



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)

Interim Report 2004

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GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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

**NANDASOFT**

南大苏富特

JIANGSU NANDASOFT COMPANY LIMITED ***(江蘇南大蘇富特軟件股份有限公司)***(a joint stock limited company incorporated in the People's Republic of China)***(Stock Code: 8045)****HIGHLIGHTS**

- Achieved a turnover of approximately RMB185,338,000 for the six months ended 30th June, 2004, representing an approximately 3.0% increase as compared with that of the corresponding period in 2003
- Accomplished a net profit of approximately RMB4,379,000 for the six months ended 30th June, 2004
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2004

INTERIM RESULTS

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th June, 2004.

For the three months ended 30th June, 2004, the unaudited turnover is approximately RMB87,976,000, representing a slightly drop of approximately RMB7,780,000, or approximately 8.1% in turnover as compared with that of the same period in 2003.

For the six months ended 30th June, 2004, the unaudited turnover is approximately RMB185,338,000, representing a growth of approximately RMB5,388,000, or approximately 3.0% in turnover as compared with that of the same period in 2003.

The unaudited net profit of the Group for three months and six months ended 30th June, 2004 is approximately RMB1,400,000 and approximately RMB4,379,000 respectively, representing a growth in the results of approximately 19.7 times and 45.9% as compared with the corresponding figures in 2003.

* For identification purpose only

The unaudited results of the Group for the three months and six months ended 30th June, 2004 together with the unaudited comparative figures for the corresponding period in 2003 are as follows:

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2004 RMB	2003 RMB	2004 RMB	2003 RMB
Turnover	2	87,976,478	95,756,647	185,338,495	179,950,772
Cost of Sales		(73,600,595)	(84,805,348)	(152,845,120)	(154,211,762)
Gross Profit		14,375,883	10,951,299	32,493,375	25,739,010
Other revenue		1,664,474	85,747	1,851,756	1,936,042
Distribution costs		(6,639,253)	(6,112,975)	(13,324,697)	(12,047,480)
Research and development costs		(1,607,532)	(1,801,592)	(3,498,298)	(3,320,936)
Administrative expenses		(6,146,266)	(3,048,749)	(12,180,132)	(8,889,833)
Profit from operations	3	1,647,306	73,730	5,342,004	3,416,803
Finance costs		(113,345)	(4,642)	(176,507)	(27,585)
Profit before taxation		1,533,961	69,088	5,165,497	3,389,218
Taxation	4	67,504	(245,962)	(125,832)	(429,551)
Profit before minority interests		1,601,465	(176,874)	5,039,665	2,959,667
Minority interests		(201,468)	244,548	(660,348)	42,628
Net profit attributable to shareholders		1,399,997	67,674	4,379,317	3,002,295
Earnings per share — basic	5	0.0015	0.0001	0.0047	0.0032

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th June, 2004 RMB	(Audited) 31st December, 2003 RMB
	Notes		
Non-current assets			
Property, plant and equipment		37,673,053	37,477,548
Intangible assets		20,575,896	21,443,153
Long term deferred cost		—	—
Interest in an associate		3,137,550	3,137,550
Investment in securities		3,427,554	3,582,554
Deferred tax		3,359,841	3,359,841
		68,173,894	69,000,646
Current assets			
Inventories		38,279,737	21,643,497
Trade debtors	6	101,745,149	105,554,830
Bills receivable		344,350	—
Deposits, prepayment and other debtors		23,687,408	18,441,971
Investment in securities		5,006,800	5,800
Amount due from shareholder		—	—
Cash and bank balances		46,871,646	60,172,222
		215,935,090	205,818,320
Current liabilities			
Trade creditors	7	43,533,277	38,177,329
Notes Payable		7,427,683	6,822,600
Receipt in advance, other creditor and accruals		21,935,991	24,761,544
Amounts due to shareholders		237,879	237,879
Amounts due to an associate		200,020	200,020
Provision for taxes and levies		1,585,632	6,279,912
Short-term loan (unsecured)		5,600,000	3,600,000
		80,520,482	80,079,284
Net current assets		135,414,608	125,739,036
Total assets less current liabilities		203,588,502	194,739,682
Minority interests		(12,816,640)	(8,347,137)
		190,771,862	186,392,545
Capital and reserve			
Share capital		93,400,000	93,400,000
Reserves	8	93,695,612	89,316,295
		187,095,612	182,716,295
Non-current liabilities			
Deferred tax liabilities		3,676,250	3,676,250
		190,771,862	186,392,545

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June,	
	2004 RMB	2003 RMB
Cash flows from operating activities	(7,543,268)	(6,954,039)
Cash flow from taxation	(4,390,633)	(4,698,143)
Cash flows from investing activities	(6,152,949)	(4,932,230)
Cash flows from financial activities	4,786,274	—
Net decrease in cash and cash equivalent	(13,300,576)	(16,584,412)
Cash and cash equivalents at the beginning of the period	60,172,222	77,278,194
Cash and cash equivalents at the end of the period	46,871,646	60,693,782

STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>RMB</i>	Share Premium <i>RMB</i>	Statutory Surplus Reserve <i>RMB</i>	Statutory Public Welfare Fund <i>RMB</i>	Dividend Reserve <i>RMB</i>	Retained Earnings <i>RMB</i>	Total <i>RMB</i>
At 1st January, 2003	93,400,000	48,868,818	2,313,340	1,156,670	4,670,000	25,235,598	175,644,426
Profit for the year	—	—	—	—	—	3,002,295	(3,002,295)
Dividend declared during the period	—	—	—	—	(4,670,000)	—	(4,670,000)
At 30th June, 2003	93,400,000	48,868,818	2,313,340	1,156,670	—	28,237,893	173,976,721
At 1st January, 2004	93,400,000	48,868,818	2,981,173	1,490,586	—	35,975,718	182,716,295
Profit for the year	—	—	—	—	—	4,379,317	4,379,317
At 30th June, 2004	93,400,000	48,868,818	2,981,173	1,490,586	—	40,355,035	187,095,612

Notes:

1. BASIS OF PRESENTATION

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

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

2. TURNOVER

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

	For the three months ended 30th June, 2004		For the six months ended 30th June, 2004	
	2003 RMB	2004 RMB	2003 RMB	2004 RMB
Sales of computer software products		841,145		2,177,040
System integration		94,915,502		177,773,732
		87,976,478		172,688,854
		95,756,647		179,950,772

3. PROFIT FROM OPERATIONS

	For the six months ended 30th June, 2004	
	2003 RMB	2004 RMB
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
— property, plant and equipment		1,339,141
— intangible assets (included in research and development costs)		520,133
Cost of Sale		154,211,762
		152,845,120
		1,578,438

4. TAXATION

	For the three months ended 30th June, 2004		For the six months ended 30th June, 2004	
	2003 RMB	2004 RMB	2003 RMB	2004 RMB
The charge/(credit) comprises:				
PRC income tax		245,962		429,551
		(67,504)		125,832

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality dated 27th December, 1999, the Company has been designated as a new and high technology entity and is exempted from PRC income tax for two years starting from their first profit making years, followed by a 50% reduction for the next three years. Accordingly, the Company is exempted from PRC income tax for the two years ended 31st December, 2000 and a reduced income tax rate of 16.5% starting from the year 2001. As at the period ended, the Company has obtained the tax concession approval from the relevant tax authority and therefore a tax rate of 15% is used.

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

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB1,400,000 and RMB4,379,000 for the three and six months ended 30th June, 2004 (2003: RMB68,000 and RMB3,002,000) and on 934,000,000 (2003: 934,000,000) shares in issue during the periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2004 and 2003 as there were no potential dilutive securities in existence during the relevant periods.

6. 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:

	(Unaudited) 30th June, 2004 <i>RMB</i>	(Audited) 31st December, 2003 <i>RMB</i>
0 — 90 days	36,708,027	74,147,233
91 — 180 days	17,362,905	9,996,605
181 — 365 days	23,030,849	9,402,529
Over 365 days	24,643,368	12,008,463
	101,745,149	105,554,830

7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	(Unaudited) 30th June, 2004 <i>RMB</i>	(Audited) 31st December, 2003 <i>RMB</i>
0 — 90 days	26,711,740	24,758,215
91 — 180 days	6,184,799	2,169,306
181 — 365 days	5,474,855	2,650,954
Over 365 days	5,161,883	8,598,854
	43,533,277	38,177,329

8. RESERVES

Other than the profit for the period as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the Group for the relevant periods in 2003 and 2004.

9. CAPITAL COMMITMENTS

	(Unaudited) 30th June, 2004 RMB	(Audited) 31st December, 2003 RMB
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	6,400,000	56,666,000

10. SEGMENT INFORMATION

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

	Sales of computer software products six months ended 30th June,		System Integration six months ended 30th June,		Total six months ended 30th June,	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Turnover						
External Sales	12,649,641	2,177,040	172,688,854	177,773,732	185,338,495	179,950,772
Result						
Segment result	5,563,000	469,846	179,695	3,127,878	5,742,695	3,597,724
Investment income					17,230	6,819
Unallocated						
Corporate expense					(417,921)	(187,740)
Profit from operations					5,342,004	3,416,803
Finance costs					(176,507)	(27,585)
Profit before taxation					5,165,497	3,389,218

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period. (2003: Nil)

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results

For the six months ended 30th June, 2004, the Group has accomplished a revenue of approximately RMB185,338,000 and a net profit of approximately RMB4,379,000, representing a growth of 3.0% in revenue and an increase of 45.9% in net profit. For the three months ended 30th June, 2004, the Group has accomplished a revenue of approximately RMB87,976,000 and a net profit of approximately RMB1,400,000. This represented a slightly drop of 8.1% in revenue and 19.7 times increased in net profit as compared to the same period in the previous year.

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

The unaudited consolidated results of the Group for the six months ended 30th June, 2004 improved compared with those for the corresponding period in 2003. During the period, the Group placed more resources on sales of computer software products which have higher margin and achieved a stable growth in sales of system integration, both of which result in increase in net profit attributable to shareholders.

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

Financial Resources and liquidity

As at 30th June, 2004, shareholders' funds of the Group amounted to approximately RMB190,772,000. Current assets amounted to approximately RMB215,935,000, of which approximately RMB46,872,000 were cash and bank deposits. The Group had non-current liabilities of RMB3,676,000 and its current liabilities amounted to approximately RMB80,520,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.204. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2004, the Group had a gearing ratio of 0.02 and the Group has short-term loan of RMB5,600,000.

Others

During the six months ended 30th June, 2004, the Group had no material acquisitions and disposals of subsidiaries and affiliated companies and it is the same for the comparative six months ended 30th June, 2003.

As at 30th June, 2004, there were no charges on group assets, and it is the same as the comparative six months ended 30th June, 2003.

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

As at 30th June, 2004, the Group had no material contingent liabilities and it is the same as the comparative six months ended 30th June, 2003.

Foreign Currency Risk

During the six months ended 30th June, 2004, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Employee and Remuneration Policies

As at 30th June, 2004, total remuneration cost for the Group is RMB11,330,000 (2003: 10,836,000) and the Group had 760 employees (2003: 689 employees). Remuneration is determined by reference to market terms and performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contribution to retirement scheme, medical scheme, unemployment insurance and housing fund.

BUSINESS REVIEW

Research and development

Network security total solutions

During the period, the Company had, based on its existing security products, conducted research and development in the following aspects, in order to meet market demand, to cope with the Company's marketing strategy, to adapt to the development trend of network security and to lay a foundation for future product offerings:

1. Enrichment and perfection of firewall product lines

Launched SoftWall 2070, a low-end multi-port exchange firewall product that incorporated VPN function and exchange chips, and Softwall 8800, a high-end telecommunication firewall with capacity up to 4G.

2. Expansion of VPN product lines

Developed SoftVPN 6000, a VPN product of 1,000Hz.

3. Targeting on WAN security threats, researched and developed WatchOnline, a monitor and audit product of WAN user conduct.

4. Developed the distributive network monitor and alarm system for the need of internet public security assurance.

5. Commenced the research on the integrated network security management platform.

Electronic Government Businesses

After the successful development of the trans-area information exchange platform applicable to electronic government business with the collaboration with international renowned manufacturers such as IBM, Microsoft and with the use of international state-of-the-art technologies, the Company had launched the government office automation system (WEB OA 3.0), in order to provide strong support for further expansion into government application business.

Having implemented the application platform in the projects with Jiangsu Electronic Government Business Construction, Jiangsu Industry and Commerce Bureau CALL CENTER Project, Nanjing Public Security Residence Administration, Jiangsu Finance Office, Jiangsu Labor Office, Jiangsu Personnel Office, Jiangsu Prison Administration and Jiangsu Meteorological Service, the Company had co-operated with its subsidiary during the period, Suzhou NandaSoft Technology Company Limited, for gaining over 60% market share in the government office automation system construction business in Suzhou, Wuxi and Changzhou regions.

The security total solutions of informatization for provincial, municipal and county governments launched by the Group, with core based on security service and security integration, had been further promoted.

Internet Application Software

The China Publishing Group Chained Operation Information Support Platform Solution launched by the Group has recently passed the examination and acceptance procedures of user organization, received favourable comments and would hopefully obtain appointment and development for further development.

The SME resources management and cross-platform of Jiangsu Shengze e-commerce launched by the Group had passed the examination and acceptance procedures of user organization.

The Group had implemented in succession solutions coming up to international standards, namely the International Logistics Public Information Solution, Jiangsu Digital Filing Information Support Solution and Technological Plan Management Platform Solution with electronic government business functions. After the actual promotion and application of them, the Group has also implemented the Jiangsu Government Purchase System and the Jiangsu Provincial Personnel Market Portal; both are total solutions of advanced trade standards.

Given the constant renovations of Internet application, and the deepening of government informatization and corporate informatization, the Group leveraged the experience and strength of NandaSoft in the aspect of security, trade application, digital integration and data mining, and etc. The recent informatization construction method of “three fronts in one line (三面一線)” proposed by the Group had further gained support and recognition of users in its actual application, and achieved sound social results and economic consequences. The above exercises had brought about major breakthroughs in terms of government informatization, corporate informatization and data integration, information unification, system security and the likes.

New Technological Research

The Company had commenced research on the built-in Linux operation system, in order to accommodate the development trend of informatized home appliances. At the same time, the Company cooperated with Jiangsu Archives to embark on the R&D on the integrated application system for digital archives of provincial, municipal and county levels under the electronic business environment.

Marketing, Sales and Development

During the period, other than the exploration of trade users of government, public security, court and education, the Company had continued to focus on exploring the markets in Beijing, Shanghai, Zhejiang, Fujian, Anhui, Henan, Shanxi while consolidating its local market, expanded local sales channels, appointed agents, and continued to intensify marketing campaign. NandaSoft security products had gradually won the recognition of local clients and users.

In the “Top 100 Enterprises for scale of the PRC Software Industry 2003” recently announced by the Ministry of Information Industry, NandaSoft was accredited again and ranked 41, up 9 places as compared to 2002.

Suzhou NandaSoft Technology Company Limited had passed the certification of Software Backbone Enterprise by the Ministry of Science and Technology, and further laid its leading position in software business in Suzhou region.

FUTURE PROSPECTS

“Characterization, standardization and internationalization” will be continuously used by the Company as its development strategies in order to further improve NandaSoft software product series, further optimize and upgrade the total solutions of informatization, and further expand domestic and overseas markets.

Serialization of products:

Continue to launch network security series, electronic government application series and electronic business application series products with Nandasoft brand name;

Corporatization of operation:

Build service teams based on functions and services, diminish audit units, expand corporate scale, and enhance the Group’s overall profitability;

Internationalization of market:

Strengthen the collaboration with foreign companies, increase the weighting of software export and outsourced software in the Group’s software income.

DIRECTORS' CHIEF EXECUTIVES' AND SUPERVISORS' INTERESTS IN SHARES

As at 30th June, 2004, 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 corporations	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 corporations	0.05%
Supervisors				
Zhou Ming Hai	Other (Note 1)	5,000,000	Interest of a controlled corporations	0.54%
Wang Dao Wu	Other (Note 1)	1,000,000	Interest of a controlled corporations	0.11%
Zhou Wen Da	Other (Note 1)	780,000	Interest of a controlled corporations	0.08%
Shi Jian Jun	Other (Note 1)	500,000	Interest of a controlled corporations	0.05%

Notes:

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

Save as disclosed in this paragraph, as at 30th June, 2004, 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 30th June, 2004, the persons or companies (not being a Director or chief executive of the Company) who had equity interests or short positions in the Shares or underlying Shares which would fall to be disclosed under Divisions 2 and 3 or Part XV of the SFO or who were director indirectly deemed to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long positions in Shares

Shareholder	Capacity	Number of Shares	Percentage of registered share capital
Nanjing University	Beneficial Owner	200,000,000	21.41%
Jiangsu Zongyi Company Limited ("Zongyi") (Note 1)	Beneficial Owner Interest of a controlled corporations	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 corporations	60,000,000 76,500,000	6.42% 9.64%
The Union (Note 3)	Beneficial Owner Interest of a controlled corporations	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%

Notes:

- (1) The interest of Zongyi comprises:
 - (a) 160,000,000 domestic shares (representing approximately 17.13% of the Company's issued share capital) held by Zongyi; and
 - (b) 21,540,000 domestic shares (representing approximately 2.31% of the Company's issued share capital) held through Jiangsu High-tech Industry Investment Company Limited (Formerly known as Jiangsu Property Business Company Limited and adopting the present name on 26th April, 2001), which is approximately 53.85% owned by Zongyi.
- (2) Jiangsu Management Center is a professional unit entity established by changing the name from Jiangsu Educational Instrument Corporation on 1st July, 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's issued share capital) held by Jiangsu Management Center; and
 - (b) 76,500,000 domestic shares (representing approximately 8.19% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Center.
- (3) The interest of the Union comprises:
 - (a) 110,000,000 domestic shares (representing approximately 11.78% of the Company's issued share capital) held by the Union; and
 - (b) 13,500,000 domestic shares (representing approximately 1.44% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 15% owned by the Union.
- (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 30th June, 2004, the Directors were not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was interested in 10% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

Directors' Chief Executives' and Supervisors' Rights to Acquire H Shares

Save as disclosed above, as at 30th June, 2004, none of the Directors Chief Executives' or Supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 2004, none of the Directors, Chief Executives or the Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Share Option Scheme

The Company has adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 30th June, 2004, no option has been granted pursuant to such share option scheme.

Competing Interests

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

AUDIT COMMITTEE

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

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30th June, 2004.

On behalf of the Board
Xie Li
Chairman

30th July, 2003, Nanjing, the PRC