

Annual Report 2004



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)

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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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CORPORATE INFORMATION

Directors of the Company

Executive Directors

Professor Xie Li (*Chairman*)

Mr. Chen Zheng Rong

Non-executive Directors

Professor Chen Dao Xu

Ms. Zhang Yun Xia

Independent Non-executive Directors

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Mr. Yim Hing Wah

Supervisors

Mr. Wang Dao Wu

Professor Shi Jian Jun

Mr. Zhou Wen Da

Mr. Zhou Ming Hai

Mr. Zuo Songlin

Mr. Zhou De Fan

Mr. Shaw Yong Lei

Qualified Accountant

Ms. Tong Sze Wan, *HKICPA, ACCA*

Company Secretary

Ms. Tong Sze Wan, *HKICPA, ACCA*

Audit Committee

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Professor Xie Li

Mr. Yim Hing Wah

Compliance Officer

Professor Xie Li

Authorised Representatives

Professor Xie Li

Ms. Tong Sze Wan, *HKICPA, ACCA*

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

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

46/F.

Hopewell Centre

183 Queen's Road East

Hong Kong

Registered Office

Room 512, Software Center

Nanjing New & High Technology Industry

Development Zone

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



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 2004 of Jiangsu NandaSoft Company Limited ("Jiangsu NandaSoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for their review.

Year 2004 marks a new era of the Company's development as network security total solutions and electronic government businesses total

solutions have become the two pillars of our business progressively, and with the implementation of the strategy of "characterization, standardization and internationalization, the whole NandaSoft group has made considerable progress. In 2004, the Company has again been accredited as one of the "Top 100 Enterprises for scale of the PRC Software Industry 2004" 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. Meanwhile, Soft Firewall, one of the flagship products of the Company, was accredited as "Excellent Software in the PRC" in the "Excellent Software Product Recommendation Campaign 2004" organized by China Software Industry Association.

Business Performance

For the 2004 financial year, the Group recorded a turnover of approximately HK\$384,497,000 and a net profit of approximately HK\$12,039,000, representing an increase of 2.1% and 2.5% 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 2004.

Establishing the Principle of "Two Pillars" and Enriching Product Features

In 2004, after unceasing attempts and explorations, the Company has establish the principle of "Two Pillars", with network security total solutions and electronic government businesses total solutions as its two major pillar products.

Being fist product of network security total solutions, both the functionalities and performance of Soft Firewall have embodied significant enhancements and it was accredited as "Excellent Software in the PRC" in the "Excellent Software Product Recommendation Campaign 2004" organized by China Software Industry Association. Furthermore, in the "China Information Security Product Lateral Appraisal and Testing 2004" organized by Beijing CCID IT Testing Center, Softwall 4000 100MB Firewall received the "Engineers Recommendation Award", Softwall 8000 1GB Firewall received the "Technology Innovation Award" while Soft Firewall and SoftNids2.0 were named "Annual Ranking Product" in its annual comparison and appraisal.

CHAIRMAN'S STATEMENT

In 2004, the Company has made remarkable achievements in the area of electronic government businesses and has consolidated its leading position in the regional construction of electronic government businesses. During the period, the Company has undertaken the construction of various large-scale provincial networks, such as the intranet and vertical network system of Jiangsu electronic government project, provincial vertical network system of Jiangsu Land and Resources Department, vertical network system of Jiangsu Family Planning Committee and the vertical network system of Jiangsu employment affairs. The Company has also undertaken large-scale system integration projects like 12315 Call Center for Commerce and Industry in Jiangsu, Jiangsu Medical Insurance Center and Zhenjiang electronic government businesses portal. Our electronic government businesses solutions were shortlisted and won awards in respect of the electronic government businesses solutions for Jiangsu Provinces and cities like Changzhou, Wuxi, Nantong, Taizhou and Zhenjiang. In particular, through the undertaking of the construction of electronic data interchange platforms for Wuxi Government, General Office of Jiangsu Government and Water Resources Office of Jiangsu Province, we have established our dominant position in the construction of electronic data interchange platform for governments in the PRC.

Strengthening Security Services and Opening Up Regional Markets

In regard to marketing operations in 2004, leveraging on the concept of further strengthening of security integration, the Company has introduced brand-new Soft security services to its customers and employ the concept of security integration and security services to promote sales of network security products. It also placed great emphasis on establishing the image of "NandaSoft — Your Network Security Expert". Driven by the concept of security services, sales of network security products like Soft Firewall and SoftNids2.0 have been boosted. We have established branch companies or offices in core regions like Henan, Zhejiang, Fujian Province, Beijing and Anhui Province. This move has optimized the channel building for product sales and bolstered our sales and security services have now become a new foundation for earnings.



Expansion and Boosting in Group Scale and Integral Capabilities

As at the end of 2004, the Company has emerged as a high technology group comprising 13 directly or indirectly owned subsidiaries and 6 directly or indirectly owned holding companies. Nanjing NandaSoft Computer Engineering Company Limited was named "聯想商用臺式機分銷商" in 2004, and became the major cooperation partner of Lenovo group in the northern region. During the year, Suzhou NandaSoft Technology Company Limited has introduced various products including Hengxin Workflow Platform v1.0 (恒信工作流平臺v1.0), Hengxin Wireless Warehouse System v1.0 (恒信無線倉系統v1.0) and Human Resources Management System V1.0(人力資源管理系統V1.0). Beijing NandaSoft Digital Technology Company Limited has also launched various products like e-submission and approval system (網上報批系統) and ERP products tailored for the textile industry. The Group still positioned itself as a high technology enterprise and aimed at contributing to the informatization of the country.

CHAIRMAN'S STATEMENT

Furthering Co-operation with International Partners and Developing Overseas Markets

The Company has established a wholly-owned subsidiary in Hong Kong at the end of 2004 with a view to introduce our products to international markets in the course of developing of Hong Kong market.

The Company has been active in the co-operation with international renowned IT manufacturers, such as co-operating with IBM in area of middlewares and small machine system, and co-operating with Oracle in database system. "Conference on Jiangsu Province's Electronic Government and Security" jointly held with Microsoft in 2004 has also strengthened further our co-operation with Microsoft.

Shanghai NandaSoft Information Technology Company Limited, which is principally engaged in the undertaking of outsourcing projects from Japan, has undertaken overseas development projects with value close to 100 million Yen in 2004. On the other hand, Suzhou NandaSoft Technology Company Limited was listed as pilot enterprise by the Ministry of Science and Technology in the "Chinese Offshore Software Engineering Project" and is expected to become the Group's second outsourcing software development base in 2005.

Despite the fierce competition in the IT industry, we are confident that with our united, dedicated, efficient and pragmatic enterprise, we surely will scale a new height in 2005 and bring fruitful rewards to our shareholders for their long-standing confidence and support.

Xie Li

Chairman

Nanjiang, PRC

24 March 2005

MANAGEMENT DISCUSSION AND ANALYSIS



Financial Review

The audited consolidated turnover of the Group for the year ended 31 December 2004 was approximately RMB384,497,000, representing an increase of approximately 2.1% over 2003 which is mainly due to the Group has explored the new business activity, import and export of IT related products. It not only enlarged the sales channel to a conglomerate market but also diversified the sales products of the

Group. In addition, the successful marketing efforts and intensifying R&D efforts provide the company with steady business improvement and market recognition.

The audited profit attributable to shareholders and earnings per share of the Group for the year ended 31 December 2004 were approximately RMB12,039,000 and RMB0.0129 respectively, representing an increase in profit attributable to shareholders of approximately 2.5%. The increase in the profit of the Company was due to the increase of the corporate scale and sales network of the Group. In addition, stable production and quality development resulted with reducing of product cost. All these policy have 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 2004, shareholders' funds of the Group amounted to approximately RMB194,756,000. Current assets amounted to approximately RMB255,436,000, of which approximately RMB59,663,000 were cash and bank deposits. The Group had non-current liabilities of RMB1,409,000 and its current liabilities amounted to approximately RMB136,784,000, comprising mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.209. The Group expresses its gearing ratio as a percentage of borrowings and long-term debts over total assets. As at 31 December 2004, the Group had a gearing ratio of 16.6% and the Group has short-term loan of RMB57,876,000.

Charge on group assets

As at 31 December 2004, none of the Group's assets was pledged as security for liabilities (2003: 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Material acquisitions/disposals and significant investments

Throughout the year in 2004, the Group make the following investments:

(a) the Group entered into an agreement with 通州至誠軟件開發有限公司 (“Tungzhou Software”) regarding a project of development a software for motor vehicle business management and logistic. The Group contributes RMB13,000,000 to finance the operations of the project, while Tungzhou Software is responsible for the operations and management of the project.

(b) the Group entered into an agreement with 南通明德重工有限公司 (“Nantung Minde”) regarding a project of manufacturing of vessel-related lid for five years. The Group and Nantung Minde contribute RMB10,000,000 and RMB30,000,000 respectively to finance the operations of the project. Nantung Minde has the unilateral control of the project. The Group and Nantung Minde share the results of the project during the operation period in accordance with the percentage of amount contributed.



(c) the Group entered into an agreement with 南京水木年華餐飲有限公司 (“Shuimu Ninhua”) regarding a project of operating a I.T.

Club in Nanjing. The Group contributes RMB2,500,000 to finance the operations of the project, and Shuimu Ninhua has the control of the management of the project.

Save as disclosed above, 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.

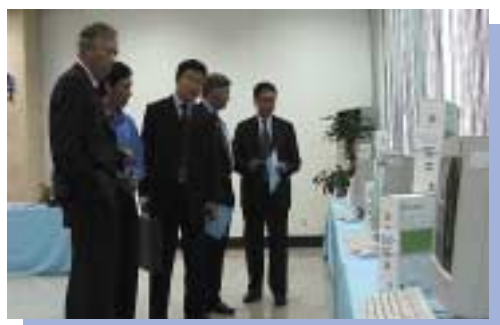
Capital commitments

As at 31 December 2004, the Group had an contracted but not provided for capital commitments of approximately RMB50 million in respect of acquisition of a piece of land located at the Software Property Park, Zhujiang Road, Nanjing City, the PRC. These commitments or plans for investments in capital assets synchronized with the business objectives as stated in the Prospectus.

Contingent liabilities

As at 31 December 2004, the Group had no material contingent liabilities.

MANAGEMENT DISCUSSION AND ANALYSIS



Employees and remuneration policies

As at 31 December 2004, total remuneration cost for the Group is RMB28,648,000 (2003: RMB28,054,000) and the Group had 552 employees (2003: 723 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 2004, sales of network security products like Soft Firewall and SoftNids2.0 have increased further. The Company has contracted for and implemented various middle to large-scale security projects such as Jiangsu GFMS Project, Jiangsu electronic government businesses security total solutions, security engineering project of Jiangsu Bureau of Quality and Technology Supervision, and system security engineering project of the Jiangsu Public Security and Fire Brigade. Soft network security products were chosen for use in the Fujian electronic government businesses project while Soft Firewall was selected for the security engineering project of Jiangsu Labour Bureau. Our leading status in the sales of network security products in Jiangsu remained uncontested. We have also established branch companies or offices in core regions like Henan, Zhejiang, Fujian Provinces, Beijing and Anhui Province. This move has optimized the channel building for product sales and bolstered our sales.

Sales and marketing

During the year, the Group has further optimized its marketing system, reinforced market development and strengthened the construction of sales personnel team. We have expanded our sales channel construction without compromising on the quality of the channels. While maintaining and augmenting our existing channel construction in the core provinces, we have also established offices in other provinces according to our schedule to increase our sales and market share gradually.

Fully utilizing its successful experience in the implementation of security integration project, the Company has furthered its promotion of Soft network security total solutions in all core provinces. It has also established and elevated Soft's brandname and image in the country and enhanced its core competence by undertaking major security engineering projects.

MANAGEMENT DISCUSSION AND ANALYSIS

Apart from boosting the sales of its network security products, the Company has also launched security services at the same time. Outstanding security services have become a distinctive feature in the sales of Soft security products and have now become a new foundation for earnings.

In the course of optimizing electronic government businesses total solutions, the Company has also identified and incorporated particular features of governments at and its departments at all levels and furthered its promotion throughout the country. After the successful launch of NandaSoft Office Automation Software in Suzhou, the Company has also promoted this product in Wuxi, Changzhou and Zhenjiang and obtained over 60% market share in Wuxi market. NandaSoft Secured e-mail was also well received by the market. For example, water resources offices, provincial prison administration etc. have selected NandaSoft Secured e-mail as the upgrade and replacement alternatives of their original e-mail systems.

Co-operation with manufacturers

The Company has maintained their close relationship with domestic and overseas original manufacturers in 2004. Major co-operation projects include: the co-operation with IBM in the area of middlewares and small machine system; the co-operation with Huawei in government network system and the co-operation with Oracle in database system. Through the co-operation with various manufacturers, the Company has fortified its commanding position in the industry.

Corporate development

After over a year's development, NandaSoft Technology Group has emerged as a well-known high technology industry group in the province, comprising 13 directly or indirectly owned subsidiaries and directly or indirectly invested in 6 companies. All the companies of the Group have maintained strong development stamina.

Suzhou NandaSoft Technology Company Limited has become the No.1 enterprise among those certified as officially sanctioned "Software Enterprise" by the State in the market of Suzhou. It has been recognized by the Ministry of Science and Technology as a backbone software enterprise of the Torch Plan and was listed as pilot enterprise in the "Chinese Offshore Software Engineering Project". Suzhou NandaSoft Technology Company Limited has won support from the government to undergo the authentication of CMMI.



Shanghai NandaSoft Information Technology Company Limited, which is principally engaged in the undertaking of software outsourcing projects from Japan, has undertaken development projects with value close to 100 million Yen in the year. It has formally embarked on the CMMIII quality management system and established an advanced development management system.

MANAGEMENT DISCUSSION AND ANALYSIS

Jiangsu NandaSoft (Hong Kong) Limited, a wholly-owned subsidiary of the Group, was established at the end of 2004. It will focus on the development of Hong Kong and overseas markets with an aim to pave way for the Company's products to pioneer the international market.

Research and development

Network security total solutions

In 2004, the Company has successfully developed integrated VPN Soft Firewall and launched high-performance 1GB series such as SoftWall8600 and SoftWall8800, SoftVPN2.0 and SoftNIDS2.1. Significant breakthroughs have been achieved in the R&D of security management platform with the accomplishment of the studies in event correlation and risk evaluation technology. One of the new research results, namely the "open security enhanced operating system", has passed the accreditation of technology achievement and obtained an expert opinion stating that various technologies comprised in the research result have attained leading standards in the PRC and some of them have even reached advanced international standards. The design and R&D of Soft Intranet Surveillance System 1.0 have entered the closing stage. With a general enhancement in the functionalities and performance of various security products and platform systems, a comprehensive network security safeguard system is initially formed.

Electronic government businesses

The Group has conducted an intensive study in the relevant policies and focus of development of the state electronic government businesses construction. It has been actively participating in the construction of electronic government businesses and became one of the most valued partners in the electronic government businesses construction of Jiangsu Province and the State. After becoming the major provider for electronic government businesses solutions of the Government of Jiangsu Province, NandaSoft has also become the major provider of electronic government businesses solutions of various government departments like the Finance Office, the Water Resources Office, the Communications Office, the Labor and Social Security Office, the Personnel Office, the Science and Technology Office, the Production Safety Administration and the Prison Administration. Besides, it is shortlisted as the provider of electronic government businesses solutions for a numbers of cities such as Wuxi, Changzhou, Zhenjiang, Taizhou, Nantong and Yancheng. NandaSoft's electronic government businesses solutions thus hold a safe lead nationwide.

MANAGEMENT DISCUSSION AND ANALYSIS

In terms of R&D of technologies related to electronic government businesses, NandaSoft has made product and technology breakthroughs in portal technology application, data exchange, trans-area official document exchange, administrative joint-approval and the like, enabling multi-function products or solutions that feature vertical and horizontal compatibility. With enhanced and wider applications, and with the Water Resources Office, the Communications Office, the Labor Office, the Personnel Office, the Science and Technology Office, the Prison Administration and the Municipal Government of Wuxi as new typical users. NandaSoft has also made breakthroughs in software value-added services and the integration of software and information, with a good beginning in multi-layer value-added services and integration like demonstration, system-exchange and data layers.

Internet value-added services

The China Publishing Group Chained Operation Information Support Platform Solution launched by the Group has passed the examination and acceptance procedures of experts from the users' organization, and has won favorable reception from leaders of the Central Government, who had attended the meeting. In Shengze, Jiangsu, the "China's hometown of silks", ERP for SMEs launched by the Company has provided scientific management and quality service for 2,000 strong trading and production SMEs to improve their internal management and to realize e-commerce, resulting in high economic and social benefits.

The "Telecom Integrated Network Resources Management Platform" commissioned to develop by the Company has passed the examination and acceptance procedure conducted by experts from the commissioning unit in December 2004, and has been widely employed in related telecom operating enterprises.

Meantime, the Company has develop the International logistics public information platform, Jiangsu Digital Filing Information Support Platform, China Publishing Group Chained Operation Information Support Platform, Nanjing Land Market Management and other projects during the year, with an aim to realize their commercialization.

Obtaining relevant qualifications and credits

In the selection of the "Top 100 Enterprises for scale of the PRC Software Industry" organized by Ministry of Information Industry, the Company has again, after 2003, been accredited as one of the "Top 100 Enterprises for scale of the PRC Software Industry", and has its ranking improved 9 places to come 41st.

Soft Firewall, one of the flagship products of the Company, has, after application and reporting, technological information examination, function test, expert appraisal, been accredited as "Excellent Software in the PRC" in the "Excellent Software Product Recommendation Campaign 2004" organized by China Software Industry Association.

MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, in the “China Information Security Product Lateral Appraisal and Testing 2004” organized by Beijing CCID IT Testing Center, Softwall 4000 100MB Firewall received the “Engineers Recommendation Award” and the “Technology Innovation Award” while Soft Firewall and SoftNids2.0 were named “Annual Ranking Product” in its annual comparison and appraisal.

In the selection of the first “Top 10 men of the year from the emerging industries”, a function organized by Nanjing Youth League, Mr. Xie Jun Yuan, general vice president of the Company, was named the first “Man of the Year from IT Industry”.

In the selection of the “Enterprises that Observe Contracts and Keep Commercial Integrity”, a function organized by Nanjing Administration for Industry and Commerce, JIANGSU NANDASOFT COMPANY LIMITED was awarded the title of “Enterprises that Observe Contracts and Keep Commercial Integrity”.

NandaSoft has been successfully chosen as one of the “Top 500 Hi-tech and High Growth Enterprises in the Asia Pacific Region in 2004”, a function organized by Deloitte Touche Tohmatsu.

Business Outlook

Research and development

Network security total solutions

In 2005, the Company will focus on 1,000Hz security system, including the hardware platform for 1,000Hz security products and Linux-based built-in security operation system, 1,000Hz firewall, IDS and VPN products. We plan to provide integrated security protection system with high performance network environment in 2 to 3 years. In addition, the Group will continue commercialization of its existing products, and launch formal commercialized version for security management platform and built-in Linux operation system; We will also aim at different industry and different scale requirement, to provide series products of intranet monitoring system; to release performance upgraded versions and function upgraded versions of IDS system, and to launch firewall products coming up to the national first-class level in all three aspects of management functions, security functions and performance.

Electronic government businesses

The focus of electronic government businesses construction for year 2005 are to promote governmental portal, public resources library and business application systems, to realize horizontal and vertical integration of government businesses resources, information share and business synergy of intra-department and inter-department of governments at all levels, and to facilitate the enrichment and deepening of the government internet services items that functions to serving the people. As such, NandaSoft will continue to perfect and deepen electronic government businesses solutions, so as to fit the requirement of the governments on informatization. It will continue perfecting data exchange products to enhance their functionality and adaptability, and integrating the existing resources of the Company, integrating the Company’s existing

MANAGEMENT DISCUSSION AND ANALYSIS

portal products, office automation software, filing management automation software and other related software products. In addition, the Company will expedite the R&D of promising governmental synchronizing office platform software, prompt the deepening of government office automation, and intensify the technological R&D of government software and information resource integration value-added services, to increase the profit margin of value-added services.

Internet value-added services

We will further perfect Internet application software products, such as office automation, portal website, telecommunication resources management, enterprise resources management, and launch new generation of software product series.

We will come to grips with the software R&D of logistics public consultation platform, digital file information support platform, and launch Soft new products for logistics industry and file digitalization.

We will further refine the informatization construction method of “three fronts in one line(三面一線)”, give the rein to the profession and expertise of NandaSoft, and take advantage of the marketing network of NandaSoft, to have the informatization construction method of “three fronts in one line(三面一線)” and Soft series products applied in application aspects of government authorities, enterprises ventures, education organizations nationally.

Sales and marketing

In 2005, while consolidating existing market presence, we have established the following three directions of marketing:

- (1) sales of the Group’s self-owned products (mainly security products and to a lesser extent OA, email, cyber-police products);
- (2) electronic government businesses system construction (including hardware system integration and government businesses software development); and
- (3) information technology (security services, system integration services).

We will strengthen market promotion efforts by launching ten odd rounds of marketing activities with different scale, striving for greater market impact in respect of electronic government businesses, safety products and other services to boost of sales results.

We will make clear of co-operation partners and strengthen co-operation to demonstrate NandaSoft’s value to original manufacturers and agents. We will enter into comprehensive co-operation agreements with original manufacturers, agents and suppliers to improve the quality of cooperation.

REPORT OF THE DIRECTORS

Principal Activities

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

Major Customers and Suppliers

The Group's sales to its five largest customers accounted for less than 10% of the Group's turnover for the year. Purchases from major suppliers accounted for the following percentages:

The largest supplier	43.8%
The five largest suppliers	78.3%

As far as the Directors are aware, none of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued capital) had any material interest in the five largest customers and suppliers.

Results and Dividends

The Group's results and financial position for the year ended 31 December 2004 are set out in the Annual Report on pages 33 to 70 of the financial statements.

The directors do not recommend the payment of a final dividend for the year ended 31 December 2004.

Share Capital

Details of the Company's share capital during the year are set out in note 28 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.

REPORT OF THE DIRECTORS

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 (redesignated from non-executive director to executive director on 13 February 2004 and resigned on 21 May 2004)

Mr. Chen Zheng Rong (appointed on 21 May 2004)

Non-Executive directors

Professor Chen Dao Xu

Ms. Zhang Yun Xia

Independent non-executive directors

Mr. Xu Huan Liang

Professor Wang Zhi Jian

Mr. Yim Hing Wah (appointed on 1 September 2004)

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 (resigned on 21 May 2004)

Mr. Shaw Yong Lei (appointed on 21 May 2004)

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 will expire on 29 December 2005. The service contracts will be renewed for a service period of three years subject to the approval at the forthcoming annual general meeting of the Company.

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

REPORT OF THE DIRECTORS

Director's Remuneration and Highest Paid Employees

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

Directors' and Supervisors' Interests in Shares

As at 31 December 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 of Hong Kong Limited ("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	Held by 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	Held by a controlled corporation	0.05%
Supervisors				
Zhou Ming Hai	Other (Note 1)	5,000,000	Held by a controlled corporation	0.54%
Wang Dao Wu	Other (Note 1)	1,000,000	Held by a controlled corporation	0.11%
Zhou Wen Da	Other (Note 1)	780,000	Held by a controlled corporation	0.08%
Shi Jian Jun	Other (Note 1)	500,000	Held by a controlled corporation	0.05%

REPORT OF THE DIRECTORS

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 changed its 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 2004, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations.

REPORT OF THE DIRECTORS

Disclosure Under SFO and Substantial Shareholders

At 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the share capital of the Company:

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 Held by a controlled corporation	160,000,000 21,540,000	17.13% 2.31% <hr/> 19.44%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 2)	Beneficial Owner Held by a controlled corporation	60,000,000 90,000,000	6.42% 9.64% <hr/> 16.06%
The Union (Note 3)	Beneficial Owner	110,000,000	11.78%
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 adopted the present name on 26 April 2001), which is approximately 53.85% owned by Zongyi.

REPORT OF THE DIRECTORS

- (2) Jiangsu Management Center is a professional unit entity established by changed its 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. Jiangsu Co-Creation is not a controlled corporation of 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 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 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.

Directors' and Supervisors' Rights to Acquire H Shares

During the year ended 31 December 2004, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 December 2004, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Share Option Scheme

The Company has adopted the share option scheme. A summary of the principle terms and conditions of the share option scheme are set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 31 December 2004, no option has been granted pursuant to such share option scheme.

REPORT OF THE DIRECTORS

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.

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

In accordance with the conditions agreed with the Stock Exchange with respect to certain connected transactions as specified in the GEM Listing Rules undertaken by the Group, the independent non-executive directors have reviewed the connected transactions set out in note 34 to the financial statements. In their opinion, these transactions entered into by the Group were:

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

Other than those transactions described in note 34 to the financial statements, there were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

Corporate Governance and Audit committee

The Company has complied with the Code of Best Practice as set out in Rules 5.34 to 5.45 of the GEM Listing rules since its listing on 24 April 2001.

REPORT OF THE DIRECTORS

The Company established an audit committee on 8 December 2000 with written terms of reference in compliance with Rules 5.28 to 5.33 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 three Independent Non-executive Directors, Mr. Xu Huan Liang, Mr. Yim Hing Wah and Professor Wang Zhi Jian, and one Executive Director, Professor Xie Li. The audit committee had held four meetings for current year.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 December 2004.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

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

24 March 2005

REPORT OF THE SUPERVISORY COMMITTEE

To: All Shareholders

Jiangsu Nandasoft Company Limited has compiled with the Company Law of the PRC during the year ended 31 December 2004, 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

24 March 2005

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Directors

Executive Directors

Professor Xie Li, (謝立), 63, Chairman of the Company, a Professor and PhD student mentor. 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 currently serving as the Director of Jiangsu Province Software Engineering Research Center, standing member of China Computer Society, Deputy Director of the Open System Professional Committee, Vice President of the Jiangsu Province Software Association, Vice Chairman of the Jiangsu Province Higher Education Society and Chairman of the Jiangsu Province Information Security Association. 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 220 academic papers. Professor Xie joined the Company in September 1998.

Mr. Wei Zhan Rong, (魏占榮), 52, 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.

Mr. Chen Zheng Rong, (陳嶢嶢), 49, is the executive director of the Company. He graduated from the school of physics of Soochow University, and had been the vice curator of Jiangsu Computer Education Center (江蘇省電教館), vice president of Jiangsu Education Television Station (江蘇教育電視台), Secretary of general branch and vice director of Jiangsu Provincial Management Centre for Education Equipment and Self-Supporting School (江蘇省教育裝備與勤工儉學管理中心).

Non-Executive Directors

Professor Chen Dao Xu, (陳道蓄), 58, 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

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

recent research work concentrated in distributive processing, parallel calculation, computer network and computer support co-processing. He has undertaken more than 10 major national science and technology projects. Professor Chen obtained 4 ministry or provincial class science and technology advancement awards and 1 National Education Committee award. He has published two co-authored books and more than 30 academic papers. Professor Chen joined the Company in July 1999.

Ms. Zhang Yun Xia, (張雲霞), 41, 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)股份有限公司) 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), 63, 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), 47, 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.

Mr. Yim Hing Wah, Terence, (嚴慶華), 40, has over twelve years of experience in auditing, accounting and financial management. Mr. Yim worked as the qualified accountant and company secretary of the Company for the period from 19 April 2001 to 2 July 2002. He was the audit manager with an international

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

accounting firm and he had worked with a number of large size listed companies in various industries and various public offerings on the Stock Exchange, as well as stock exchanges in the PRC and the United States. Mr. Yim holds a bachelor degree in accounting from Hong Kong Polytechnic University, and is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants and a member of Hong Kong Securities Institute.

Members of Supervisory Committee

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

Mr. Wang Dao Wu, (王道五), 62, 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), 50, 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), 42, post-graduate, Supervisor and the General Manager of the Development Division of the Company. He graduated from the Computer Science and Technology Department of Nanjing University. He had served as the general manager of Nanjing Turing Software Company Limited. He frequently participated in major state projects and the development and research of the State 863 project. He has been awarded the second prize in Technology Advancement of ministerial and provincial level. Mr. Zhou joined the Company in December 1998.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Zhou Ming Hai, (周明海), 55, 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), 41, 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.

Members of the Independent Supervisory Committee

Mr. Zhou De Fan, (周德藩), 65, a State Education Inspector, is the 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), 47, 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.

Mr. Shaw Yong Lei, (邵永雷), 62, graduated from the Physics Department of Nanjing Normal University. He is the member of Abacus Association of Jiangsu Province (江蘇省珠算協會) and currently the executive director of (江蘇省新世紀人才開發有限公司). He had been the director of Shanxi Office of the People's Government of Jiangsu Province and the secretary of Party Leadership Group.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Senior Management

Mr. Yuan Feng, (袁峰), 37, 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), 44, Vice President of the Company, Master of Science. He is also a professor and graduated from the Computer Science and Technology Department of Nanjing University. He also serves as the director of China Artificial Intelligence Society, Deputy Director of Computer Software Engineering Centre and a Director of the Artificial Intelligence Research Laboratory of the Computer Science and Technology Department of Nanjing University. He was responsible for the completion of the State 863 project and 15 provincial development projects. He has published more than 20 academic papers and has awarded the second prize of Provincial Technology Advancement for four times. Professor Xie joined the Company in September 1998.

Ms. Yang Xu, (楊旭), 41, 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.

Mr. Wang Jinqing, (王金慶), 41, Vice President of the Company, Doctor of Engineering. Mr. Wang graduated from the Nanjing University of Aeronautics and Astronautics. He had served as the Chief of the Information Centre, Chief of the Management Department of and various positions in Xuzhou Engineering Machinery Technology Company Limited. He joined the Company in 2001 and had served as the Manager of Engineering Department and Manager of e-Government. He had held and participated in various scientific research and development projects organised by the State, provinces and bureaus and was awarded the State "863" CIMS Application Excellence Award.

Ms Tong Sze Wan, (唐詩韻), 32, 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 Institute of Certified Public Accountants and the fellow member of Association of Chartered Certified Accountants.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY BY GIVEN that an Annual General Meeting of Jiangsu NandaSoft Company Limited (the "Company") will be held at Room 502, NandaSoft Tower, No. 8, Jingyin Street, Nanjing, the PRC on 27 May 2005 (Friday) at 9:00 a.m. for the following purposes:

- I. To pass the following matters as ordinary resolutions:
 - (1) To consider and pass the reports of the Directors for the year 2004;
 - (2) To consider and pass the reports of the Supervisory Committee for the year 2004;
 - (3) To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2004;
 - (4) To consider and pass the resolution of final dividend distribution for the year 2004;
 - (5) To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2004;
 - (6) To consider and pass plans to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2005 and to authorise the Board of Directors to fix their remunerations;
 - (7) To appoint directors and supervisors; and
 - (8) To handle any other matters.
- II. To consider and if right fit, pass with or without modifications, the following resolutions as special resolutions:

"THAT:

- (1) (a) subject to paragraph (c), (d) and (e) below, the exercise of the Board of Directors of the Company (the "Board") during the Relevant Period (as defined in paragraph (f) of all the powers of the Company separately or concurrently to allot, issue and deal with domestic shares of nominal value of RMB0.10 each in the share capital of the Company (the "Domestic Shares") and/or overseas-listed foreign shares of nominal value of RMB0.10 each in the share capital of the Company (the "H Shares") be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (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 PRC Company Law and be conditional upon the approval of China Securities Regulatory Commission and/or other relevant authorities in the People's Republic of China and/or the Growth Enterprise Market of the Stock Exchange of Hong Kong being obtained by the Company;
- (f) for the purpose of this special resolution:

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

- (i) the conclusion of the next annual general meeting of the Company following the passing of this special resolution;
- (ii) the expiration of a period of 12 months following the passing of this special resolution; or
- (iii) the date on which the authority set out in this special resolution is revoked or varied by a special resolution of the members of the Company in general meeting;

NOTICE OF ANNUAL 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).”
- (2) 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 reflect the new shareholders list of the Company as a result of any transfer of Shares of the Company.
- (3) Clause 12 of Article 97 of the Articles be amended in the following way:

“Subject to compliance with relevant laws, regulations and the Articles, exercise the Company’s rights to raise capital and to borrow, and decide on the charge, rent, contract or transfer of the major assets of the Company, and the Chairman be and is hereby authorized to exercise the rights described in this Clause to certain extent.”

On behalf of the Board

Jiangsu NandaSoft Company Limited

Xie Li

Chairman

Nanjing, the PRC

7 April 2005

Notes:

1. A member entitled to attend and vote at the above meeting is entitled to appoint one or more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company.
2. To be valid, a form of H shares proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such authority, must be deposited with the Company’s H Share Registrar, Hong Kong Registrars Limited, 46th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong not less than 24 hours before the time for holding the meeting or appointed time of voting.
3. Shareholders or their proxies shall present proofs of identities upon attending the AGM.
4. The Registrar of members will be closed from 27 April 2005 to 27 May 2005, both days inclusive. All transfers accompanied by relevant share certificates must be lodged with Company’s Share Registrar not less than 4:00 p.m. on 26 April 2005.
5. Shareholders entitled to attend the AGM are requested to deliver the reply slip for attendance to the Company Registrar before 13 May 2005.

AUDITORS' REPORT



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 33 to 70 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 our agreed terms of engagement 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 Institute of Certified Public 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 2004 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, 24 March 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	Notes	2004 RMB	2003 RMB
Turnover	4 & 5	384,496,927	376,606,707
Cost of sales		(321,770,383)	(319,208,908)
Gross profit		62,726,544	57,397,799
Other operating income	6	3,837,193	2,810,679
Distribution costs		(26,757,142)	(23,294,614)
Research and development costs		(4,237,612)	(2,629,153)
Administrative expenses		(20,372,587)	(20,476,572)
Profit from operations	7	15,196,396	13,808,139
Finance costs	8	(498,617)	(135,061)
Share of results of associates		134,074	632,550
Profit before taxation		14,831,853	14,305,628
Taxation	10	(1,853,975)	(1,889,833)
Profit before minority interests		12,977,878	12,415,795
Minority interests		(938,475)	(673,926)
Profit attributable to shareholders		12,039,403	11,741,869
Dividend	11	—	—
Earnings per share	12	0.0129	0.0126

CONSOLIDATED BALANCE SHEET

At 31 December 2004

	Notes	2004 RMB	2003 RMB
Non-current assets			
Property, plant and equipment	13	37,051,150	37,477,548
Intangible assets	14	22,719,776	21,443,153
Interests in associates	16	3,116,624	3,137,550
Investments in securities	17	3,523,748	3,582,554
Investments in projects	18	25,500,000	—
Deferred tax assets	19	1,476,344	3,359,841
		93,387,642	69,000,646
Current assets			
Inventories	20	26,147,811	21,643,497
Trade debtors	21	112,669,845	105,554,830
Deposits, prepayments and other debtors		30,603,455	18,441,971
Investments in securities	17	950,928	5,800
Deposit made for investment in a project	22	10,000,000	—
Designated loan receivable	23	10,000,000	—
Amounts due from shareholders	24	4,899,272	—
Amount due from an associate	25	501,950	—
Cash and bank balances		59,662,794	60,172,222
		255,436,055	205,818,320
Current liabilities			
Trade creditors	26	41,752,150	38,177,329
Notes payable		17,111,058	6,822,600
Receipt in advance, other creditors and accrued expenses		11,316,686	24,761,544
Amounts due to shareholders	24	2,751,516	237,879
Amount due to an associate	25	56,000	200,020
Provision for taxes and levies	27	5,920,653	6,279,912
Unsecured short-term bank loans		57,875,771	3,600,000
		136,783,834	80,079,284
Net current assets		118,652,221	125,739,036
Total assets less current liabilities		212,039,863	194,739,682
Capital and reserves			
Share capital	28	93,400,000	93,400,000
Reserves		101,355,698	89,316,295
		194,755,698	182,716,295
Minority interests		15,874,767	8,347,137
Non-current liabilities			
Deferred tax liabilities	19	1,409,398	3,676,250
		212,039,863	194,739,682

The financial statements on pages 33 to 70 were approved and authorised for issue by the Board of Directors on 24 March 2005 and are signed on its behalf by:

Xie Li
Chairman

Chen Zheng Rong
Director

BALANCE SHEET

At 31 December 2004

	Notes	2004 RMB	2003 RMB
Non-current assets			
Property, plant and equipment	13	31,513,264	33,035,248
Intangible assets	14	20,879,042	20,072,820
Investments in subsidiaries	15	49,802,612	22,092,127
Investments in securities	17	3,523,748	3,582,554
		<u>105,718,666</u>	<u>78,782,749</u>
Current assets			
Inventories	20	11,834,354	7,564,697
Trade debtors		71,887,625	70,956,761
Deposits, prepayments and other debtors		9,087,660	5,392,236
Investments in securities	17	945,128	—
Amounts due from subsidiaries		55,018,776	6,233,140
Amount due from shareholders	24	4,686,954	—
Amount due from an associate	25	500,000	—
Dividend receivable		4,719,730	4,719,730
Cash and bank balances		17,995,178	37,073,291
		<u>176,675,405</u>	<u>131,939,855</u>
Current liabilities			
Trade creditors		18,041,859	22,851,918
Notes payable		10,111,058	410,000
Receipt in advance, other creditors and accrued expenses		6,601,326	4,643,362
Amount due to a subsidiary		—	30,000
Amounts due to shareholders	24	2,445,298	—
Provision for taxes and levies	27	2,502,472	3,118,255
Unsecured short-term bank loans		54,517,024	3,600,000
		<u>94,219,037</u>	<u>34,653,535</u>
Net current assets		<u>82,456,368</u>	<u>97,286,320</u>
		<u>188,175,034</u>	<u>176,069,069</u>
Capital and reserves			
Share capital	28	93,400,000	93,400,000
Reserves	30	93,365,636	78,992,819
		<u>186,765,636</u>	<u>172,392,819</u>
Non-current liabilities			
Deferred tax liabilities	19	1,409,398	3,676,250
		<u>1,409,398</u>	<u>3,676,250</u>
		<u>188,175,034</u>	<u>176,069,069</u>

Xie Li
Chairman

Chen Zheng Rong
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital RMB	Share premium RMB	Statutory surplus reserve RMB (note 30b)	Statutory public welfare fund RMB (note 30c)	Retained earnings RMB (note 30d)	Dividend reserve RMB	Total RMB
THE GROUP							
At 1 January 2003	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
2003 dividend paid	—	—	—	—	—	(4,670,000)	(4,670,000)
Appropriations (note 30a)	—	—	667,833	333,916	(1,001,749)	—	—
At 31 December 2003	93,400,000	48,868,818	2,981,173	1,490,586	35,975,718	—	182,716,295
Profit attributable to shareholders	—	—	—	—	12,039,403	—	12,039,403
Appropriations (note 30a)	—	—	1,092,789	546,394	(1,639,183)	—	—
At 31 December 2004	93,400,000	48,868,818	4,073,962	2,036,980	46,375,938	—	194,755,698

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 RMB	2003 RMB
Operating activities		
Profit before taxation	14,831,853	14,305,628
Adjustment for:		
Interest expense	345,949	81,308
Interest income	(585,047)	(1,087,155)
Share of results of associates	(134,074)	(632,550)
Allowance for doubtful debts	4,458,556	2,100,154
Impairment loss of investments in securities	113,679	85,140
Gain on disposal of investments in securities	(22,191)	(3,013)
Loss on disposal of property, plant and equipment	111,065	14,413
Depreciation of property, plant and equipment	3,711,947	3,237,420
Amortisation of intangible assets	3,183,595	2,139,435
	<hr/>	<hr/>
Operating cash flows before movements in working capital	26,015,332	20,240,780
(Increase) decrease in inventories	(4,504,314)	5,703,666
Increase in trade debtors	(11,573,571)	(28,336,418)
Increase in deposits, prepayments and other debtors	(12,161,484)	(3,611,034)
Increase (decrease) in trade creditors	3,574,821	(3,654,857)
Increase in notes payable	10,288,458	6,822,600
(Decrease) increase in receipt in advance, other creditors and accrued expenses	(13,444,858)	10,035,170
Decrease in provision for taxes and levies	(776,849)	(486,011)
	<hr/>	<hr/>
Cash (used in) from operating activities	(2,582,465)	6,713,896
PRC income tax paid	(1,819,740)	(1,017,395)
	<hr/>	<hr/>
Net cash (used in) from operating activities	(4,402,205)	5,696,501

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 RMB	2003 RMB
Investing activities		
Interest received	585,047	1,087,155
Proceeds from disposal of investments in securities	16,925,053	25,513
Proceeds from disposal of property, plant and equipment	391,480	—
Proceeds from disposal of an associate	155,000	—
Purchase of investment in securities	(17,902,863)	(2,700,000)
Investments in projects	(25,500,000)	—
Deposit made for an investment in a project	(10,000,000)	—
Increase in designated loan receivable	(10,000,000)	—
Expenditure on product development	(4,460,218)	(9,325,436)
Purchases of property, plant and equipment	(3,788,094)	(2,839,549)
Acquisition of additional interest in a subsidiary	(615,981)	(2,170,000)
Acquisition of associates	—	(2,155,000)
Dividends received from an associate	—	94,824
Advance to shareholders	(4,899,272)	—
Advance to an associate	(501,950)	—
Net cash used in investing activities	<u>(59,611,798)</u>	<u>(17,982,493)</u>
Financing activities		
Capital contribution by minority shareholders of subsidiaries	7,205,136	1,180,000
Decrease (increase) in amounts due to shareholders (Repayment to) advance from an associate	2,513,637	(4,981,957)
Interest paid	(345,949)	(81,308)
New bank loans raised	64,275,771	3,600,000
Repayment of bank loan	(10,000,000)	—
Dividend paid	—	(4,670,000)
Net cash from financing	<u>63,504,575</u>	<u>(4,819,980)</u>
Net decrease in cash and cash equivalents	(509,428)	(17,105,972)
Cash and cash equivalents at beginning of the year	<u>60,172,222</u>	<u>77,278,194</u>
Cash and cash equivalents at end of the year	<u><u>59,662,794</u></u>	<u><u>60,172,222</u></u>
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	<u><u>59,662,794</u></u>	<u><u>60,172,222</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. Significant Accounting Policies *(Continued)*

Basis of consolidation *(Continued)*

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 2004

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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.

Investments in projects

Investments in projects are stated at cost, as reduced by any identified impairment loss.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. Significant Accounting Policies (Continued)

Revenue recognition (Continued)

(iv) Interest income

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

Long term contracts

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

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

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

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, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. Significant Accounting Policies (Continued)

Taxation (Continued)

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.

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 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.

	2004	2003
	RMB	RMB
Sales of computer software products	17,716,687	8,560,213
System integration	354,204,806	368,046,494
Import and export of IT related products	12,575,434	—
	384,496,927	376,606,707

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

5. Business and Geographical Segments

Business segments

For management purposes, the Group is currently organised into three 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 and (iii) import and export of IT related products, 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		Import and export of IT related products		Total	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB	2004 RMB	2003 RMB
TURNOVER	17,716,687	8,560,213	354,204,806	368,046,494	12,575,434	—	384,496,927	376,606,707
RESULT	6,359,858	4,386,459	9,659,915	12,514,232	3,455,017	—	19,474,790	16,900,691
Investment income							677,672	1,284,566
Unallocated corporate expenses							(4,956,066)	(4,377,118)
Profit from operations							15,196,396	13,808,139
Finance costs							(498,617)	(135,061)
Share of results of associates							134,074	632,550
Profit before taxation							14,831,853	14,305,628
Taxation							(1,853,975)	(1,889,833)
Profit before minority interests							12,977,878	12,415,795
Minority interests							(938,475)	(673,926)
Profit attributable to shareholders							12,039,403	11,741,869
Other information								
Additions of property, plant and equipment	196,474	57,023	3,574,258	2,782,526	17,362	—	3,788,094	2,839,549
Additions of intangible assets	—	—	4,460,218	9,325,436	—	—	4,460,218	9,325,436
Amortisation	—	—	3,183,595	2,139,435	—	—	3,183,595	2,139,435
Depreciation	1,530,046	1,602,752	2,180,692	1,634,668	1,209	—	3,711,947	3,237,420
Allowance for doubtful debts	—	—	4,458,556	2,100,154	—	—	4,458,556	2,100,154
ASSETS								
Segment assets	49,357,685	32,417,323	157,754,215	160,655,225	8,286,070	—	215,397,970	193,072,548
Unallocated assets							133,425,727	81,746,418
Consolidated total assets							348,823,697	274,818,966
LIABILITIES								
Segment liabilities	387,034	772,725	47,116,162	56,207,845	—	—	47,503,196	56,980,570
Unallocated liabilities							90,690,036	26,774,964
Consolidated total liabilities							138,193,232	83,755,534

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

5. Business and Geographical Segments (Continued)

Geographical segments

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

6. Other Operating Income

	2004	2003
	<i>RMB</i>	<i>RMB</i>
Interest on bank deposits	585,047	1,087,155
PRC value added tax refund	2,787,577	1,160,103
Gain on disposal of investments in securities	22,191	3,013
Exchange gain	70,434	194,397
Others	371,944	366,011
	<u>3,837,193</u>	<u>2,810,679</u>

7. Profit from Operations

	2004	2003
	<i>RMB</i>	<i>RMB</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	477,730	450,000
Allowance for doubtful debts	4,458,556	2,100,154
Depreciation and amortisation on:		
— property, plant and equipment	3,711,947	3,237,420
— intangible assets (included in research and development costs)	3,183,595	2,139,435
Impairment loss of investments in securities	113,679	85,140
Loss on disposal of property, plant and equipment	111,065	14,413
Minimum lease payment for land and buildings under operating leases	1,028,506	1,737,203
Staff costs (including directors' and senior executives' emoluments)	<u>28,647,554</u>	<u>28,054,412</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8. Finance Costs

	2004	2003
	RMB	RMB
Interest on borrowings wholly repayable within five years	345,949	81,308
Bank charges	152,668	53,753
	498,617	135,061

9. Directors', Supervisors' and Employees' Emoluments

	2004	2003
	RMB	RMB
Directors' fees	—	—
Directors' emoluments:		
Salaries and other benefits		
Executive directors	508,828	513,707
Non-executive directors	38,667	150,500
	547,495	664,207
Supervisors' emoluments:		
Salaries and other benefits	163,153	188,583

For the year ended 31 December 2004, the remuneration paid to three executive directors, two non-executive directors and three independent non-executive directors were RMB396,828, RMB30,000, RMB82,000, RMB8,000, RMB12,000, RMB8,000, RMB8,000 and RMB2,667 respectively.

For the year ended 31 December 2003, the remuneration paid to one executive director, three non-executive directors and two independent non-executive directors were RMB513,707, RMB112,000, RMB10,500, 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 2004

9. Directors', Supervisors' and Employees' Emoluments (Continued)

Employees' emoluments:

For the year ended 31 December 2004, the five highest paid individuals of the Group included one director (2003: one director). The details of emoluments paid to directors and supervisors are set out above. Details of remuneration of the remaining four highest paid individuals (2003: four) are as follows:

	2004	2003
	RMB	RMB
Salaries and other benefits	955,600	859,833

10. Taxation

	2004	2003
	RMB	RMB
The charge (credit) comprises:		
PRC Enterprise Income Tax		
Current year	2,792,031	1,946,444
(Over) underprovision in prior years	(554,701)	124,107
	2,237,330	2,070,551
Deferred taxation (Note 19)	(383,355)	(180,718)
	1,853,975	1,889,833

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

10. Taxation (Continued)

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

	2004		2003	
	RMB	%	RMB	%
Profit before taxation	14,831,853		14,305,628	
Tax at the domestic income tax rate	4,894,511	33.0	4,720,857	33.0
Tax effect of expenses not deductible	3,650,797	24.6	882,219	6.1
Tax effect of income not taxable	(1,492,213)	(10.1)	(3,938,091)	(27.5)
(Over) underprovision in the prior year	(554,701)	(3.7)	124,107	0.9
Tax effect of tax losses not recognised	428,569	2.9	336,582	2.3
Effect of concessionary tax rate	(3,054,159)	(20.6)	(214,965)	(1.5)
Effect of changes in opening deferred taxation resulting from change in applicable tax rate	(2,005,227)	(13.5)	—	—
Others	(13,602)	(0.1)	(20,876)	(0.1)
	1,853,975	12.5	1,889,833	13.2

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality, the Company has been designated as a new and high technology entity and is subject to a 50% tax concession granted by relevant tax authority and entitled to a 50% reduction in income tax rate. Therefore a concessionary tax rate of 16.5% is used.

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

Details of the deferred taxation are set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. Dividend

The directors do not recommend the payment of a dividend in this year (2003: Nil).

12. Earnings Per Share

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB12,039,403 (2003: RMB11,741,869) and on 934,000,000 (2003: 934,000,000) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended 31 December 2004 as there were no potential ordinary shares outstanding for both years.

13. Property, Plant and Equipment

	Land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE GROUP					
COST					
At 1 January 2004	32,762,783	319,753	9,642,413	3,107,037	45,831,986
Additions	—	102,404	2,543,130	1,142,560	3,788,094
Disposals	—	—	(1,085,496)	(90,071)	(1,175,567)
At 31 December 2004	<u>32,762,783</u>	<u>422,157</u>	<u>11,100,047</u>	<u>4,159,526</u>	<u>48,444,513</u>
DEPRECIATION					
At 1 January 2004	3,348,177	93,419	3,902,586	1,010,256	8,354,438
Provided for the year	914,574	154,779	2,058,039	584,555	3,711,947
Eliminated on disposals	—	—	(655,818)	(17,204)	(673,022)
At 31 December 2004	<u>4,262,751</u>	<u>248,198</u>	<u>5,304,807</u>	<u>1,577,607</u>	<u>11,393,363</u>
NET BOOK VALUES					
At 31 December 2004	<u>28,500,032</u>	<u>173,959</u>	<u>5,795,240</u>	<u>2,581,919</u>	<u>37,051,150</u>
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>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. Property, Plant and Equipment (Continued)

	Land and buildings	Furniture, fixtures and equipment	Motor vehicles	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE COMPANY				
COST				
At 1 January 2004	32,762,783	5,685,808	1,485,453	39,934,044
Additions	—	730,287	—	730,287
Disposals	—	(252,583)	—	(252,583)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	32,762,783	6,163,512	1,485,453	40,411,748
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
At 1 January 2004	3,348,177	2,928,861	621,758	6,898,796
Provided for the year	914,574	1,089,526	240,643	2,244,743
Eliminated on disposals	—	(245,055)	—	(245,055)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2004	4,262,751	3,773,332	862,401	8,898,484
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUES				
At 31 December 2004	<u>28,500,032</u>	<u>2,390,180</u>	<u>623,052</u>	<u>31,513,264</u>
At 31 December 2003	<u>29,414,606</u>	<u>2,756,947</u>	<u>863,695</u>	<u>33,035,248</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 2004

14. Intangible Assets

	Development costs	Copyright	Intellectual property	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE GROUP				
COST				
At 1 January 2004	18,463,863	5,979,060	1,000,000	25,442,923
Additions	<u>3,621,756</u>	<u>838,462</u>	—	<u>4,460,218</u>
At 31 December 2004	<u>22,085,619</u>	<u>6,817,522</u>	<u>1,000,000</u>	<u>29,903,141</u>
AMORTISATION				
At 1 January 2004	2,460,942	1,380,494	158,334	3,999,770
Provided for the year	<u>1,860,424</u>	<u>1,223,171</u>	<u>100,000</u>	<u>3,183,595</u>
At 31 December 2004	<u>4,321,366</u>	<u>2,603,665</u>	<u>258,334</u>	<u>7,183,365</u>
NET BOOK VALUES				
At 31 December 2004	<u>17,764,253</u>	<u>4,213,857</u>	<u>741,666</u>	<u>22,719,776</u>
At 31 December 2003	<u>16,002,921</u>	<u>4,598,566</u>	<u>841,666</u>	<u>21,443,153</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

14. Intangible Assets (Continued)

	Development costs	Copyright	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE COMPANY			
COST			
At 1 January 2004	18,463,863	4,959,860	23,423,723
Additions	<u>3,621,755</u>	<u>38,462</u>	<u>3,660,217</u>
At 31 December 2004	<u>22,085,618</u>	<u>4,998,322</u>	<u>27,083,940</u>
AMORTISATION			
At 1 January 2004	2,460,942	889,961	3,350,903
Provided for the year	<u>1,860,424</u>	<u>993,571</u>	<u>2,853,995</u>
At 31 December 2004	<u>4,321,366</u>	<u>1,883,532</u>	<u>6,204,898</u>
NET BOOK VALUES			
At 31 December 2004	<u>17,764,252</u>	<u>3,114,790</u>	<u>20,879,042</u>
At 31 December 2003	<u>16,002,921</u>	<u>4,069,899</u>	<u>20,072,820</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.

15. Investments in Subsidiaries

	2004	2003
	RMB	<i>RMB</i>
Unlisted shares, at cost	<u>49,802,612</u>	<u>22,092,127</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. Investments in Subsidiaries (Continued)

The particulars of the Company's subsidiaries at 31 December 2004 are as follows:

Name of subsidiary (form of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company		Principal activities
			Directly	Indirectly	
Beijing NandaSoft Digital Technology Company Limited (limited liability company)	PRC	RMB2,000,000	80%	19.6%	Sale of computer hardware products and equipment
Jiangsu Nanda (Hong Kong) Company Limited (limited company)	Hong Kong	HK\$1,000,000	100%	—	Inactive
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
Jiangsu NandaSoft Xin Yi Software Company Limited (limited liability company)	PRC	RMB5,000,000	—	94.2%	Sale of computer hardware products and equipment
Jiangsu Sheng Feng Investment Company Limited (limited liability company)	PRC	RMB10,000,000	95%	—	Investment holding
Jiangsu Zhong Chang Digital Technology Company Limited (limited liability company)	PRC	RMB5,960,000	60%	—	Sale of computer hardware products and equipment
Nanjiang Fan Bang Import and Export Company Limited (limited liability company)	PRC	RMB1,000,000	—	52%	Import and export activities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. Investments in Subsidiaries (Continued)

Name of subsidiary (form of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company		Principal activities
			Directly	Indirectly	
Nanjing NandaSoft Computer Engineering Company Limited (formerly known as Nanjing Nandasoft Ze Tong Technology Company Limited) (limited liability company)	PRC	RMB3,000,000	51%	—	Sale of computer hardware products and equipment
Nanjing Mingjuan Digital Technology Company Limited (limited liability company)	PRC	RMB500,000	—	58.8%	Inactive
Nanjing NandaSoft Electronic Technology Company Limited (limited liability company)	PRC	RMB1,000,000	51%	—	Sale of computer hardware products and equipment
Nanjing NandaSoft System Integration Company Limited (limited liability company)	PRC	RMB5,000,000	80%	—	System Integration
Nanjing Suying Education Software Company Limited (limited liability company)	PRC	RMB4,000,000	—	26.0%	Sale of computer hardware products and equipment

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. Investments in Subsidiaries (Continued)

Name of subsidiary (form 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
Suzhou NandaSoft Technology Company Limited (limited liability company)	PRC	RMB10,000,000	94%	3.9%	Sale of computer hardware products and equipment
Nanjing Nanpu Culture and Media Company Limited (limited liability company)	PRC	RMB500,000	—	41.6%	Design and making of advertisement

None of the subsidiaries had issued any debt securities at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. Interests in Associates

The Group

	2004	2003
	RMB	RMB
Share of net assets	3,116,624	3,137,550

Details of the Group's associates at 31 December 2004 are as follows:

Name of associate	Place of registration and operation	Registered capital	Percentage of registered capital indirectly held by the Company	Principal activity
Nanjing NandaSoft Information Processing Company Limited	PRC	RMB1,000,000	35%	Sale of computer hardware products and equipment
Shanghai Qianwu Investment Management Company Limited	PRC	RMB5,000,000	40%	Media production

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

17. Investments in Securities

	THE GROUP		THE COMPANY	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Investment securities				
Unlisted investments	3,523,748	3,582,554	3,523,748	3,582,554
Other investments				
Listed investment in the PRC	950,928	5,800	945,128	—
	4,474,676	3,588,354	4,468,876	3,582,554
Market value of listed shares	950,928	10,830	945,128	—
Carrying amount analysed for reporting purposes as:				
Current	950,928	5,800	945,128	—
Non-current	3,523,748	3,582,554	3,523,748	3,582,554
	4,474,676	3,588,354	4,468,876	3,582,554

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18. INVESTMENTS IN PROJECTS

	Notes	THE GROUP	
		2004 RMB	2003 RMB
Investment in a project with 通州至誠軟件開發有限公司	(a)	13,000,000	—
Investment in a project with 南通明德重工有限公司	(b)	10,000,000	—
Investment in a project with 南京水木年華餐飲有限公司	(c)	2,500,000	—
		25,500,000	—

Notes:

- (a) On 5 November 2004, the Group entered into an agreement with 通州至誠軟件開發有限公司 (“Tungzhou Software”) regarding a project of development of Software for motor vehicle business management and logistic. The Group contributes RMB13,000,000 to finance the operations of the project, while Tungzhou Software is responsible for the operations and management of the project. The balance is repayable within three years. Tungzhou Software guarantees a minimum return of 5.58% to the Group during the investment period. Upon the completion of the development, both the Group and Tungzhou Software have the title of the software then developed.
- (b) On 5 November 2004, the Group entered into an agreement with 南通明德重工有限公司 (“Nantung Minde”) regarding a project of manufacturing of vessel-related lid for five years. The Group and Nantung Minde contribute RMB10,000,000 and RMB30,000,000 respectively to finance the operations of the project. Nantung Minde has the unilateral control of the project. The Group and Nantung Minde share the results of the project during the operation period in accordance with the percentage of amount contributed. Nantung Minde is controlled by Mr. Jie Feng Hua, who is also a director of Jiangsu Zhongyi Company Limited (“Jiangsu Zhongyi”), a substantial shareholder of the Company. Jiangsu Zhongyi confirmed that its board had accepted the request for resignation of Mr. Jie Feng Hua as director on 25 September 2004 pending for the approval at its annual general meeting at April 2005.
- (c) On 20 October 2004, the Group entered into an agreement with 南京水木年華餐飲有限公司 (“Shuimu Ninhua”) regarding a project of operating a I.T. Club (the “club”) in Nanjing. The Group contributes RMB2,500,000 to finance the operations of the project, and Shuimu Ninhua has the control of the management of the club. Shuimu Ninhua should repay RMB1,000,000, RMB1,000,000 and RMB500,000 to the Group out of the profits earned by the club in the first, second and third year respectively. Any profits and losses in excess or shortfall of the said balances in each year should be shared between the Group and Shuimu Ninhua equally.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

19. DEFERRED TAXATION

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

	Development	General	Receipt in	Others	Total
	cost	bad debt	advance		
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE GROUP					
As 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)
At 1 January 2004	5,451,464	(1,639,840)	(3,185,015)	(310,200)	316,409
Charge (credit) to income for the year	186,700	(561,488)	1,870,660	126,000	1,621,872
Effect of change in tax rate	(2,973,526)	799,099	—	169,200	(2,005,227)
At 31 December 2004	<u>2,664,638</u>	<u>(1,402,229)</u>	<u>(1,314,355)</u>	<u>(15,000)</u>	<u>(66,946)</u>

	Development	General	Others	Total
	cost	bad debt		
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
THE COMPANY				
As 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 1 January 2004	5,451,464	(1,465,014)	(310,200)	3,676,250
Charge (credit) to income for the year	186,700	(574,325)	126,000	(261,625)
Effect of change in tax rate	(2,973,526)	799,099	169,200	(2,005,227)
At 31 December 2004	<u>2,664,638</u>	<u>(1,240,240)</u>	<u>(15,000)</u>	<u>1,409,398</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

19. DEFERRED TAXATION (Continued)

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	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Deferred tax liabilities	1,409,398	3,676,250	1,409,398	3,676,250
Deferred tax assets	(1,476,344)	(3,359,841)	—	—
	(66,946)	316,409	1,409,398	3,676,250

In the opinion of the directors, the Company is able to obtain the approval document issued by the Science and Technology Committee of Nanjing Municipality in the coming years, and will be entitled to enjoy a 50% concessionary tax rate. As a result, the tax rate has been changed from 33% to 15% in the current year.

20. Inventories

	2004	2003
	RMB	RMB
THE GROUP		
Computer hardware products, equipment and software products	26,147,811	21,643,497
THE COMPANY		
Computer hardware products, equipment and software products	11,834,354	7,564,697

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

21. 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:

THE GROUP

	2004	2003
	RMB	RMB
Aged:		
0 — 90 days	61,979,743	74,147,233
91 — 180 days	21,978,579	9,996,605
181 — 365 days	9,820,954	9,402,529
Over 365 days	18,890,569	12,008,463
	112,669,845	105,554,830

Included in the above are trade receivables from shareholders amounting to Nil (2003: RMB2,128,791) and trade receivables from an associate amounting to RMB500,000 (2003: Nil).

22. DEPOSIT MADE FOR INVESTMENT IN A PROJECT

On 10 December 2004, the Group entered into an agreement with 南通綜藝投資有限公司 (“Nantung Zhongyi”) for bidding of a project related to the management of 中國華融資產管理公司. The bidding of the project was not successful and the entire balance was returned to the Group in January 2005. Nantung Zhongyi is the major shareholder of Jiangsu Zhongyi Company.

23. DESIGNATED LOAN RECEIVABLE

On 18 November 2004, Jiangsu Zhong Chong Digital Technology Co., Ltd. a subsidiary of the Company, entered into an agreement with Tungzhou Yahu Trading Co., Ltd. (“Yahu”) and a financial institution. Pursuant to the agreement, the financial institution advanced RMB10,000,000 to Yahu on behalf of the Group. The balance bears interest at 5.31% per annum, and repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

24. AMOUNTS DUE FROM (TO) SHAREHOLDERS

	THE GROUP		THE COMPANY	
	2004 RMB	2003 RMB	2004 RMB	2003 RMB
Amounts due from shareholders				
Nanjing University	1,506,836	—	1,506,836	—
Jiangsu Co-Creation Development Company Limited ("Jiangsu Co-Creation")	2,361,887	—	2,361,887	—
Jiangsu Provincial Management Centre for Education Equipment and Self Supporting School	818,231	—	818,231	—
Mr. Liu Xiao Min	210,724	—	—	—
Mr. Chen Wang Juan	1,594	—	—	—
	<u>4,899,272</u>	<u>—</u>	<u>4,686,954</u>	<u>—</u>
Amounts due to shareholders				
Nanjing Ze Tong Technology	—	237,879	—	—
Nanjing University	2,330,000	—	2,330,000	—
Jiangsu Co-Creation	119,496	—	115,298	—
Jiangsu Zhongyi	302,020	—	—	—
	<u>2,751,516</u>	<u>237,879</u>	<u>2,445,298</u>	<u>—</u>

The amounts due from (to) shareholders of the Group and the Company represented advances to/from shareholders during the year. The balances are unsecured, non-interest bearing and have no fixed repayment terms.

25. AMOUNT DUE FROM (TO) AN ASSOCIATE

The amount due to an associate of the Group is unsecured, non-interest bearing and fully repaid during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. TRADE CREDITORS

The aged analysis of trade creditors is stated as follows:

	2004	2003
	RMB	RMB
THE GROUP		
Aged:		
0 — 90 days	23,796,922	24,758,215
91 — 180 days	2,841,988	2,169,306
181 — 365 days	9,202,140	2,650,954
Over 365 days	5,911,100	8,598,854
	41,752,150	38,177,329

Included in the above are trade payable to an associate amounting to RMB56,000 (2003: Nil).

27. PROVISION FOR TAXES AND LEVIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Value added tax	2,098,411	2,944,230	1,425,201	2,721,746
Income and profits tax	3,061,931	2,644,341	821,356	86,789
Business tax	498,883	505,359	110,421	209,268
Other taxes	261,428	185,982	145,494	100,452
	5,920,653	6,279,912	2,502,472	3,118,255

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. 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 2003 and 2004	<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.

29. 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. Share Options (Continued)

the options and (c) the nominal value of the H Shares. However, for employees who are PRC nationals and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

- (1) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals from subscribing for and dealing in H Shares or any laws and regulations with similar effects have been abolished or removed; and
- (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.

30. Reserves

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained earnings	Dividend reserve	Total
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
		<i>(Note b)</i>	<i>(Note c)</i>	<i>(Note d)</i>		
THE COMPANY						
At 1 January 2003	48,868,818	2,313,340	1,156,670	19,950,700	4,670,000	76,959,528
Profit attributable to						
shareholders	—	—	—	6,703,291	—	6,703,291
Dividend paid	—	—	—	—	(4,670,000)	(4,670,000)
Appropriations (Note a)	—	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
Profit attributable to						
shareholders	—	—	—	14,372,817	—	14,372,817
Appropriations (Note a)	—	951,281	475,641	(1,426,922)	—	—
At 31 December 2004	48,868,818	3,932,454	1,966,227	38,598,137	—	93,365,636

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. 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 RMB1,034,185 (2003: RMB900,111) retained by the associate of the Group.

In the opinion of the directors, the reserves available for distribution to the shareholders at 31 December 2004 amounted to RMB28,544,738 (2003: RMB24,959,205).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. Operating Lease Commitments

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

THE GROUP

	2004	2003
	RMB	RMB
Within one year	282,871	942,706
In the second to fifth year inclusive	28,572	1,183,492
Over five years	—	360,632
	311,443	2,486,830

Operating lease payments represent rentals payable by the Group for certain of its office premises. The leases are negotiated for average terms of one to two years (2003: two to seven years).

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

32. Capital Commitments

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	RMB	RMB	RMB	RMB
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	56,666,000	56,666,000	56,400,000	50,000,000

33. Retirement Benefit Scheme

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

During the year, the amount of such contribution charged to the income statement amounted to RMB2,518,809 (2003: RMB2,405,362).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

34. Connected Transactions/Related Party Transactions

During the year, other than the connected transactions as disclosed in notes 18(b), 22, 24 and 25 to the financial statements, the Group also had the following transactions with the following related parties:

Name of related party	Nature of transactions	2004 RMB	2003 RMB
Revenue:			
Jiangsu Co-Creation	Sales (Note b)	178,930	635,266
Nanjing University	Sales (Note a)	304,731	400,360
Nanjing Ze Tong Technology Company Limited ("Nanjing Ze Tong")	Sales (Note a)	—	271,133
Nanjiang Nandasoft Information Processing Company Limited ("Nanjiang Information Processing")	Sales (Note a)	448,402	199,914
Expense:			
Jiangsu Co-Creation	Purchase (Note b)	244,437	967,229
Nanjiang Information Processing	Purchase (Note b)	—	594,735
Nanjing University	Development cost (Note c)	1,400,000	750,000
Nanjing University	Revenue sharing (Note d)	100,000	80,000
Nanjing Ze Tong	Technical consultancy fee (Note a)	295,000	350,000
	Purchase (note b)	172,650	—

Jiangsu Co-Creation is a shareholder of the Company.

Nanjing University is a shareholder of the Company.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

34. Connected Transactions/Related Party Transactions (Continued)

Notes:

- (a) These transactions were made in accordance to relevant terms with various agreements.
- (b) These transactions were made at terms with reference to market prices.
- (c) For the year ended 31 December 2004, the Group paid development cost in an aggregate of RMB1,400,000 (2003: 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 2004, the Group paid a revenue sharing fee of RMB100,000 (2003: RMB80,000) 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

	2000	2001	2002	2003	2004
	RMB	RMB	RMB	RMB	RMB
Turnover	160,581,930	185,729,008	311,405,868	376,606,707	384,496,927
Cost of sales	(140,675,229)	(155,180,033)	(261,348,530)	(319,208,908)	(321,770,383)
Gross profit	19,906,701	30,548,975	50,057,338	57,397,799	62,726,544
Other operating income	4,040,417	3,413,826	3,952,207	2,810,679	3,837,193
Distribution costs	(8,177,748)	(9,981,482)	(18,779,758)	(23,294,614)	(26,757,142)
Research and development costs	(491,628)	(950,631)	(1,957,435)	(2,629,153)	(4,237,612)
Administration expenses	(6,571,758)	(9,406,529)	(16,361,828)	(20,476,572)	(20,372,587)
Profit from operations	8,705,984	13,624,159	16,910,524	13,808,139	15,196,396
Finance costs	(8,735)	(20,072)	(56,686)	(135,061)	(498,617)
Share of results of an associate	—	172,737	94,824	632,550	134,074
Profit before taxation	8,697,249	13,776,824	16,948,662	14,305,628	14,831,853
Taxation	(1,306,031)	(1,658,463)	(1,973,102)	(1,889,833)	(1,853,975)
Profit before minority interests	7,391,218	12,118,361	14,975,560	12,415,795	12,977,878
Minority interests	22,734	(88,753)	(984,728)	(673,926)	(938,475)
Profit attributable to shareholders	<u>7,413,952</u>	<u>12,029,608</u>	<u>13,990,832</u>	<u>11,741,869</u>	<u>12,039,403</u>

FINANCIAL SUMMARY

Assets And Liabilities

	2000	2001	2002	2003	2004
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Total assets	126,186,319	204,402,925	254,537,094	274,818,966	348,823,697
Total liabilities	(48,676,450)	(39,807,689)	(69,934,672)	(83,755,534)	(138,193,232)
Minority interests	(154,701)	(2,941,642)	(8,957,996)	(8,347,137)	(15,874,767)
Shareholders' funds	<u>77,355,168</u>	<u>161,653,594</u>	<u>175,644,426</u>	<u>182,716,295</u>	<u>194,755,698</u>

Notes:

The results for the period for the year ended 31 December 2000 and the assets and liabilities as at 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 the Company and Nanjing NandaSoft System Integration Company Limited for the period from 1 January 2000 to 31 December 2000, presented as a continuing reporting entity.



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 with limited liability)
(Stock Code: 8045)

Form of Proxy for Annual General Meeting to be held on 27 May 2005
(or at any adjournment thereof)

No. of Shares to which this Proxy relates ²	
Type of Shares (Promoters' Shares or H Shares) to which this Proxy relates ²	

I/We' _____
(of _____)
being the registered holder(s) of Promoters' Share(s)/H Share(s)³ of Jiangsu NandaSoft Company Limited (the "Company") **HEREBY APPOINT** the Chairman of the Annual General Meeting or⁴ _____)
(of _____)
as my/our proxy at the Annual General Meeting (the "AGM") (and at any adjournment thereof) of the Company to be held at Room 502, NandaSoft Tower, No. 8 Jingyin Street, Nanjing, the PRC on 27 May 2005 at 9:00 a.m. for the purpose of considering and if thought fit, passing the Ordinary and Special Resolution as set out in the Notice convening the AGM dated 7 April 2005 and at the AGM (or at any adjournment thereof) to vote for my/our behalf in respect of the Resolution as directed below:—

	For⁵	Against⁵
Ordinary Resolution		
(1) To consider and pass the reports of the Directors for the year 2004.		
(2) To consider and pass the reports of the Supervisory Committee for the year 2004.		
(3) To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2004.		
(4) To consider and pass the resolution of final dividend distribution for the year 2004.		
(5) To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2004.		
(6) To consider and pass plans to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year 2005 and to authorise the Board of Directors to fix their remunerations.		
(7) To appoint directors and supervisors.		
(8) To handle any other matters.		
Special Resolution		
(1) To give general mandate to the Board to issue shares of the Company.		
(2) To authorise the Board to make amendments to the Articles to reflect the new shareholder lists as a result of any transfer of shares.		
(3) To amend paragraph 12 of Article 97 of the Articles.		

Signed this _____ day of _____ 2005

Signature(s): _____
Holder(s) of Promoters' Shares or H Shares

Notes:—

1. Full name(s) (in Chinese and English) and registered address(es) (as shown in the register of members) to be inserted in **BLOCK LETTERS**.
2. Please insert the number of Promoters' Shares or H Shares relates to this proxy form. If no number is inserted, this proxy form will be deemed to relate to all such shares in the capital of the Company registered in your names(s).
3. Please delete as appropriate.
4. A proxy need not be a member of the Company. A holder of Promoters' Shares or H Shares is entitled to appoint a proxy to attend and, in the event of a poll, vote in his stead. If such an appointment is made, you may delete the words "the Chairman of the Annual General Meeting or" and insert the name and address of the person appointed as proxy in the space provided. **ANY ALTERATION MADE TO THIS PROXY FORM MUST BE INITIALLED BY THE PERSON(S) WHO SIGN(S) IT.**
5. Please indicate with a "✓" in the appropriate space how you wish the proxy to vote on your behalf on a poll. If this form is returned duly signed, but without any such indication, the proxy will vote or abstain at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the AGM other than those referred to in the Notice convening the AGM.
6. In the case of joint holders, the vote of the senior who tenders as vote, whether in person or by proxy or by representative, will be accepted to the exclusion of the votes of the other joint holder(s). For this purpose, seniority is determined by the order in which the names stand in the Register of Members in respect of the joint holding.
7. This proxy form must be signed by you or your attorney duly authorized in writing or, in the case of a corporation, must be under its common seal or under the hand of an officer or attorney duly authorized.
8. To be valid, this proxy form together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority, must be deposited with the Company's H Shares registrar in Hong Kong Registrars Limited at **46/F, HOPEWELL CENTRE, 183 QUEEN'S ROAD EAST, CENTRAL, HONG KONG** not less than 24 hours before the time appointed for holding the AGM or any adjournment thereof.
9. Completion and delivery of the proxy form will not preclude you from attending and voting at the AGM if you so wish.
10. The description of this resolution is by way of summary only. The full text appears in the Notice of Annual General Meeting dated 7 April 2005.

* for identification purpose only