



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 2003

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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.

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Directors of the company

Executive Directors

Professor Xie Li (*Chairman*)
Mr. Wei Zhan Rong

Non-executive Directors

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. Zhou Ming Hai
Mr. Zuo Song Lin
Mr. Zhou De Fan
Mr. Ge Ning

Qualified Accountant

Ms Tong Sze Wan, *HKSA, ACCA*

Company Secretary

Ms Tong Sze Wan, *HKSA, ACCA*

Audit Committee

Professor Xie Li
Mr. Xu Huan Liang
Professor Wang Zhi Jian

Compliance Officer

Professor Xie Li

Authorised Representatives

Professor Xie Li
Ms Tong Sze Wan, *HKSA, ACCA*

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Sponsor

Core Pacific — Yamaichi Capital Limited

Legal Advisers

Fong & Ng *in association with Goodmans*

Principal Bankers

China Merchants Bank, Nanjing Branch
China Industrial and Commercial Bank,
Nanjing Branch, South Town sub-branch
Bank of China, Hong Kong Branch

Hong Kong Share Registrar and Transfer Office

Hong Kong Registrars Limited
Rooms 1901-5, 19th Floor
Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

Room 512, Software Center,
Nanjing New & High Technology
Industry Development Zone, Nanjing, The PRC

Principal Place of Business in China

NandaSoft Tower, 8 Jingyin Street
Shanghai Road, Nanjing, The PRC
Postal code: 210008

Principal Place of Business in Hong Kong

Unit 5, 36/F., AIA Tower
183 Electric Road
North Point
Hong Kong

Stock Code

8045

Chairman's Statement

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Xie Li, Chairman

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report for the year ended 31 December 2003 of Jiangsu NandaSoft Company Limited ("Jiangsu NandaSoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for their review.

Year 2003 marks the fifth anniversary of the Company, and was also the low ebb for the development of the overall IT industry due to the outbreak of SARS. However, with the concerted efforts of the management and the staff, and with the commitment of characterized, scalable and internationalized development strategy, we have sustained encouraging results eventually. In 2003, the Company was accredited successively as one of the "Top 100 Enterprises for scale of the PRC Software Industry 2003" by Ministry of Information Industry and National Bureau of Statistics of China, and one of the "Top 500 Hi-tech and High Growth Enterprises in the Asia Pacific Region", a function organized by Deloitte Touche Tohmatsu. As at the end of 2003, the Group had grown into a well-known IT enterprise group with manpower of more than 700 and a total asset of RMB274,819,000.

Business performance

For the 2003 financial year, the Group recorded a turnover of approximately RMB376,607,000 and a net profit of approximately RMB11,742,000, representing an increase of 20.9% and a decrease of 16.1% respectively as compared to those of the previous year. The substantial increase in the Group's turnover was attributable to the expansion in the scale of the Group and the large-scale projects undertaken during the year. The Directors do not recommend a final dividend for the year ended 31 December 2003.

Give play to characteristics to develop new products

In 2003, the Group continued to intensify R&D of network security products and had successfully launched and initiated sale of SoftVPN1.8, SoftNids2.0 and Softinux.

In the recent years, governments of all levels in the PRC had augmented their efforts in the accomplishment of electronic government businesses. As such, Jiangsu NandaSoft utilized its vested superiority of security products and strengthened the R&D of electronic government businesses with an aim to grasp this opportunity. The putting into application of SoftOA and security official document circulation system, products that support electronic government businesses, had greatly enhanced the competitiveness of the Company in this respect. Jiangsu NandaSoft had become the primary provider of intranet solutions for the government of Jiangsu Province, and had been selected by the governments of Suzhou, Changzhou,

Chairman's Statement

Zhenjiang and etc. as one of their electronic government businesses solutions providers, in addition to a related outstanding award granted by the government of Changzhou City. The Company will keep on intensifying its R&D efforts in products relating to electronic government businesses, such that this line of business will become the Company's business of forte in the days to come.

Base us on Jiangsu and explore markets at home and abroad

In regard to marketing operations, Soft maintained and nurtured its concept of "security integration" in 2003 and succeeded in setting up an image of "security expert" in the country. With the increased R&D input and the strengthened technological ability, the Company had undertaken a number of large-scale projects, namely the "Zhongguo Jiangsu" portal and intranet project for the government of Jiangsu Province, the overall planning of "Jindun Project" for Jiangsu Public Security Bureau and the "Digitalized Industry and Commerce Project" of Jiangsu Province. The undertaking of such projects not only brought about gratifying economic benefits, but also established our industry leading position in Jiangsu Province. Coupled with market exploration and promotion input, "NandaSoft" had become a famous brand in the homeland. The Company had its security products been chosen for use of "GFMS" of the Ministry of Finance, and had at the same time undertaken the project of Journalist Management and Press Card Verification System and its related services projects of Press and Publication Administration, and the



Postal Name & Address Database System of State Post Bureau as well. While exploring the market at home, the Company also explored the market abroad. The Company had spurred the development of markets at home and abroad by cooperating with prestigious domestic and foreign agents. The undertaking and development of foreign software projects had begun to prove successful as evidenced by the contract amount nearly US1 million dollars.

Rely on the Group to beef up integrated ability

The Company incorporated Jiangsu NandaSoft Technology Group in 2003 to further expand the scale of the Group and to accomplish specialization of business. After the establishment of the Group, and with the help of the Group's integrated resources superiority and sales network, products with independent property right, such as network security products, office automation products and human resource management system/distribution system, were formed under the Group, such that "Soft" was promoted as a brand-name of quality products, laying a foundation for future business operation of the Group.

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

Nanjiang, PRC
19 March 2004

Management Discussion and Analysis

Financial review

The audited consolidated turnover of the Group for the year ended 31 December 2003 was approximately RMB376,607,000, representing an increase of approximately 20.9% over 2002. 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 audited profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2003 were approximately RMB11,742,000 and RMB0.0126 respectively, representing a decrease in profit attributable to shareholders of approximately 16.1%. During the year, the Group encountered a slightly decrease in the profit of the Company as 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.

Financial resources and liquidity

As at 31 December 2003, shareholders' funds of the Group amounted to approximately RMB182,716,000. Current assets amounted to approximately RMB205,818,000, of which approximately RMB60,172,000 were cash and bank deposits. The Group had non-current liabilities of RMB3,676,000 and its current liabilities amounted to approximately RMB80,079,000, comprising mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.2. The Group expresses its gearing ratio as a percentage of borrowings and long-term debts over total assets. As at 31 December 2003, the Group had a gearing ratio of 1.3% and the Group has short-term loan of RMB3,600,000.

Charge on group assets

As at 31 December 2003, none of the Group's assets was pledged as security for liabilities. (2002: 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 2003, the Group did not make any material acquisitions or disposals and no proceeds was invested in any significant financial instruments.

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

Management Discussion and Analysis

Capital commitments

As at 31 December 2003, the Group had an authorized and contracted 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.

Contingent liabilities

As at 31 December 2003, the Group had no material contingent liabilities.

Employees and Remuneration Policies

As at 31 December 2003, total remuneration cost for the Group is RMB28,054,000 (2002: RMB19,964,000) and the Group had 723 employees (2002: 605 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

Business Development

Sales of Software

In 2003, Soft Firewall passed the “lectotype” of Ministry of Finance and was formally chosen for use in the GFMIS Project, which made us the only software supplier in Jiangsu Province be selected in connection with the state’s GFMIS Project. Meantime, Soft had also completed a number of security projects, including the Jiangsu Civil Air Defense Security System, the Vertical Network Security System of Jiangsu Planning and Development Commission and the Security System of Jiangsu Radio Management Committee. On the other hand, the sales of Soft in other provinces recorded noted breakthrough as non-local sales accounted for 20% of total sales, representing a rise of 200% as compared to the previous year.

Management Discussion and Analysis

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Large scale system integration projects

In 2003, Soft Company continued to develop its system integration business by giving play to its characteristics of "security integration", and by focusing the government sector. During the Period, NandaSoft won the bid of a number of projects, namely the "Zhongguo Jiangsu" Portal Website and Intranet Portal Project of the government of Jiangsu Province, the Overall Planning of Jindun Project of Jiangsu Public Security Bureau and the "Digitalized Industry and Commerce Project" of Jiangsu Province. In particular, the "Zhongguo Jiangsu" Portal Website and Intranet Portal Project of the provincial government signified that NandaSoft had established its leading position in the electronic government businesses market in Jiangsu Province, which is of significance and demonstrative effect as to the development of provincial and national electronic government businesses market.

Cooperation with domestic and foreign agents

In the market operation of 2003, Soft Company had vigorously capitalized the Group's superiority resources to improve its relationship with domestic and foreign agents, which counts key cooperative partners like Microsoft, IBM, BEA, Oracle, CISCO, Nortel, Intel, Huawei and etc. Through organizing new product release activities with such agents, Soft had extended its sphere of influence in the industry.



As to sales channels, Soft Company maintained and expanded its sale channels in the province while building up with effort to its sales agent teams in other provinces. There were 200 odd sales agents attending the recently held annual sales agent meeting. Sales in Zhejiang and Fujian recorded noted increase with the help of distributors in securing security projects of Zhejiang Labor and Employment Bureau and Hangzhou Statistics Bureau. In addition, product promotion campaigns were also held in cities like Shanghai and Beijing.

Research and development

Network security total solutions

The Group had successfully launched network security product parts, such as SoftVPN1.8, SoftNIDS2.0, and Softinix, with the latter having been fully pre-framed in security products of Soft.

Electronic Government Businesses

In 2003, the State Informatization Steering Group decided at its first meeting to make construction of electronic government businesses as the key task of informatization of the state in the foreseeable future. The objective of which will be accomplished from above to below, that is, the government sector will start off before the others and bring along the informatization of national economy and social development. The Group had kept in step with and had thrown itself to the development of state electronic government businesses. NandaSoft had become the primary provider of intranet solutions for the government of Jiangsu Province, and had been chosen the governments of Suzhou, Changzhou, Zhenjiang and etc. as one of their electronic government businesses providers, in addition to a related outstanding award

Management Discussion and Analysis

granted by the Government of Changzhou City that evoked widespread echoes and recognized its leading position nationwide in the arena of electronic government businesses. In terms of R&D of technologies related to electronic government businesses, NandaSoft had made product and technology breakthroughs in portal technology application, data exchange, trans-area official document exchange, administrative joint-approval, secured e-mail and the like, enabling multi-function products or solutions that feature vertical and horizontal compatibility.



Among them, secured e-mail (xGovMail.Server) and portal product in connection with electronic government businesses had accomplished market sale with the outernet portals, intranet portals, labor offices and prison administrations of the government of Jiangsu Province as typical users.

Internet value-added services

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 e-Business solutions for major enterprises, paralleled by the application in Jiangsu New China Publishing Group.

The Group opened up a new direction of new digital filing business during the period by establishing the Jiangsu Digital Filing R&D Center with Jiangsu Archives with an aim to embark on R&D on the model and scale of digital filing construction at provincial, city and country level under electronic government businesses environment. We have already entered into development contracts with Suzhou Archives and Archives of Jiangning, Nanjing.

The “International logistics public information platform development and application demonstration”, a key technological upgrading scheme of Jiangsu Province undertaken by the Group, is now under implementation in Suzhou Logistics Center, laying a foundation for the Company’s expanding into the logistics industry.

Obtaining relevant qualifications and Credits

In 2003, SoftNIDSv2.0, an integral part of the Soft Security Total Solutions, passed the appraisal by the Quality Control and Inspection Center of Security Products for Computer Information Systems of the Bureau of Public Security, and was granted the sales permit for the official launch of it to the market.



In 2003, the Company passed and obtained the certification of National Computer Information System Integration Grade 2 Quality, which reflects the strength of the Company in undertaking large-scale system integration projects.

In the selection of the “Top 100 Enterprises for scale of the PRC Software Industry 2003” by Ministry of Information Industry and National Bureau of Statistics of China in September, the Company came 50 in the “Top 100 Enterprises of the PRC Software Industry 2003” with outstanding results.

Management Discussion and Analysis

In December, NandaSoft was successfully accredited as one of the "Top 500 Hi-tech and High Growth Enterprises in the Asia Pacific Region".

Business Outlook

Research and Development

Electronic Government Businesses

At the National Information Industry Work Meeting held at the beginning of 2004, thinking and key tasks for promoting informatization construction were proposed, which states that: the informatization construction of 2004 will be accomplished by carrying through, actively and pragmatically, implementation of electronic government businesses, government websites, databases and business application system construction; by facilitating integration of government businesses resources, information share and business synergy, and by taking the initiative to implement government online services, increasing service items, enriching service contents and enhancing service functions. It is proposed that national key informationization project construction will be proceeded with, and that the construction and perfection of information application system among all departments and various regions will be encouraged and supported, coupled with the augmented monitoring of information system projects and regulating order of informatization construction market. As such, the Group will, in 2004, continue to promote the development of electronic government businesses in Jiangsu Province, focus on the R&D of government portal products, data exchange products, trans-area official document exchange products, as well as the R&D of multi-function information integration and application integration technology.



Network security total solutions

Following preliminary formation of software network security total solution, the R&D of hardware network security products will be initiated in the direction of high-performance network security system. We are planning to upgrade the performance and function of existing network security products, and in accordance with the characteristics of certain industries, develop industry-specialized network security total solutions incorporated with hardware and software.

Internet value-added services

Strive to complete the following products in 2004:

- (1) Series OA products, and by integrating them with various businesses like enterprise ERP, government office business to form typical industry-based application integrated products;
- (2) Digital filing series products, series products which support management and utilization of digital filing;

Management Discussion and Analysis

- (3) Public security cyber-police series products, including report-handling center system, professional cyber-police specialized products, cyber-police operation management system, etc., all of which are specialized products for public security cyber-police departments; and
- (4) Logistics products with clear and definite direction of application. In light of the numerous and jumbled business scope of logistics industry, priority will be given to small and exquisite products and typical logistics application enterprise, so as to gradually integrate with e-commerce platform, and form characterized logistics products.

Sales and marketing

We will set up an image of “security expert” in the country through professional media and product promotion campaigns, thereby giving impetus to the development of network security products and security integration business.

This involves utilizing the resources of the Group for continued expansion of agent team across the country with an aim to grow hand in hand with them. We will also advance sales of product and deepen security concept through industry-based security solutions.

In respect of electronic government businesses promotion, we will spread electronic government businesses to all government organizations and to all city or county governments in the Province.

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 2003 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
1.0 Launch of New Products		
1.1 Network Security Solution	<ul style="list-style-type: none">— Launch NandaSoft CA Product, it allows users to grant the system users with certificate of authentication with the principal function of issuing digital signatures.	<ul style="list-style-type: none">— Soft Certificate system (SoftCA v1.0) passed the examination by the Bureau of Public Security and was granted sales permit in September 2003.— Launched Softwall v2.0.— Launched Soft Personal Computer Security System v2.0.
	<ul style="list-style-type: none">— Launched authorized server system software, it allows system administrators to grant unique authorisation to each individual user of a server system, so the users can access different information that stored on the server system based on their unique authorisations.	<ul style="list-style-type: none">— Developed website server protection system.
1.2 Internet Application Software	<ul style="list-style-type: none">— Launch electronic commerce platform version 2.0.— Launch data mining tools version 2.0.	<ul style="list-style-type: none">— Launched eBusiness solutions for large scale corporation and applied in book publishing business.— Launched office automation software WEBOA3.0.

1.3 Educational Software

Anticipated progress of projects

- Launched beta test version of web based office automation sharing system.
- Launch the beta test version of the distance multimedia education platform.
- Launched version 2.0 of the distance multimedia education platform.

Actual progress of projects

- Completed enhanced version of workflow application system in October 2003.
- Accomplished secured electronic document exchange system in December 2003.
- 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.
- Plan had been amended according to actual market conditions. Completed user trial run for Kunshan Land Administration Bureau GIS application project has completed user test drive.
- The project will undergo examination and acceptance procedures at the beginning of 2004 and will be extended to the whole province afterwards.

Business Objectives Review

	Anticipated progress of projects	Actual progress of projects
2. Research and Development		
2.1 Network Security Solution	<ul style="list-style-type: none"> — Research on key management technology. — Research on higher version of access control model. — Researched on higher version of system security model. — Researched on system deficiency detection technology. 	<ul style="list-style-type: none"> — Researched on the WINDOWS platform-based security technology and its product development. — Completed research on the security model of the provincial electronic government businesses system.
2.2 Internet Application	<ul style="list-style-type: none"> — Research on the web based office automation sharing system. — Researched on the next generation of the web based office automation sharing system. 	<ul style="list-style-type: none"> — Researched on active defense technology and its product development. — Researched on the mobile network security technology and its product development. — Launched the government version of WEBOA3.0 in October 2003 and had it successfully implemented in 20 odd government clients. — Launched the secure filing exchange and transmission system of Webservice in December 2003.

	Anticipated progress of projects	Actual progress of projects
<p>3. Sales, Marketing and Business Development</p> <p>3.1 Network Security Solution</p>	<p>— Focus marketing effort on the launch of the NandaSoft Network Security Solution as the total solution provider of network security in the PRC.</p>	<p>— Focused on the promotion of carrying out the solutions in public security, courts and education business.</p> <p>— Had been fully extended to Jiangsu Planning Commission, Jiangsu Office of Civil Air Defense, Jiangsu Radio Management Committee, Jiangsu Bureau of Public Security, Jiangsu Economics and Trade Commission and is about to spread to more governmental units.</p>
<p>3.2 Internet Application Software</p>	<p>— Market the commercial application software products developed based on the NandaSoft electronic commerce platform.</p>	<p>— Marketed WEBOA3.0, put into application in corporate units from many sectors such as bank, medicine, salts and government.</p>
<p>3.3 Educational Software</p>	<p>— Market the distance multimedia education to schools in Jiangsu Province.</p>	<p>— 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.</p>

Business Objectives Review

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	Anticipated progress of projects	Actual progress of projects
3.4 Trade Fairs, Training Courses and Seminars	<ul style="list-style-type: none"> — Participate in National Hi-Tech Product Trade Fair in Shenzhen. — Participate in National IT Security Product Exhibition. 	<ul style="list-style-type: none"> — Participated in China International Electronic Information Technology Fair.
3.5 Sales Channels and Business Development	<ul style="list-style-type: none"> — Strengthening the national distribution agency with the focus on the development of the several key agencies throughout the PRC. — Adjust the national product sales channel. — Develop the foreign distribution agency in Hong Kong. 	<ul style="list-style-type: none"> — 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. — Established four geographical market segments, namely eastern, central, southern and north western, to conduct all-out promotion of Soft security products.
3.6 Promotions and Ads	<ul style="list-style-type: none"> — Increase the promotion of mass media. — Increase the Ads on TV. 	<ul style="list-style-type: none"> — Promoted in the column "Computer World". — Organized new product release activities in Zhejiang, Fujian, Jiangsu and other places.

3.7 Application for certificate of S.I.business	Anticipated progress of projects	Actual progress of projects
	— Apply for Grade 1 certificate to Ministry of Information Industry.	— Passed the field examination of Grade 2 quality. Due to atypical pneumonia epidemic, the examination by Ministry of Information Industry was postponed to the second half of the year.
	— Obtain Grade 1 certificate	— Obtained S.I. Grade 2 certification and prepared for the application of Grade 1 certification.

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 2003, approximately RMB23,934,000 (2002: approximately RMB26,572,000) was used for developing and rolling out its professional products with various versions, including Softwall WPH v1.8, SoftNIDS2.0, and Softinix, and product promotional activities.

Details of the spending and progress of the investment projects are set out in the Comparison of the Business Plans and Actual Progress. All the proceeds amounted to approximately RMB73,200,000 will use in accordance with the projects disclosed in the Prospectus.

As at 31 December 2003, the cost of implementation of business objectives of the Group are compared as follows:

	2003		2002	
	Actual	Estimated	Actual	Estimated
Research & Development	8,346,000	8,800,000	15,436,000	16,000,000
Sales & Marketing	7,170,000	4,000,000	6,641,000	7,000,000
Promotion & Business	8,418,000	7,500,000	4,495,000	4,500,000
	<u>23,934,000</u>	<u>20,300,000</u>	<u>26,572,000</u>	<u>27,500,000</u>

Report of the Directors

Principal Activities

The principal activity of the Company is development, manufacturing and marketing of network security software, internet application 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 associates 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 10% of the Group's turnover for the year. Purchases from major suppliers accounted for the following percentages:

The largest supplier	12.7%
The five largest suppliers	25.4%

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 2003 are set out in the Annual Report on pages 38 to 71 of the financial statements.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 25 to the financial statements.

Property, Plant and Equipment

Details of changes of property, plant and equipment of the Group and the Company are set out in note 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*)

Mr. Wei Zhan Rong (changed from non-executive director to executive director on 13 February 2004)

Non-Executive directors

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. Zhou Ming Hai

Mr. Zuo Song Lin (appointed on 23 May 2003)

Dr. Xiong Xian Gen (resigned on 23 May 2003)

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.

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.

Report of the Directors

Directors', Chief Executives' And Supervisors' Interests In Shares

As at 31 December 2003, the interests and short positions of the Directors, chief executives 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 1 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 31 December 2003, none of the Directors, Chief Executives 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 31 December 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 of Part XV of the SFO or who were director indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any 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% 9.64%
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%
Golden 21 Investment Holdings Limited (Note 4)	Beneficial Owner	25,842,000	2.77%

Report of the Directors

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.
4. The interest of Golden 21 Investment Holdings Limited represents approximately 11.04% of total H shares and representing approximately 2.77% of the total domestic and H shares.

Save as disclosed above, as at 31 December 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 5% 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.

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 31 December 2003, no option has been granted pursuant to such share option scheme.

Directors' and Supervisors' interests in the underlying shares pursuant to equity derivatives

Save as disclosed above, during the year ended 31 December 2003, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31 December 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 year.

Directors' and Supervisors' Rights to Acquire H Shares

Save as disclosed above, during the year ended 31 December 2003, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2003, none of the Directors or the Supervisors had any rights to acquire H shares in the Company.

Directors' Interests in Contracts

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

Sponsor's Interest

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("Sponsor"), as at 31 December 2003, neither the Sponsor nor its directors, employees or associates (as defined to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company.

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. Following the expiry of the sponsor's agreement entered into between the sponsor and the Company. The sponsor has ceased to act as the Company's continuing sponsor with effect from 1 January 2004.

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.

Connected Transactions

The connected transactions as specified in the GEM Listing Rules undertaken by the Group are set out in note 31 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

Report of the Directors

the connected transactions set out in note 31 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 system of the Group. The audit committee comprises the two Independent Non-executive Directors, Mr. Xu Huan Liang and Professor Wang Zhi Jian, and one Executive Director, Professor Xie Li. The audit committee 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 Rules 5.28 to 5.39 of the GEM Listing Rules since its listing on 24 April 2001.

Purchase, Sale or Redemption of Securities

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

Auditors

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

On behalf of the Board

Xie Li

Chairman

Nanjiang, the PRC
19 March 2004

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 2003, 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

19 March 2004

Directors, Supervisors and Senior Management

Directors

Executive Directors

Professor Xie Li, (謝立), 62, Chairman 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. Wei Zhan Rong (魏占榮), 51, 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.

Non-Executive Directors

Professor Chen Dao Xu, (陳道蓄), 57, 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.

Directors, Supervisors and Senior Management

Ms. Zhang Yun Xia, (張雲霞), 40, is a university graduate and a senior designer of Zongyi. Ms. Zhang was fashion designer working in Tongzhou Embroidery Factory (通州市刺繡廠) in 1989. She worked in the technology department of Nantong Golden (Group) Co. Ltd. (南通黃金(集團)股份公司) during the period from 1990 to 1996. From 1997 to 1999, Ms. Zhang took courses in New York University, U.S.A.. Ms. Zhang currently serves in Zongyi's Shenzhen branch office. Ms. Zhang joined the Company in January 2001.

Independent non-executive Directors

Mr. Xu Huan Liang, (徐煥亮), 62, post-graduate of the Department of Mathematics in Nanjing University majored in mathematical logic in 1967. Mr. Xu has served successively as Technical Officer, Engineer, Deputy Director of the Design Institute and Deputy Chief Engineer for Nanjing Cable Wire Factory since 1968. He was appointed to be the Deputy Plant Director in 1984 and he also served as the Chief Engineer for Nanjing High and New Technologies Development Zone from 1988 to 1991. He has been engaged in the development of editing and translating procedures, management programs, operating systems and various military and civil computer systems since 1964. Mr. Xu has served as a committee member of the Computer Technology Committee of the Ministry of Electronic Industry, appraiser of Electronic Industry Technology Achievements, member of the Military Computer Professional Group of State Commission of Science, Technology and National Defence Industry.

Professor Wang Zhi Jian, (王志堅), 46, Deputy Dean of the Department of Information Technology in Hehai University (河海大學) and a member of the Standing Committee of Nanjing Political Consultative Conference. He graduated from the Department of Computer Science in Nanjing University in 1982 and has served as an Assistant Engineer of Jiangsu Province Computer Technology Research Institute. From 1983 to 1986, Professor Wang obtained a master degree and a doctoral degree from the Department of Computer Science in Nanjing University and remained with as a faculty member of the University thereafter. After being transferred to Hehai University in 1995, he has served as a standing director of Jiangsu Province Computer Association. Professor Wang has been engaged in the education and research in computer science and technology over a long period and his research focuses include software engineering, logic program design, inductive reasoning, software automation and facing object technology.

Members of Supervisory Committee

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

Directors, Supervisors and Senior Management

Mr. Wang Dao Yu, (王道五), 61, 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), 49, member of Supervisory Committee of the Company, Master of Economics, and the Vice President, Professor and PhD student mentor in Nanjing University. Professor Shi is currently the Vice Chairman of China Statistics Society and Vice Chairman of China Education Accounting Society. He lectured undergraduate and postgraduate courses of Principles of Statistics, International Economic statistics and National Economic Equilibrium Analysis. Professor Shi has presided over about 20 national or provincial science research projects. He was awarded the 4th National Huo Ying Dong Outstanding Teaching Achievement Award, second prize in the National Outstanding Teaching Achievement Award and second prize of the National Science and Technology Committee Sci-Tech Advancement Award. He has authored a total of 18 books and teaching materials, and published over 100 academic papers. Professor Shi joined the Company in September 1998.

Mr. Zhou Wen Da, (周文達), 41, post-graduate, Supervisor and the General Manager of the Security 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), 40, 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), 54, 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.

Mr Zuo Songlin, (左松林), 40, Mr. Zuo obtains a Bachelor degree in Engineering at Xidian University Xian China in 1984 and a Master degree in Economics at International Business School of University of Nanjing, China in 1990. Mr. Zuo has over 10 years' senior management experience in the industry of pharmaceutical and high-technology business in China.

Directors, Supervisors and Senior Management

Members of the Independent Supervisory Committee

Mr. Zhou De Fan, (周德藩), 64, 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), 46, graduate of the Department of Electronic Engineering in Southeastern University (東南大學) in 1981, Senior Engineer of the Department of Computers in Southeastern University, member of Jiangsu Province Computer Society and member of the Academic Committee of Jiangsu Province Youth Computer Technology Forum. After working for the Department of import and export in Southeastern University from 1983 to 1989, Mr. Ge was transferred to the Singapore Technology Group by the Ministry of Education from 1989 to 1992. He held the post of Deputy General Manager of Dongda Microelectronic Company Limited (東大微電子有限公司) from 1992 to 1994 and has been the Deputy Director and General Manager of Dongda Wiscom Software Co. Ltd. (東大金智軟件股份有限公司) since 1995. Mr. Ge joined the Company in October 2000.

Senior Management

Mr. Yuan Feng, (袁峰), 36, 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), 43, 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.

Directors, Supervisors and Senior Management

Ms. Yang Xu, (楊旭), 40, 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.

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Ms. Tong Sze Wan, (唐詩韻), 31, 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 (“AGM”) of Jiangsu NandaSoft Company Limited (the “Company”) will be held at Room 502, NandaSoft Tower, No. 8, Jingyin Street, Nanjing, the PRC on 21 May 2004 (Friday) at 9:00 a.m. for the following purposes:

- I. To consider and, if thought fit, to pass the following ordinary resolutions:
 - (1) To consider and approve the report of the Directors for the year 2003;
 - (2) To consider and approve the report of the Supervisory Committee for the year 2003;
 - (3) To consider and approve the audited consolidated financial statements of the Company and its subsidiaries for the year 2003;
 - (4) To consider and approve the proposed final dividend distribution for the year 2003;
 - (5) To consider and approve the appropriation to statutory pension fund and statutory social benefits for the year 2003;
 - (6) To consider and approve the plan to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2004 and to authorise the Board of Directors to fix their remuneration;
 - (7) To consider and approve the appointment and/or replacement of Directors and Supervisors and the proposed remuneration for Directors and Supervisors, and to authorize the Board of Directors to fix their remuneration; and
 - (8) To transact any other business.

Notice of Annual General Meeting

II. To consider and, if thought fit, pass with or without modifications, the following resolutions as special resolutions:

“THAT :

- (a) subject to paragraph (c), (d) and (e) below, the exercise by 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 authorise, allot or issue 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;
- (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 Company Law of the People’s Republic of China (“PRC”) and be conditional upon the approval of China Securities Regulatory Commission and/or other relevant authorities in the PRC and/or the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) having been obtained by the Company;

Notice of Annual General Meeting

- (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).”

“**THAT**, subject to the approval of the relevant competent PRC and/or overseas authorities, the articles of association of the Company (“Articles”) be amended as follows and the Directors be authorised to take any necessary actions required under PRC and/or overseas laws and regulations to effect the said amendments including registration of the amended Articles:

(a) Article 66

The last paragraph of Article 66 of the Articles be amended and entirely replaced with the following:—

“If a recognized clearing house within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (or its nominee) is a shareholder of the Company it may, by resolutions of its directors or other governing body or by power of attorney, authorize such person or persons as it thinks fit to act as its representative or representatives at any meeting of the shareholders of the Company or at any meeting of any class of shareholders of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised, The person so authorized pursuant to this provision shall be entitled to exercise the same power on behalf of the recognized clearing house as that which the recognized clearing house (or its nominee) could exercise if it were an individual shareholder of the Company.”

Notice of Annual General Meeting

(b) Article 74

Articles 74 of the Articles be amended and entirely replaced with the following:—

“A resolution put to vote shall be decided on a show of hands unless specifically required under the GEM Listing Rules or any other applicable laws, rules or regulations to be by poll or unless demanded by any of the following persons for a poll before or after the declaration of the result of the show of hands:—

- (1) The Chairman of the meeting;
- (2) At least two shareholders present in person or by proxy and entitled to vote;
- (3) Any shareholder or shareholders present in person or by proxy representing in aggregate one-tenth or more of the total voting rights of all the shareholders having the right to vote at the meeting.

Unless a poll is so demanded, a declaration by the Chairman that a resolution has on a show of hands been carried and an entry to that effect in the minutes of the relevant meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

Any demand for a poll may be withdrawn.”

(c) Article 75

The following paragraph be added to Article 75 as the second paragraph of Article 75:-

“Where any shareholder who is under the GEM Listing Rules required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

(d) Article 95

Subject to the appointment of an additional independent non-executive director in compliance with the GEM Listing Rules which require the Company to have at least 3 independent non-executive directors and at least one of them to have appropriate professional qualifications or accounting or related financial management expertise by 30 September 2004, Article 95 of the Articles be amended and entirely replaced with the following:—

Notice of Annual General Meeting

“The Board of Directors shall comprise of at least 7 Directors, 2 of whom shall act as the Chairman and the Vice-Chairman respectively. At least half of the Directors shall comprise of external Directors (Directors not being an employee or officer of the Company). There shall at least be 3 independent non-executive Directors (Directors not being an employee or officer of the Company who are independent of the shareholders of the Company), at least one of whom shall have appropriate professional qualifications or accounting or related financial management expertise as required by the GEM Listing Rules.

The Company shall provide the necessary information for the external Directors and the independent non-executive Directors to perform their duties.”

(e) Article 96

The second paragraph of Article 96 of the Articles be amended and entirely replaced with the following:—

“The minimum length of the period, during which notice to the Company of the intention to propose a person for election as a director and during which notice to the Company by such person of his willingness to be elected as a director may be given, will be at least 7 days. The aforesaid period for lodgment of the notices will commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than 7 days prior to the date of such meeting.”

(f) Article 104

The fifth paragraph of Article 104 of the Articles be amended and entirely replaced with the following:—

“A Director shall not vote on any board resolution approving any contract or arrangement or any other proposal in which he or any of his associates (as such term is defined in the GEM Listing Rules) has a material interest nor shall he be counted in the quorum present at the same board meeting.”

On behalf of the Board

Jiangsu NandaSoft Company Limited

Xie Li

Chairman

Nanjing, the PRC
29 March 2004

Notice of Annual General Meeting

Notes:

1. A member entitled to attend and vote at the AGM 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 proxy form 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 H share registrar of the Company, Hong Kong Registrars Limited, Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong ("H Share Registrar") not less than 24 hours before the time for holding the AGM or the appointed time of voting.
3. Shareholders or their proxies shall present proofs of identities upon attending the AGM.
4. The Register of Members will be closed from 21 April 2004 to 21 May 2004, both days inclusive. Instruments of transfer accompanied by relevant share certificates must be lodged with the H Share Registrar by 4:00 p.m. on 20 April 2004.
5. Shareholders entitled to attend the AGM are requested to complete and deliver the reply slip for attendance to the H Share Registrar before 30 April 2004.

德勤·關黃陳方會計師行

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

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**Deloitte
Touche
Tohmatsu**

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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 38 to 71 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong 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 2003 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

Hong Kong, 19 March 2004

Consolidated Income Statement

For the year ended 31 December 2003

	Notes	2003 RMB	2002 RMB (re-stated)
Turnover	4 & 5	376,606,707	311,405,868
Cost of sales		(319,208,908)	(261,348,530)
Gross profit		57,397,799	50,057,338
Other operating income	6	2,810,679	3,952,207
Distribution costs		(23,294,614)	(18,779,758)
Research and development costs		(2,629,153)	(1,957,435)
Administrative expenses		(20,476,572)	(16,361,828)
Profit from operations	7	13,808,139	16,910,524
Finance costs	8	(135,061)	(56,686)
Share of results of associates		632,550	94,824
Profit before taxation		14,305,628	16,948,662
Taxation	10	(1,889,833)	(1,973,102)
Profit before minority interests		12,415,795	14,975,560
Minority interests		(673,926)	(984,728)
Profit attributable to shareholders		11,741,869	13,990,832
Dividend	11	—	4,670,000
Earnings per share	12	0.0126	0.0150

Consolidated Balance Sheet

At 31 December 2003

	Notes	2003 RMB	2002 RMB (re-stated)
Non-current assets			
Property, plant and equipment	13	37,477,548	38,074,264
Intangible assets	14	21,443,153	14,257,152
Interests in associates	16	3,137,550	444,824
Investments in securities	17	3,582,554	967,694
Deferred taxation	18	3,359,841	1,990,000
		<u>69,000,646</u>	<u>55,733,934</u>
Current assets			
Inventories	19	21,643,497	27,347,163
Trade debtors	20	105,554,830	79,318,566
Deposits, prepayments and other debtors		18,441,971	14,830,937
Investments in securities	17	5,800	28,300
Cash and bank balances		60,172,222	77,278,194
		<u>205,818,320</u>	<u>198,803,160</u>
Current liabilities			
Trade creditors	21	38,177,329	41,832,186
Notes payable		6,822,600	—
Receipt in advance, other creditors and accrued expenses		24,761,544	14,616,021
Amounts due to shareholders	22	237,879	5,219,836
Amount due to an associate	23	200,020	66,735
Provision for taxes and levies	24	6,279,912	5,712,767
Short-term loan (unsecured)		3,600,000	—
		<u>80,079,284</u>	<u>67,447,545</u>
Net current assets		<u>125,739,036</u>	<u>131,355,615</u>
Total assets less current liabilities		194,739,682	187,089,549
Minority interests		8,347,137	8,957,996
		<u>186,392,545</u>	<u>178,131,553</u>
Capital and reserves			
Share capital	25	93,400,000	93,400,000
Reserves		89,316,295	82,244,426
		<u>182,716,295</u>	<u>175,644,426</u>
Non-current liabilities			
Deferred tax liabilities	18	3,676,250	2,487,127
		<u>186,392,545</u>	<u>178,131,553</u>

The financial statements on pages 38 to 71 were approved and authorised for issue by the Board of Directors on 19 March 2004 and are signed on its behalf by:

Xie Li
Chairman

Wei Zhan Rong
Director

Balance Sheet

At 31 December 2003

	Notes	2003 RMB	2002 RMB (re-stated)
Non-current assets			
Property, plant and equipment	13	33,035,248	35,025,676
Intangible assets	14	20,072,820	12,598,819
Investments in subsidiaries	15	22,092,127	15,559,984
Investments in securities	17	3,582,554	967,694
		78,782,749	64,152,173
Current assets			
Inventories	19	7,564,697	13,998,001
Trade debtors		70,956,761	58,365,346
Deposits, prepayments and other debtors		5,392,236	9,097,486
Investments in securities	17	—	22,500
Amounts due from subsidiaries		6,233,140	4,862,914
Dividend receivable		4,719,730	5,740,590
Cash and bank balances		37,073,291	60,567,067
		131,939,855	152,653,904
Current liabilities			
Trade creditors		22,851,918	30,309,740
Notes payable		410,000	—
Receipt in advance, other creditors and accrued expenses		4,643,362	5,166,580
Amount due to a subsidiary		30,000	—
Amounts due to shareholders	22	—	5,033,573
Provision for taxes and levies	24	3,118,255	3,449,529
Short-term loan (unsecured)		3,600,000	—
		34,653,535	43,959,422
Net current assets		97,286,320	108,694,482
		176,069,069	172,846,655
Capital and reserves			
Share capital	25	93,400,000	93,400,000
Reserves	27	78,992,819	76,959,528
		172,392,819	170,359,528
Non-current liabilities			
Deferred tax liabilities	18	3,676,250	2,487,127
		176,069,069	172,846,655

Xie Li
Chairman

Wei Zhan Rong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2003

	Share capital RMB	Share premium RMB	Statutory surplus reserve RMB (note 27b)	Statutory public welfare fund RMB (note 27c)	Retained earnings RMB (note 27d)	Dividend reserve RMB	Total RMB (re-stated)
THE GROUP							
At 1 January 2002							
— as originally stated	93,400,000	48,868,818	1,439,045	719,523	19,209,617	—	163,637,003
— prior period adjustment (note 2)	—	—	—	—	(1,983,409)	—	(1,983,409)
— as restated	93,400,000	48,868,818	1,439,045	719,523	17,226,208	—	161,653,594
Profit attributable to shareholders	—	—	—	—	13,990,832	—	13,990,832
2002 dividend declared	—	—	—	—	(4,670,000)	4,670,000	—
Appropriations (note 27a)	—	—	874,295	437,147	(1,311,442)	—	—
At 31 December 2002	93,400,000	48,868,818	2,313,340	1,156,670	25,235,598	4,670,000	175,644,426
Profit attributable to shareholders	—	—	—	—	11,741,869	—	11,741,869
2002 dividend paid	—	—	—	—	—	(4,670,000)	(4,670,000)
Appropriations (note 27a)	—	—	667,833	333,916	(1,001,749)	—	—
At 31 December 2003	<u>93,400,000</u>	<u>48,868,818</u>	<u>2,981,173</u>	<u>1,490,586</u>	<u>35,975,718</u>	<u>—</u>	<u>182,716,295</u>

Consolidated Cash Flow Statements

For the year ended 31 December 2003

	2003	2002
	RMB	RMB
Operating activities		
Profit before taxation	14,305,628	16,948,662
Adjustment for:		
Share of results of associates	(632,550)	(94,824)
Interest expense	81,308	21,240
Interest income	(1,087,155)	(2,578,190)
Allowance for doubtful debts	2,100,154	2,430,726
Gain on disposal of investments in securities	(3,013)	(351,521)
Loss on disposal of property, plant and equipment	14,413	33,319
Depreciation of property, plant and equipment	3,237,420	2,375,368
Amortisation of intangible assets	2,139,435	1,396,594
Impairment loss of investments in securities	85,140	177,878
	<hr/>	<hr/>
Operating cash flows before movements in working capital	20,240,780	20,359,252
Decrease (increase) in inventories	5,703,666	(14,940,223)
Increase in trade debtors	(28,336,418)	(38,241,952)
Increase in deposits, prepayments and other debtors	(3,611,034)	(6,401,662)
(Decrease) increase in trade creditors	(3,654,857)	22,456,187
Increase in notes payable	6,822,600	—
Increase in receipt in advance, other creditors and accrued expenses	10,035,170	3,457,763
(Decrease) increase in amounts due to shareholders	(4,981,957)	1,218,313
(Decrease) increase in provision for taxes and levies	(486,011)	2,170,305
	<hr/>	<hr/>
Cash used in operating activities	1,731,939	(9,922,017)
PRC income tax paid	(1,017,395)	(2,139,422)
	<hr/>	<hr/>
Net cash generated from (used in) operating activities	714,544	(12,061,439)

Consolidated Cash Flow Statements

For the year ended 31 December 2003

	2003	2002
	<i>RMB</i>	<i>RMB</i>
Investing activities		
Interest received	1,087,155	2,578,190
Proceeds from disposal of investments in securities	25,513	768,331
Acquisition of investments in associates	(2,155,000)	—
Dividends received from an associate	94,824	172,737
Acquisition of additional interest in subsidiaries	(2,170,000)	—
Expenditure on product development	(9,325,436)	(7,776,728)
Purchases of property, plant and equipment	(2,839,549)	(3,464,990)
Purchase of investment securities	(2,700,000)	(437,040)
Net cash used in investing activities	<u>(17,982,493)</u>	<u>(8,159,500)</u>
Financing activities		
Capital contribution by minority shareholders of subsidiaries	1,180,000	4,184,000
Dividend paid to a minority shareholder of a subsidiary	—	(152,374)
Advance from an associate	133,285	267,971
Interest paid	(81,308)	(21,240)
New bank loan raised	3,600,000	—
Dividend paid	(4,670,000)	—
Net cash from financing	<u>161,977</u>	<u>4,278,357</u>
Net decrease in cash and cash equivalents	<u>(17,105,972)</u>	<u>(15,942,582)</u>
Cash and cash equivalents at beginning of the year	<u>77,278,194</u>	<u>93,220,776</u>
Cash and cash equivalents at end of the year	<u><u>60,172,222</u></u>	<u><u>77,278,194</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><u>60,172,222</u></u>	<u><u>77,278,194</u></u>

Notes to the Financial Statements

For the year ended 31 December 2003

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 HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS"s) issued by the Hong Kong Society of Accountants ("HKSA"), the term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA:

SSAP 12 (Revised)	"Income taxes" ("SSAP 12 (Revised)")
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In the current year, the Group has adopted SSAP 12 (Revised) Income Taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

As a result of this change in policy, the balance of retained profits at 1 January 2002 has been decreased by RMB1,983,409, representing the cumulative effect of the change in policy on the results for the periods prior to 1 January 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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 ten years.

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

Impairment

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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.

4. TURNOVER

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

	2003	2002
	RMB	RMB
Sales of computer software products	8,560,213	14,890,088
System integration	368,046,494	296,515,780
	<u>376,606,707</u>	<u>311,405,868</u>

Notes to the Financial Statements

For the year ended 31 December 2003

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.

Segment information about these businesses is presented below.

	Sales of computer software products		System integration		Total	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB	2003 RMB	2002 RMB (re-stated)
TURNOVER	8,560,213	14,890,088	368,046,494	296,515,780	376,606,707	311,405,868
RESULT	4,386,459	4,993,106	12,514,232	9,339,123	16,900,691	14,332,229
Investment income					1,284,566	2,929,711
Unallocated corporate expenses					(4,377,118)	(351,416)
Profit from operations					13,808,139	16,910,524
Finance costs					(135,061)	(56,686)
Share of results of associates					632,550	94,824
Profit before taxation					14,305,628	16,948,662
Taxation					(1,889,833)	(1,973,102)
Profit before minority interests					12,415,795	14,975,560
Other information						
Amortisation	—	—	2,139,435	1,396,594	2,139,435	1,396,594
Depreciation	1,602,752	1,605,869	1,634,668	623,503	3,237,420	2,375,368
Allowance for doubtful debts	—	—	2,100,154	2,430,726	2,100,154	2,430,726
ASSETS						
Segment assets	32,417,323	46,747,007	160,655,225	120,547,161	193,072,548	167,294,168
Unallocated assets					81,746,418	87,242,926
Consolidated total assets					274,818,966	254,537,094
LIABILITIES						
Segment liabilities	772,725	1,252,792	56,207,845	49,385,570	56,980,570	50,638,362
Unallocated liabilities					26,774,964	19,296,310
Consolidated total liabilities					83,755,534	69,934,672

Notes to the Financial Statements

For the year ended 31 December 2003

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 segments were presented.

6. OTHER OPERATING INCOME

	2003	2002
	RMB	RMB
Interest on bank deposits	1,087,155	2,578,190
PRC value added tax refund	1,160,103	981,993
Gain on disposal of investments in securities	3,013	351,521
Exchange gain	194,397	24,221
Others	366,011	16,282
	<u>2,810,679</u>	<u>3,952,207</u>

7. PROFIT FROM OPERATIONS

	2003	2002
	RMB	RMB
Profit from operations has been arrived at after charging:		
Auditors' remuneration	450,000	398,000
Allowance for doubtful debts	2,100,154	2,430,726
Depreciation and amortisation on:		
— property, plant and equipment	3,237,420	2,375,368
— intangible assets (included in research and development costs)	2,139,435	1,396,594
Impairment loss of investments in securities	85,140	177,878
Loss on disposal of property, plant and equipment	14,413	33,319
Minimum lease payment for land and buildings under operating leases	1,737,203	2,098,310
Staff costs (including directors' and senior executives' emoluments)	<u>28,054,412</u>	<u>19,963,696</u>

Notes to the Financial Statements

For the year ended 31 December 2003

8. FINANCE COSTS

	2003 RMB	2002 RMB
Interest on borrowings wholly repayable within five years	81,308	21,240
Bank charges	53,753	35,446
	<u>135,061</u>	<u>56,686</u>

9. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2003 RMB	2002 RMB
Directors' fees	—	—
Directors' emoluments:		
Salaries and other benefits		
Executive directors	513,707	455,700
Non-executive directors	150,500	48,000
	<u>664,207</u>	<u>503,700</u>
Supervisors' emoluments:		
Salaries and other benefits	<u>188,583</u>	<u>185,717</u>

For the year ended 31 December 2003, the remuneration paid to two executive directors, two non-executive directors and two independent non-executive directors were RMB513,707, RMB112,000, RMB10,500, RMB12,000, RMB8,000 and RMB8,000, respectively.

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.

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.

Notes to the Financial Statements

For the year ended 31 December 2003

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

Employees' emoluments:

For the year ended 31 December 2003, the five highest paid individuals of the Group included one director (2002: one director and one supervisor). The details of emoluments paid to directors and supervisors are set out above. Details of remuneration of the remaining four highest paid individuals (2002: three) are as follows:

	2003	2002
	RMB	RMB
Salaries and other benefits	<u>859,833</u>	<u>701,293</u>

10. TAXATION

	2003	2002
	RMB	RMB

The charge (credit) comprises:

PRC income tax		
Current year	1,946,444	2,393,384
Underprovision in prior years	124,107	—
Deferred taxation (note 18)	<u>(180,718)</u>	<u>(420,282)</u>
	<u>1,889,833</u>	<u>1,973,102</u>

The tax charge for the year can be reconciled to the profit for the income statement as follows:

	2003		2002	
	RMB	%	RMB	%
Profit before tax	<u>14,305,628</u>		<u>16,948,662</u>	
Tax at the domestic income tax rate	4,720,857	33.0	5,593,058	33.0
Tax effect of expenses not deductible	882,219	6.1	652,118	3.8
Tax effect of income not taxable	(3,938,091)	(27.5)	(3,450,944)	(20.3)
Underprovision in respect of prior year	124,107	0.9	—	—
Tax effect of tax losses not recognised	336,582	2.3	38,550	0.2
Effect of different tax rate of subsidiaries	(214,965)	(1.5)	—	—
Effect of tax holiday exemption	—	—	(884,480)	(5.2)
Others	<u>(20,876)</u>	<u>(0.1)</u>	<u>24,800</u>	<u>0.1</u>
	<u>1,889,833</u>	<u>13.2</u>	<u>1,973,102</u>	<u>11.6</u>

Notes to the Financial Statements

For the year ended 31 December 2003

10. TAXATION (Continued)

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, subject to the tax concession approval from relevant tax authority. 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. As at year end, the Company has not obtained the tax concession approval from the relevant tax authority and therefore a tax rate of 33% is used.

The subsidiaries of the Company are subject to income tax rate ranging from 0% to 33%.

Details of the deferred taxation are set out in note 18.

11. DIVIDEND

	2003	2002
	RMB	RMB
Ordinary Shares:		
Final, proposed — Nil (2002: RMB0.005 per share)	<u>—</u>	<u>4,670,000</u>

The directors do not recommend the payment of a dividend in this year (2002: RMB0.005 per share).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB11,741,869 (2002: RMB13,990,832) and on 934,000,000 (2002: 934,000,000) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended 31 December 2003 as there were no potential ordinary shares in existence for both years.

Notes to the Financial Statements

For the year ended 31 December 2003

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 2003	32,947,215	251,000	7,020,086	2,974,966	43,193,267
Additions	—	68,753	2,638,725	132,071	2,839,549
Disposals	(184,432)	—	(16,398)	—	(200,830)
At 31 December 2003	<u>32,762,783</u>	<u>319,753</u>	<u>9,642,413</u>	<u>3,107,037</u>	<u>45,831,986</u>
DEPRECIATION					
At 1 January 2003	2,396,895	48,103	2,137,259	536,746	5,119,003
Provided for the year	951,282	45,316	1,767,312	473,510	3,237,420
Eliminated on disposals	—	—	(1,985)	—	(1,985)
At 31 December 2003	<u>3,348,177</u>	<u>93,419</u>	<u>3,902,586</u>	<u>1,010,256</u>	<u>8,354,438</u>
NET BOOK VALUES					
At 31 December 2003	<u>29,414,606</u>	<u>226,334</u>	<u>5,739,827</u>	<u>2,096,781</u>	<u>37,477,548</u>
At 31 December 2002	<u>30,550,320</u>	<u>202,897</u>	<u>4,882,827</u>	<u>2,438,220</u>	<u>38,074,264</u>

Notes to the Financial Statements

For the year ended 31 December 2003

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 2003	32,947,215	5,147,630	1,485,453	39,580,298
Additions	—	538,178	—	538,178
Disposals	(184,432)	—	—	(184,432)
	<u>32,762,783</u>	<u>5,685,808</u>	<u>1,485,453</u>	<u>39,934,044</u>
At 31 December 2003	32,762,783	5,685,808	1,485,453	39,934,044
DEPRECIATION				
At 1 January 2003	2,396,895	1,776,612	381,115	4,554,622
Provided for the year	951,282	1,152,249	240,643	2,344,174
	<u>3,348,177</u>	<u>2,928,861</u>	<u>621,758</u>	<u>6,898,796</u>
At 31 December 2003	3,348,177	2,928,861	621,758	6,898,796
NET BOOK VALUES				
At 31 December 2003	<u>29,414,606</u>	<u>2,756,947</u>	<u>863,695</u>	<u>33,035,248</u>
At 31 December 2002	<u>30,550,320</u>	<u>3,371,018</u>	<u>1,104,338</u>	<u>35,025,676</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 2003

14. INTANGIBLE ASSETS

	Development costs <i>RMB</i>	Intellectual property <i>RMB</i>	Total <i>RMB</i>
THE GROUP			
COST			
At 1 January 2003	15,117,487	1,000,000	16,117,487
Additions	9,325,436	—	9,325,436
At 31 December 2003	<u>24,442,923</u>	<u>1,000,000</u>	<u>25,442,923</u>
AMORTISATION			
At 1 January 2003	1,802,001	58,334	1,860,335
Provided for the year	2,039,435	100,000	2,139,435
At 31 December 2003	<u>3,841,436</u>	<u>158,334</u>	<u>3,999,770</u>
NET BOOK VALUES			
At 31 December 2003	<u>20,601,487</u>	<u>841,666</u>	<u>21,443,153</u>
At 31 December 2002	<u>13,315,486</u>	<u>941,666</u>	<u>14,257,152</u>
			Development costs <i>RMB</i>
THE COMPANY			
COST			
At 1 January 2003			14,117,487
Additions			9,306,236
At 31 December 2003			<u>23,423,723</u>
AMORTISATION			
At 1 January 2003			1,518,668
Provided for the year			1,832,235
At 31 December 2003			<u>3,350,903</u>
NET BOOK VALUES			
At 31 December 2003			<u>20,072,820</u>
At 31 December 2002			<u>12,598,819</u>

The development costs and intellectual property of the Group and the Company were amortised over a period of 5 years and 10 years respectively.

Notes to the Financial Statements

For the year ended 31 December 2003

15. INVESTMENTS IN SUBSIDIARIES

	2003	2002
	RMB	RMB
Unlisted shares, at cost	<u>22,092,127</u>	<u>15,559,984</u>

The particulars of the Company's subsidiaries at 31 December 2003 are as follows:

Name of subsidiary (kind of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company		Principal activities
			Directly	Indirectly	
Nanjing NandaSoft System Integration Company Limited (limited liability company)	PRC	RMB5,000,000	80%	—	System Integration
Jiangsu NandaSoft Xin Yi Software Company Limited (limited liability company)	PRC	RMB5,000,000	—	94.2%	Sale of computer hardware products and equipment
Nanjing NandaSoft Computer Engineering Company Limited (limited liability company)	PRC	RMB3,000,000	51%	—	Sale of computer hardware products and equipment
Nanjing NandaSoft Electronic Technology Company Limited (limited liability company)	PRC	RMB1,000,000	51%	—	Sale of computer hardware products and equipment
Jiangsu Nanda Jing An Information Technology Centre Company Limited (limited liability company)	PRC	RMB3,000,000	90%	8%	Sale of computer hardware products and equipment

Notes to the Financial Statements

For the year ended 31 December 2003

15. INVESTMENTS IN SUBSIDIARIES (Continued)

Name of subsidiary (kind of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company		Principal activities
			Directly	Indirectly	
Shanghai NandaSoft Information Technology Company Limited (limited liability company)	PRC	RMB5,000,000	51%	—	Sale of computer hardware products and equipment
Beijing NandaSoft Digital Technology Company Limited (limited liability company)	PRC	RMB2,000,000	80%	19.6%	Sale of computer hardware products and equipment
Suzhou NandaSoft Technology Company Limited (limited liability company)	PRC	RMB10,000,000	94%	—	Sale of computer hardware products and equipment
Nanjing Mingjuan Digital Technology Company Limited (limited liability company)	PRC	RMB500,000	—	58.8%	Inactive

Notes to the Financial Statements

For the year ended 31 December 2003

16. INTERESTS IN ASSOCIATES

THE GROUP

	2003	2002
	<i>RMB</i>	<i>RMB</i>
Share of net assets	<u>3,137,550</u>	<u>444,824</u>

Details of the Group's associates at 31 December 2003 are as follows:

Name of associate	Place of registration and operation	Registered capital by	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
Shanghai Qianwu Investment Management Company Limited	PRC	RMB5,000,000	40%	Media production
Beijing Guoxin Zhongji Culture Communications Company Limited	PRC	RMB500,000	31%	Web-site development and operation

Notes to the Financial Statements

For the year ended 31 December 2003

17. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2003 RMB	2002 RMB	2003 RMB	2002 RMB
Investment securities				
Unlisted investments	<u>3,582,554</u>	<u>967,694</u>	<u>3,582,554</u>	<u>967,694</u>
Other investments				
Unlisted investments	<u>—</u>	<u>22,500</u>	<u>—</u>	<u>22,500</u>
Listed shares in the PRC	<u>5,800</u>	<u>5,800</u>	<u>—</u>	<u>—</u>
	<u>5,800</u>	<u>28,300</u>	<u>—</u>	<u>22,500</u>
	<u>3,588,354</u>	<u>995,994</u>	<u>3,582,554</u>	<u>990,194</u>
Market value of listed shares	<u>10,830</u>	<u>13,410</u>	<u>—</u>	<u>—</u>
Carrying amount analysed for reporting purposes as:				
Current	<u>5,800</u>	<u>28,300</u>	<u>—</u>	<u>22,500</u>
Non-current	<u>3,582,554</u>	<u>967,694</u>	<u>3,582,554</u>	<u>967,694</u>
	<u>3,588,354</u>	<u>995,994</u>	<u>3,582,554</u>	<u>990,194</u>

Notes to the Financial Statements

For the year ended 31 December 2003

18. DEFERRED TAXATION

The following are the major deferred tax liabilities and (assets) recognised and movements thereon during the current and prior year:

	Development cost	General bad debt provision	Receipt in advance	Others	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
					(re-stated)
THE GROUP					
As at 1 January 2002					
— originally stated	—	—	(1,066,000)	—	(1,066,000)
— adjustment on adoption of SSAP 12 (Revised)	2,269,416	(286,007)	—	—	1,983,409
	<u>2,269,416</u>	<u>(286,007)</u>	<u>—</u>	<u>—</u>	<u>1,983,409</u>
— as restated	2,269,416	(286,007)	(1,066,000)	—	917,409
Charge (credit) to income for the year	1,273,778	(770,060)	(924,000)	—	(420,282)
	<u>1,273,778</u>	<u>(770,060)</u>	<u>(924,000)</u>	<u>—</u>	<u>(420,282)</u>
At 1 January 2003	3,543,194	(1,056,067)	(1,990,000)	—	497,127
Charge (credit) to income for the year	1,908,270	(583,773)	(1,195,015)	(310,200)	(180,718)
	<u>1,908,270</u>	<u>(583,773)</u>	<u>(1,195,015)</u>	<u>(310,200)</u>	<u>(180,718)</u>
At 31 December 2003	<u>5,451,464</u>	<u>(1,639,840)</u>	<u>(3,185,015)</u>	<u>(310,200)</u>	<u>316,409</u>

Notes to the Financial Statements

For the year ended 31 December 2003

18. DEFERRED TAXATION (Continued)

	Development cost <i>RMB</i>	General bad debt provision <i>RMB</i>	Others <i>RMB</i>	Total <i>RMB</i> (re-stated)
THE COMPANY				
As at 1 January 2002				
— originally stated	—	—	—	—
— adjustment on adoption of SSAP 12 (Revised)	2,269,416	(286,007)	—	1,983,409
— as restated	2,269,416	(286,007)	—	1,983,409
Charge (credit) to income for the year	1,273,778	(770,060)	—	503,718
At 1 January 2003	3,543,194	(1,056,067)	—	2,487,127
Charge (credit) to income for the year	1,908,270	(408,947)	(310,200)	1,189,123
At 31 December 2003	<u>5,451,464</u>	<u>(1,465,014)</u>	<u>(310,200)</u>	<u>3,676,250</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Deferred tax liabilities	3,676,250	2,487,127	3,676,250	2,487,127
Deferred tax assets	(3,359,841)	(1,990,000)	—	—
	<u>316,409</u>	<u>497,127</u>	<u>3,676,250</u>	<u>2,487,127</u>

Notes to the Financial Statements

For the year ended 31 December 2003

19. INVENTORIES

	2003	2002
	<i>RMB</i>	<i>RMB</i>
THE GROUP		
Computer hardware products, equipment and software products	<u>21,643,497</u>	<u>27,347,163</u>
THE COMPANY		
Computer hardware products, equipment and software products	<u>7,564,697</u>	<u>13,998,001</u>

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

20. TRADE DEBTORS

The credit terms of the Group ranged from 90 days to 365 days. The aged analysis of trade debtors is stated as follows:

	2003	2002
	<i>RMB</i>	<i>RMB</i>
THE GROUP		
Aged:		
0 — 90 days	74,147,233	57,531,584
91 — 180 days	9,996,605	7,878,584
181 — 365 days	9,402,529	9,532,666
Over 365 days	<u>12,008,463</u>	<u>4,375,732</u>
	<u>105,554,830</u>	<u>79,318,566</u>

Included in the above are trade receivables from related parties amounted to RMB2,128,791 (2002: RMB1,418,235). The receivables are arising from connected transactions/related party transactions (*note 31*).

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For the year ended 31 December 2003

21. TRADE CREDITORS

The aged analysis of trade creditors is stated as follows:

	2003	2002
	RMB	RMB
THE GROUP		
Aged:		
0 — 90 days	24,758,215	32,283,672
91 — 180 days	2,169,306	3,529,492
181 — 365 days	2,650,954	4,586,580
Over 365 days	8,598,854	1,432,442
	<u>38,177,329</u>	<u>41,832,186</u>

22. AMOUNTS DUE TO SHAREHOLDERS

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

23. 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.

24. PROVISION FOR TAXES AND LEVIES

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Value added tax	2,944,230	3,587,345	2,721,746	3,160,719
Income and profits tax	2,644,341	1,564,843	86,789	—
Business tax	505,359	339,662	209,268	114,360
Other taxes	185,982	220,917	100,452	174,450
	<u>6,279,912</u>	<u>5,712,767</u>	<u>3,118,255</u>	<u>3,449,529</u>

Notes to the Financial Statements

For the year ended 31 December 2003

25. 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 2002 and 2003	<u>934,000,000</u>	<u>93,400,000</u>

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.

26. 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:

Notes to the Financial Statements

For the year ended 31 December 2003

26. SHARE OPTIONS (Continued)

- (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
- (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.

27. RESERVES

	Share premium <i>RMB</i>	Statutory surplus reserve <i>RMB</i> <i>(note b)</i>	Statutory public welfare fund <i>RMB</i> <i>(note c)</i>	Retained earnings <i>RMB</i> <i>(note d)</i>	Dividend reserve <i>RMB</i>	Total <i>RMB</i> <i>(re-stated)</i>
THE COMPANY						
At 1 January 2002						
— as originally stated	48,868,818	1,439,045	719,523	12,619,527	—	63,646,913
— prior period adjustment <i>(note 2)</i>	—	—	—	(1,983,409)	—	(1,983,409)
— as restated	48,868,818	1,439,045	719,523	10,636,118	—	61,663,504
Profit attributable to shareholders	—	—	—	15,296,024	—	15,296,024
2003 dividend declared	—	—	—	(4,670,000)	4,670,000	—
Appropriations <i>(note a)</i>	—	874,295	437,147	(1,311,442)	—	—
At 31 December 2002 and 1 January 2003						
Profit attributable to shareholders	—	—	—	6,703,291	—	6,703,291
2002 dividend paid	—	—	—	—	(4,670,000)	(4,670,000)
Appropriations <i>(note a)</i>	—	667,833	333,916	(1,001,749)	—	—
At 31 December 2003	48,868,818	2,981,173	1,490,586	25,652,242	—	78,992,819

Notes to the Financial Statements

For the year ended 31 December 2003

27. 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 RMB900,111 (2002: RMB267,561) retained by the associate of the Group.

In the opinion of the directors, the reserves available for distribution to the shareholders at 31 December 2003 amounted to RMB20,672,353 (2002: RMB19,665,773).

Notes to the Financial Statements

For the year ended 31 December 2003

28. 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

	2003	2002
	RMB	RMB
Within one year	942,706	1,244,416
In the second to fifth year inclusive	1,183,492	2,427,105
Over five years	360,632	490,560
	<u>2,486,830</u>	<u>4,162,081</u>

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

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

29. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	RMB	RMB	RMB	RMB
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	<u>56,666,000</u>	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>

30. 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 21% of the enrolled employees' salaries.

During the year, the amount of such contribution charged to the income statement amounted to RMB2,405,362 (2002: RMB969,202).

Notes to the Financial Statements

For the year ended 31 December 2003

31. 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	2003 RMB	2002 RMB
Revenue:			
Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation")	Sales (note b)	635,266	212,585
Nanjing University	Sales (note a)	400,360	957,653
Jiangsu Provincial Management Centre for Education Equipment and Self Supporting School ("Jiangsu Management Centre")	Sales (note a)	—	3,060
Nanjing Ze Tong Technology Company Limited ("Nanjing Ze Tong")	Sales (note a)	271,133	392,470
Nanjiang Nandasoft Information Processing Company Limited ("Nanjiang Information Processing")	Sales (note a)	199,914	242,476
Expense:			
Jiangsu Co-Creation	Purchase (note b)	967,229	487,348
Nanjiang Information Processing	Purchase (note b)	594,735	730,038
Nanjing University	Development cost (note c)	750,000	750,000
Nanjing University	Revenue sharing (note d)	80,000	140,000
Nanjing Ze Tong	Technical consultancy fee (note a)	350,000	—

Jiangsu Co-Creation is a shareholder of the Company.

Nanjing University is a shareholder of the Company.

Jiangsu Management Centre is a shareholder of the Company and wholly owns Jiangsu Educational Instrument Science Centre.

Notes to the Financial Statements

For the year ended 31 December 2003

31. CONNECTED TRANSACTIONS/RELATED PARTY TRANSACTIONS (Continued)

Nanjing Ze Tong is a minority shareholder of Nanjing Nandasoft Computer Engineering Company Limited, a subsidiary of the Company.

Notes:

- (a) These transactions were made in accordance to relevant terms with various agreements.
- (b) These transactions were made at terms which were comparable with similar transactions with unrelated parties.
- (c) For the year ended 31 December 2003, the Group paid development cost in an aggregate of RMB750,000 (2002: RMB750,000) 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.
- (d) For the year ended 31 December 2003, the Group paid a revenue sharing fee of RMB80,000 (2002: RMB140,000) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for jointly development of software products.

Financial Summary

RESULTS

	1999	2000	2001	2002	2003
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Turnover	29,549,317	160,581,930	185,729,008	311,405,868	376,606,707
Cost of sales	(26,949,975)	(140,675,229)	(155,180,033)	(261,348,530)	(319,208,908)
Gross profit	2,599,342	19,906,701	30,548,975	50,057,338	57,397,799
Other operating income	929,837	4,040,417	3,413,826	3,952,207	2,810,679
Distribution costs	(443,542)	(8,177,748)	(9,981,482)	(18,779,758)	(23,294,614)
Research and development costs	(1,746,035)	(491,628)	(950,631)	(1,957,435)	(2,629,153)
Administration expenses	(865,554)	(6,571,758)	(9,406,529)	(16,361,828)	(20,476,572)
Profit from operations	474,048	8,705,984	13,624,159	16,910,524	13,808,139
Finance costs	(30,772)	(8,735)	(20,072)	(56,686)	(135,061)
Share of results of an associate	—	—	172,737	94,824	632,550
Profit before taxation	443,276	8,697,249	13,776,824	16,948,662	14,305,628
Taxation	(122,896)	(1,306,031)	(1,658,463)	(1,973,102)	(1,889,833)
Profit before minority interests	320,380	7,391,218	12,118,361	14,975,560	12,415,795
Minority interests	(64,097)	22,734	(88,753)	(984,728)	(673,926)
Profit attributable to shareholders	<u>256,283</u>	<u>7,413,952</u>	<u>12,029,608</u>	<u>13,990,832</u>	<u>11,741,869</u>

ASSETS AND LIABILITIES

	1999	2000	2001	2002	2003
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Total assets	74,405,590	126,186,319	204,402,925	254,537,094	274,818,966
Total liabilities	(4,150,277)	(48,676,450)	(39,807,689)	(69,934,672)	(83,755,534)
Minority interests	(314,097)	(154,701)	(2,941,642)	(8,957,996)	(8,347,137)
Shareholders' funds	<u>69,941,216</u>	<u>77,355,168</u>	<u>161,653,594</u>	<u>175,644,426</u>	<u>182,716,295</u>

Notes:

The results for the period for each of the two years ended 31 December 1999 and 31 December 2000 and the assets and liabilities as at 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 year ended 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.