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INTERIM REPORT

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



NANDASOFT
南大苏富特

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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



NANDASOFT
南大苏富特

JIANGSU NANDASOFT COMPANY LIMITED *

江蘇南大蘇富特軟件股份有限公司

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

HIGHLIGHTS

- Achieved a turnover of approximately RMB179,951,000 for the six months ended 30th June, 2003, representing an approximately 81.2% increase as compared with that of the corresponding period in 2002
- Accomplished a net profit of approximately RMB3,002,000 for the six months ended 30th June, 2003
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2003

INTERIM RESULTS

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th June, 2003.

For the three months ended 30th June, 2003, the unaudited turnover is approximately RMB95,757,000, representing a growth of approximately RMB39,159,000, or approximately 69.2% in turnover as compared with that of the same period in 2002.

For the six months ended 30th June, 2003, the unaudited turnover is approximately RMB179,951,000, representing a growth of approximately RMB80,666,000, or approximately 81.2% in turnover as compared with that of the same period in 2002.

The unaudited net profit of the Group for three months and six months ended 30th June, 2003 is approximately RMB68,000 and approximately RMB3,002,000 respectively, representing a decrease in the results of approximately 97.9% and 52.7% as compared with the corresponding figures in 2002.

* For identification purpose only

The unaudited results of the Group for the three months and six months ended 30th June, 2003 together with the unaudited comparative figures for the corresponding period in 2002 are as follows:

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2003 RMB	2002 RMB	2003 RMB	2002 RMB
Turnover	2	95,756,647	56,597,952	179,950,772	99,284,991
Cost of sales		84,805,348	45,308,524	154,211,762	76,964,868
Gross profit		10,951,299	11,289,428	25,739,010	22,320,123
Other revenue		85,747	854,400	1,936,042	1,917,167
Distribution costs		(6,112,975)	(3,772,837)	(12,047,480)	(7,647,522)
Research and development costs		(1,801,592)	(899,048)	(3,320,936)	(1,595,685)
Administrative expenses		(3,048,749)	(4,034,396)	(8,889,833)	(7,623,158)
Profit from operations	3	73,730	3,437,547	3,416,803	7,370,925
Finance costs		(4,642)	(23,037)	(27,585)	(27,837)
Profit before taxation		69,088	3,414,510	3,389,218	7,343,088
Taxation	4	(245,962)	71,313	(429,551)	(672,834)
Net profit before minority interests		(176,874)	3,485,823	2,959,667	6,670,254
Minority interests		244,548	(263,192)	42,628	(319,890)
Net profit attributable to shareholders		67,674	3,222,631	3,002,295	6,350,364
Earnings per share — basic	5	0.0001	0.0035	0.0032	0.0068

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th June, 2003 RMB	(Audited) 31st December, 2002 RMB
	Notes		
Non-current assets			
Property, plant and equipment		38,612,757	38,074,264
Intangible assets		18,537,137	14,257,152
Interest in an associate		444,824	444,824
Investment in securities		4,637,694	967,694
Deferred tax		1,990,000	1,990,000
		<u>64,222,412</u>	<u>55,733,934</u>
Current assets			
Inventories		29,156,876	27,347,163
Trade debtors	6	82,000,285	79,318,566
Deposits, prepayment and other debtors		26,253,481	14,830,937
Investment in securities		5,800	28,300
Amount due from shareholder		1,430,237	—
Cash and bank balances		60,693,782	77,278,194
		<u>199,540,461</u>	<u>198,803,160</u>
Current liabilities			
Trade creditors	7	49,594,634	41,832,186
Receipt in advance, other creditor and accruals		15,583,297	14,616,021
Amounts due to shareholders		5,219,836	5,219,836
Amounts due to an associate		66,735	66,735
Provision for taxes and levies		3,249,155	5,712,767
Dividend payable		4,670,000	—
		<u>78,383,657</u>	<u>67,447,545</u>
Net current assets		121,156,804	131,355,615
Total assets less current liabilities		185,379,216	187,089,549
Minority interests		(8,915,368)	(8,957,996)
		<u>176,463,848</u>	<u>178,131,553</u>
Capital and reserve			
Share capital		93,400,000	93,400,000
Reserves	8	83,063,848	84,731,553
		<u>176,463,848</u>	<u>178,131,553</u>

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	30th June, 2003 RMB	30th June, 2002 RMB
Cash flows from operating activities	(6,954,039)	(14,375,768)
Cash flow from taxation	(4,698,143)	(2,305,991)
Cash flows from investing activities	(4,932,230)	(4,079,928)
Cash flows from financial activities	<u>—</u>	<u>4,941,128</u>
Net decrease in cash and cash equivalent	(16,584,412)	(15,820,559)
Cash and cash equivalents at the beginning of the period	<u>77,278,194</u>	<u>93,220,776</u>
Cash and cash equivalents at the end of the period	<u>60,693,782</u>	<u>77,400,217</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Share Capital RMB	Share Premium RMB	Statutory Surplus Reserve RMB	Statutory Public Welfare Fund RMB	Dividend Reserve RMB	Retained Earnings RMB	Total RMB
At 1st January, 2002	93,400,000	48,868,818	1,439,045	719,523	—	19,209,617	163,637,003
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,350,364</u>	<u>6,350,364</u>
At 30th June, 2002	<u>93,400,000</u>	<u>48,868,818</u>	<u>1,439,045</u>	<u>719,523</u>	<u>—</u>	<u>25,559,981</u>	<u>169,987,367</u>
At 1st January, 2003	93,400,000	48,868,818	2,313,340	1,156,670	4,670,000	27,722,725	178,131,553
Profit for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,002,295</u>	<u>3,002,295</u>
Dividend declared during the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(4,670,000)</u>	<u>—</u>	<u>(4,670,000)</u>
At 30th June, 2003	<u>93,400,000</u>	<u>48,868,818</u>	<u>2,313,340</u>	<u>1,156,670</u>	<u>—</u>	<u>30,725,020</u>	<u>176,463,848</u>

Notes:

1. Basis of Presentation

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 30th December, 1999. The Company's predecessor, Jiangsu NandaSoft Limited Liability Company (the "Predecessor") was established on 18th September, 1998. By way of transformation of the Predecessor (the "Transformation"), the Company was established on 30th 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 24th April, 2001. Details of the Transformation are set out in the prospectus issued by the Company dated 19th April, 2001.

2. 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 period.

	For the three months ended 30th June,		For the six months ended 30th June,	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Sales of computer software products	841,145	4,605,258	2,177,040	5,432,629
System integration	94,915,502	51,992,694	177,773,732	93,852,362
	<u>95,756,647</u>	<u>56,597,952</u>	<u>179,950,772</u>	<u>99,284,991</u>

3. Profit from Operations

	For the six months ended 30th June,	
	2003 RMB	2002 RMB
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
— property, plant and equipment	1,339,141	1,016,682
— intangible assets (included in research and development costs)	520,133	520,133
Cost of Sales	<u>154,211,762</u>	<u>76,964,868</u>

4. Taxation

	For the three months ended 30th June,		For the six months ended 30th June,	
	2003	2002	2003	2002
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
The charge/(credit) comprises:				
PRC income tax	<u>245,962</u>	<u>(71,313)</u>	<u>429,551</u>	<u>672,834</u>

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality dated 27th December, 1999, the Company has been designated as a high and new technology enterprise 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 31st December, 2000 and a reduced income tax rate of 16.5% starting from the year 2001. Except for Shanghai Nandasoft Information Technology Company Limited which is subject to income tax rate of 15%, the Company's subsidiaries are subject to the income tax of 33%.

5. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB68,000 and RMB3,002,000 for the three months and six months ended 30th June, 2003 (2002: RMB3,223,000 and RMB6,350,000) and on 934,000,000 (2002: 934,000,000) shares in issue during the periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2003 and 2002 as there were no potential dilutive securities in existence during the relevant periods.

6. Trade Debtors

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

	(Unaudited)	(Audited)
	30th June, 2003 <i>RMB</i>	31st December, 2002 <i>RMB</i>
0 — 90 days	40,906,976	57,531,584
91 — 180 days	10,814,855	7,878,584
181 — 365 days	23,095,176	9,532,666
Over 365 days	<u>7,183,278</u>	<u>4,375,732</u>
	<u>82,000,285</u>	<u>79,318,566</u>

7. Trade Creditors

Aged analysis of trade creditors are as follows:

	(Unaudited) 30th June, 2003 RMB	(Audited) 31st December, 2002 RMB
0 — 90 days	19,998,766	32,283,672
91 — 180 days	8,070,729	3,529,492
181 — 365 days	18,456,825	4,586,580
Over 365 days	3,068,314	1,432,442
	<u>49,594,634</u>	<u>41,832,186</u>

8. Reserves

Other than the profit for the period as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the Group for the relevant periods in 2002 and 2003.

9. Capital Commitments

As at 30th June, 2003, 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.

10. Segment Information

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments were presented. The Group has two business segments engaged in the sale of computer software products and system integration. An analysis by business segment is as follows.

	Sales of computer software products six months ended 30th June, 2003 2002 RMB RMB		System integration six months ended 30th June, 2003 2002 RMB RMB		Total six months ended 30th June, 2003 2002 RMB RMB	
TURNOVER						
External sales	<u>2,177,040</u>	5,432,629	<u>177,773,732</u>	93,852,362	<u>179,950,772</u>	99,284,991
RESULT						
Segment result	<u>469,846</u>	2,997,417	<u>3,127,878</u>	2,893,553	<u>3,597,724</u>	5,890,970
Investment income					6,819	1,572,772
Unallocated corporate expenses					<u>(187,740)</u>	(92,817)
Profit from operations					<u>3,416,803</u>	7,370,925
Finance Costs					<u>(27,585)</u>	(27,837)
Profit before taxation					<u>3,389,218</u>	<u>7,343,088</u>

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period. (2002: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results

For the six months ended 30th June, 2003, the Group has accomplished a revenue of approximately RMB179,951,000 and a net profit of approximately RMB3,002,000, representing a growth of 81.2% in revenue and a decrease of 52.7% in net profit. For the three months ended 30th June, 2003, the Group has accomplished a revenue of approximately RMB95,757,000 and a net profit of approximately RMB68,000. This represented a growth of 69.2% in total revenue and a decrease of 97.9% in net profit as compared to the same period in the previous year.

The improvement in the sale of the Group was due to a combination of sales network expansion and successful marketing efforts which provide the Company with good business development and market recognition.

The unaudited consolidated results of the Group for the six months ended 30th June, 2003 deteriorated compared with those for the corresponding period in 2002. During the period, a substantial amount of resources was placed on the R&D of its product and product promotional activities to increase the Company's market share and competitiveness. It is mainly attributable to the Company's strategies to speed up the process of product development, as well as strengthen its sales network and expand its product market.

Besides, the Company has incurred a substantial amount of distribution cost as the Company has carried out various marketing activities for its science and technology projects and large scale system integration projects, such as the provincial scientific and technological planning and management system demonstration project of the Office of Science and Technology of Jiangsu Province, the international logistics public information platform development and application demonstration project of Suzhou Logistics Center, the official document circulation system for provincial, municipal and county governments of Jiangsu Province, development of Jiangsu Province Family Planning Commission's network and the project on the civil air defense of Jiangsu Province.

The Board believes that the product development and expansion of sales network is essential and in the interests of the Company's long-term development despite its evident effects to the results for the period.

Financial Resources and liquidity

As at 30th June, 2003, shareholders' funds of the Group amounted to approximately RMB176,464,000. Current assets amounted to approximately RMB199,540,000, of which approximately RMB60,694,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB78,384,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.189. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2003, the Group had a gearing ratio of zero since the Group did not have any bank borrowing and long-term debts. During the six months ended 30th June, 2003, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Others

During the six months ended 30th June, 2003, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies and it is the same for the comparative six months ended 30th June, 2002.

As at 30th June, 2003, there were no charges on group assets, and it is the same as the comparative six months ended 30th June, 2002.

The Company has entered into an agreement with the Government of Xuan Wu District, Nanjing City on 27th December, 2002 in relation to the acquisition of 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 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.

As at 30th June, 2003, the planning approval had not yet been obtained and the first installment will be paid after the receipt of this approval.

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

As at 30th June, 2003, the Group had no future plans for material investments except that capital assets will be purchased in accordance with the details set out in the section headed "Statement of business objective" in the prospectus of the Company dated 19th April, 2001.

As at 30th June, 2003, the Group had no material contingent liabilities and it is the same as the comparative six months ended 30th June, 2002.

Foreign Currency Risk

As the Group's operations are situated in PRC, there is no foreign currency risk that would affect the Group's results of operations.

Employee and Remuneration Policies

As at 30th June, 2003, total remuneration cost for the Group is RMB10,836,000 (2002: RMB8,732,000) and the Group had 689 employees (2002: 494 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 REVIEW

Research and development

Network security total solutions

The Group conducted research and development of network intrusion detection system (SoftNIDS2.0), which incorporates the functions of monitoring, analyzing, processing, warning, recording and remote management of network datagram, and supports high-speed network up to 100M.

In the first half of 2003, the Group also completed the research and production of virtual private network (SoftVPN1.8), the major functions of which include: algorithm supports for SSF33 encrypted algorithm (128-bit) specialized for use in mainland China; tunnel mode that supports AH and ESP; certificate verification algorithm support for HMAC-MD5-96 and HMAC-SHA1-96; gateway to gateway shut-down mode supports network with NAT; bandwidth reaching over 30Mbps in ESP mode.

The Group successfully developed the security desktop operating system “Softinux” to provide operational system support for the Soft security personal computer operation system.

The implementation and operational test of the information security demonstration project commissioned by the provincial government of Jiangsu Province has been completed. It has also passed the evaluation and verification by the Office of Science and Technology of Jiangsu Province on 22nd January, 2003, and it was concluded that the project has reached advanced level in the PRC.

Internet Application Software

In respect of e-commerce solutions for major enterprises, the Group continued to leverage the chain operation within the book publishing industry as its foundation for the development of eBusiness solutions for major enterprises, paralleled by the application in Jiangsu New China Publishing Group.

In respect of GIS development, the Group has focused on the application in the land management industry and launched a solution for State land resources management, which has seen the phase II project of Kunshan Bureau of Land Resources as the starting point for promotion and application across the whole Jiangsu Province.

Electronic Government Businesses

The Group developed a series of mail applications for electronic government businesses (xGovMail.Server) which has already entered the trial stage.

The security official document circulation system project for provincial, municipal and county governments of Jiangsu Province and the information security demonstration project for 江蘇省黨委系統計算機網絡 were completed in the first half of 2003. The verification works for the two above projects will be scheduled to July and August respectively.

Launch of new products

Network security total solutions

The release and launch of Softwall v2.0, which was built on last year's Softwall v1.2.4, achieved great success. The additional functions to this new version include: status-based filter functions; transparent proxy, non-IP protocol forward control function, comprehensive security control function from data link layer to application layer, as well as dynamic many-to-many address conversion function. The version passed the examination by the Bureau of Public Security in March, and passed the examination by Cisco Testing Center in April with good appraisal.

With regard to personal computer network safety protection, the Group launched Soft Personal Computer Security System 2.0 that uses multi-layer filtering technology. The functions of the system include network protection, porn protection and system security protection.

The Group launched 天兵 and 天將 series of Soft security computers pre-installed with Soft security desktop operating systems.

Internet Application Software

After the Company completed the commercialization of Web OA 3.0, and the product was put into wide application in enterprises across different businesses such as bank, medicine, salts and government.

Market Sale and Development

Sale of products

The Group launched the new SOHO version of firewall (full name), which can fully satisfy the application demand of small to medium enterprises comprising of less than one hundred staff members. The product is characterized by low costs, high security and strong practicability.

Nanadasoft Computer Plaza commenced business in late April. The plaza principally focuses on the sale of computers and other digital products under its own brand name, creating a new window for the marketing of the Soft brand name.

The Group participated in China International Electronic Information Technology Fair held in Nanjing from April 9 to 12 and highlighted the newly launched Soft Security Series products.

FUTURE PROSPECTS

Research and Development

Network security total solutions

For the research on network security, the Group will continue its efforts in Softwall, Soft Intrusion Detection System (SoftIDS), and Soft Virtual Private Network (SoftVPN) in the second half of the year. At the same time, the Group will launch high-end Softwall products of over 100 trillion. The Group is closely monitoring the research for mobile network's security technology and products and hopes that products in this area can be launched in the future.

Electronic government

The building of Jiangsu Province's Electronic Government Net, the project of Jiangsu Province Industry and Commerce Bureau's call center, and the building of household system for the Bureau of Public Security in Nanjing City will be commenced in full scale. The implementation and operational test of the official document circulation system for provincial, municipal and county governments of Jiangsu Province commissioned by Zhenjiang City Government have been completed. The Group will market the system during the second half of the year to other municipal governments in the province as well as regional and municipal governments in Southern Suzhou under the leadership of the provincial government.

On the basis of contractual agreement, the Group will start develop new scientific and technological planning and management system with electronic government functions of scientific and technological planning projects of the Office of Science and Technology of Jiangsu Province, build provincial scientific and technological planning and management system demonstration project, and application in the scientific and technological planning aspect in Jiangsu Province.

Internet Application Software

The Group will research and develop an International Logistics Public Information Platform Solution that reaches international advanced level. The Group will build an International Logistics System demonstration with the support of Suzhou Logistics Center for application across Jiangsu Province.

With the Archive of Jiangsu Province as the support unit, the Group will research and develop models and standards under the condition of electronic government for application across Jiangsu Province.

Marketing, Sales and Development

The sale efforts in the second half of the year will continue to explore clients from sectors such as public security, courts and education. Parallel to consolidating the market in the province, the Group also focuses on developing the markets in Anhui, Shandong and Zhejiang in order to capture a higher proportion of market for firewalls outside Jiangsu Province.

For security integration, the Group will leverage on the opportunities brought about by large-scale security projects, and improve Soft Security Integration Solutions to open up new channels for the sale of security products.

In respect of marketing promotion, the Group will continue to promote in the column "Computer World" and focus on establishing the image of security for the brand Soft in the second half of the year. At the same time, the Group will organize a number of press conferences and distributor meetings for its new products.

BUSINESS OBJECTIVES REVIEW

The following section compares the Group's actual business progress to the information provided in the section headed "Statement of business objectives" as set out in the Prospectus:

		Anticipated progress of projects	Actual progress of projects
1.	Launch of New Products		
1.1	Network Security Solution	Launch NandaSoft CA Product, it allows users to grant the system users with certificate of authentication with the principal function of issuing digital signatures	Soft Certificate system (SoftCA v1.0) passed the examination by the Bureau of Public Security and was granted sales permit in September 2002 Launched Softwall v2.0 Launched Soft Personal Computer Security System v2.0
1.2	Internet Application Software	Launch electronic commerce platform version 2.0 Launch data mining tools version 2.0	Launched eBusiness solutions for large scale corporation and applied in book publishing business Launched office automation software WEBOA3.0
1.3	Educational Software	Launch the beta test version of the distance multimedia education platform	Plan had been amended according to actual market conditions. The Group had focused on the development of GIS system, and implemented application on Kunshan project

2. Research and Development

2.1	Network Security Solution	Research on key management technology	Researched on the WINDOWS platform-based security technology and its product development
2.2	Internet Application	Research on higher version of access control model	Researched on active defense technology and its product development
		Research on the web based office automation sharing system	Researched on the mobile network security technology and its product development

3. Sales, Marketing and Business Development

3.1	Network Security Solution	Focus marketing effort on the launch of the NandaSoft Network Security Solution as the total solution provider of network security in the PRC	Developed a series of mail applications for electronic government business which has already entered the trial stage
			Applicable to e-commerce platform for the large-scale enterprises
			Focused on the promotion of carrying out the solutions in public security, courts and education business

3.2	Internet Application software	Market the commercial application software products developed based on the NandaSoft electronic commerce platform	Marketed WEBOA3.0, put into application in corporate units from many sectors such as bank, medicine, salts and government
3.3	Educational Software	Market the distance multimedia education to schools in Jiangsu Province	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	Participate in National Hi-Tech Product Trade Fair in Shenzhen Participate in National IT Security Product Exhibition	Participated in China International Electronic Information Technology Fair in April
3.5	Sales Channels and Business Development	Strengthening the national distribution agency with the focus on the development of the several key agencies throughout the PRC	Carried out the promotion for the SOHO version of firewall NandaSoft Computer Plaza commenced business, carried out the sale of machines under its own brand name
3.6	Promotions and Ads	Increase the promotion of mass media Increase the Ads on TV	Promoted in the column "Computer World"
3.7	Application for certificate of S.I.business	Apply for Grade 1 certificate to industry of Information Industry	Passed the field examination of Grade 2 quality. The examination by Ministry of Information Industry was scheduled to the second half of the year

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 period ended, 30th June, 2003, approximately RMB9,341,000 (2002: approximately RMB13,483,000) was used for developing and rolling out its professional products with various versions, including Softwall VPN1.8, Softwall v2.0 and launching several series of security software operating systems.

Details of the spending and progress of the investment projects are set out in the comparison of the Anticipated Progress of Projects and Actual Progress of Projects. The balance of the proceeds amounted to approximately RMB17,528,000 will continue to be used in the projects disclosed in the Prospectus and is currently deposited in banks.

As at 30th June, 2003, the cost of implementation of business objectives of the Group are compared as follows:—

	As at		As at	
	30th June, 2003		30th June, 2002	
	Actual	Estimated	Actual	Estimated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Research & Development	3,321	4,000	7,368	8,000
Sales & Marketing	1,865	2,000	3,730	3,500
Promotion & Sales	4,155	3,500	2,385	2,000
	<u>9,341</u>	<u>9,500</u>	<u>13,483</u>	<u>13,500</u>

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30th June, 2003, the interests and short positions of the Directors and Supervisors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are required (a) to be notified to the Company and the Stock Exchange pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for

Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name	Type of interests	Number of shares	Capacity	Percentage of deemed beneficial interest in the Company's share capital
Directors				
Xie Li	Other (Note 1)	11,900,000	Interest of a controlled corporation	1.27%
Zhang Yun Xia	Personal (Note 2)	9,000,000	Beneficial owner	0.96%
Chen Dao Xu	Other (Note 1)	500,000	Interest of a controlled corporation	0.05%
Supervisors				
Zhou Ming Hai	Other (Note 1)	5,000,000	Interest of a controlled corporation	0.54%
Xiong Xian Gen	Other (Note 1)	2,000,000	Interest of a controlled corporation	0.21%
Wang Dao Wu	Other (Note 1)	1,000,000	Interest of a controlled corporation	0.11%
Zhou Wen Da	Other (Note 1)	780,000	Interest of a controlled corporation	0.08%
Shi Jian Jun	Other (Note 1)	500,000	Interest of a controlled corporation	0.05%

Notes:

- (1) These shares are held through the Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"). The Union, being a social organisation legal person established under the laws of the PRC by changing the name from Worker Union of Jiangsu Educational Instrument Corporation on 1st July, 2001, holds 110,000,000 shares, or approximately 11.78% shareholding in the Company for and on behalf of the staffs 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 Zhang Yun Xia.

Save as disclosed in this paragraph, as at 30th June, 2003, none of the Directors and Supervisors had interest in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange.

DISCLOSURE UNDER SFO AND SUBSTANTIAL SHAREHOLDERS

So far as was known to any Director or chief executive of the Company, as at 30th June, 2003, the persons or companies (not being a Director or chief executive of the Company) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or who were director indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Shareholder	Capacity	Number of shares	Percentage of registered share capital
Nanjing University	Beneficial Owner	200,000,000	21.41%
Jiangsu Zongyi Company Limited ("Zongyi") (Note 1)	Beneficial Owner Interest of a controlled corporation	160,000,000 21,540,000	17.13% 2.31%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 2)	Beneficial Owner Interest of a controlled corporation	60,000,000 76,500,000	6.42% 8.19%
The Union (Note 3)	Beneficial Owner Interest of a controlled corporation	110,000,000 13,500,000	11.78% 1.45%
Jiangsu Co-Creation Education Development Company Limited	Beneficial Owner	90,000,000	9.64%

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 26th 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 1st 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, as at 30th June, 2003, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

Save as disclosed above, during the six months ended 30th June, 2003, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 2003, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

SHARE OPTION SCHEME

The Company has adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 30th June, 2003, no option has been granted pursuant to such share option scheme.

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 or has any other conflict of interest with the Group.

SPONSOR'S INTEREST

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("Sponsor"), as at 30th June, 2003, Core Pacific-Yamaichi Securities Co., Ltd, 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 30th June, 2003.

Pursuant to an agreement dated 18th 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 24th April, 2001 to 31st December, 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

The Company established an audit committee on 8th December, 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the two independent Non-Executive Directors, Mr. Xu Huan Liang and Professor Wang Zhi Jian, and one Executive Director, Professor Xie Li, Chairman of the Company.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company had complied throughout the period under review the minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2003.

On behalf of the Board

Xie Li

Chairman

25 July, 2003, Nanjing, the PRC