,207
Distribution costs	(16,359)	(443,542)	(8,177,748)	(9,981,482)	(18,779,758)
Research and development costs	(68,833)	(1,746,035)	(491,628)	(950,631)	(1,957,435)
Administration expenses	(397,268)	(865,554)	(6,571,758)	(9,406,529)	(16,361,828)
(Loss) profit from operations	(301,433)	474,048	8,705,984	13,624,159	16,910,524
Finance costs	(40)	(30,772)	(8,735)	(20,072)	(56,686)
Share of results of an associate	—	—	—	172,737	94,824
(Loss) profit before taxation	(301,473)	443,276	8,697,249	13,776,824	16,948,662
Taxation	(13,594)	(122,896)	(1,306,031)	324,946	(1,469,384)
(Loss) profit before minority interests	(315,067)	320,380	7,391,218	14,101,770	15,479,278
Minority interests	—	(64,097)	22,734	(88,753)	(984,728)
(Loss) profit attributable to shareholders	<u>(315,067)</u>	<u>256,283</u>	<u>7,413,952</u>	<u>14,013,017</u>	<u>14,494,550</u>

Financial Summary

ASSETS AND LIABILITIES

	31.12.1998	31.12.1999	31.12.2000	31.12.2001	31.12.2002
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Total assets	44,726,618	74,405,590	126,186,319	204,402,925	254,537,094
Total liabilities	(5,041,685)	(4,150,277)	(48,676,450)	(37,824,280)	(67,447,545)
Minority interests	—	(314,097)	(154,701)	(2,941,642)	(8,957,996)
Shareholders' funds	<u>39,684,933</u>	<u>69,941,216</u>	<u>77,355,168</u>	<u>163,637,003</u>	<u>178,131,553</u>

Note: The results 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.