

Interim Report 2005

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

**NANDASOFT**

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

- Achieved a turnover of approximately RMB157,002,000 for the six months ended 30th June, 2005, representing an approximately 15.3% decrease as compared with that of the corresponding period in 2004.
- Accomplished a net profit of approximately RMB5,020,000 for the six months ended 30th June, 2005, representing an approximately 14.6% increase as compared with that of the corresponding period in 2004.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2005.

INTERIM RESULTS

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th June, 2005.

For the three months ended 30th June, 2005, the unaudited turnover is approximately RMB102,563,000, representing an increase of approximately RMB14,587,000, or approximately 16.6% in turnover as compared with that of the same period in 2004.

For the six months ended 30th June, 2005, the unaudited turnover is approximately RMB157,002,000, representing a drop of approximately RMB28,336,000, or approximately 15.3% in turnover as compared with that of the same period in 2004.

The unaudited net profit of the Group for three months and six months ended 30th June, 2005 is approximately RMB2,029,000 and RMB5,020,000 respectively, representing a growth in the results of approximately 44.9% and 14.6% as compared with the corresponding figures in 2004.

* For identification purpose only

The unaudited results of the Group for the three months and six months ended 30th June, 2005 together with the unaudited comparative figures for the corresponding period in 2004 are as follows:

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2005 RMB	2004 RMB	2005 RMB	2004 RMB
Turnover	2	102,563,233	87,976,478	157,002,000	185,338,495
Cost of Sales		(90,585,784)	(73,600,595)	(127,909,998)	(152,845,120)
Gross Profit		11,977,449	14,375,883	29,092,002	32,493,375
Other revenue		2,222,305	1,664,474	3,302,438	1,851,756
Distribution costs		(4,964,503)	(6,639,253)	(9,824,633)	(13,324,697)
Research and development costs		(1,244,851)	(1,607,532)	(2,392,993)	(3,498,298)
Administrative expenses		(4,851,565)	(6,146,266)	(12,479,758)	(12,180,132)
Profit from operations		3,138,835	1,647,306	7,697,056	5,342,004
Finance costs	3	(335,415)	(113,345)	(684,248)	(176,507)
Profit before taxation		2,803,420	1,533,961	7,012,808	5,165,497
Taxation	4	(191,420)	67,504	(651,286)	(125,832)
Profit before minority interests		2,612,000	1,601,465	6,361,522	5,039,666
Minority interests		(583,459)	(201,468)	(1,341,935)	(660,348)
Net profit attributable to shareholders		2,028,541	1,399,997	5,019,587	4,379,317
Earnings per share — basic	5	0.0022	0.0015	0.0054	0.0047

CONSOLIDATED BALANCE SHEET

	(Unaudited) 30th June, 2005 RMB	(Audited) 31st December, 2004 RMB
Non-current assets		
Property, plant and equipment	35,931,681	37,051,150
Intangible assets	21,332,749	22,719,776
Interest in an associate	3,116,624	3,116,624
Investment in securities	3,138,716	3,523,748
Loan Receivables	30,550,000	25,500,000
Deferred tax	1,476,344	1,476,344
	95,546,114	93,387,642
Current assets		
Inventories	27,374,618	26,147,811
Trade debtors	124,794,846	112,669,845
Deposits, prepayment and other debtors	69,361,722	30,603,455
Deposit made for investment in project	10,000,000	10,000,000
Designated loan receivable	10,000,000	10,000,000
Investment in securities	950,928	950,928
Amount due from shareholder	4,899,272	4,899,272
Amount due from associate	501,950	501,950
Cash and bank balances	33,509,558	59,662,794
	281,392,894	255,436,055
Current liabilities		
Trade creditors	44,010,220	41,752,150
Notes Payable	11,613,487	17,111,058
Receipt in advance, other creditor and accruals	37,937,660	11,316,686
Amounts due to shareholders	2,751,516	2,751,516
Amounts due to an associate	56,000	56,000
Provision for taxes and levies	966,180	5,920,653
Short-term loan (unsecured)	61,202,560	57,875,771
	158,537,623	136,783,834
Net current assets	122,855,271	118,652,221
Total assets less current liabilities	218,401,385	212,039,863

	(Unaudited) 30th June, 2005 RMB	(Audited) 31st December, 2004 RMB
Capital and reserve		
Share capital	93,400,000	93,400,000
Reserves	106,375,285	101,355,698
	199,775,285	194,755,698
Minority interests	17,216,702	15,874,767
Non-current liabilities		
Deferred tax liabilities	1,409,398	1,409,398
	218,401,385	212,039,863

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

	Six months ended 30th June, 2005 RMB	2004 RMB
Cash flows from operating activities	(23,836,180)	(7,543,268)
Cash flow from taxation	(7,383,444)	(4,390,633)
Cash flows from investing activities	(3,812,935)	(6,152,949)
Cash flows from financial activities	10,565,948	4,786,274
Net decrease in cash and cash equivalent	(24,466,611)	(13,300,576)
Cash and cash equivalents at the beginning of the period	57,976,169	60,172,222
Cash and cash equivalents at the end of the period	33,509,558	46,871,646

STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>RMB</i>	Share Premium <i>RMB</i>	Statutory Surplus Reserve <i>RMB</i>	Statutory Public Welfare Fund <i>RMB</i>	Retained Earnings <i>RMB</i>	Total <i>RMB</i>
At 1st January, 2004	93,400,000	48,868,818	2,981,173	1,490,586	35,975,718	182,716,295
Profit for the year	—	—	—	—	4,379,317	4,379,317
Appropriations	—	—	—	—	—	—
At 30th June, 2004	93,400,000	48,868,818	2,981,173	1,490,586	40,355,035	187,095,612
At 1st January, 2005	93,400,000	48,868,818	4,073,962	2,036,980	46,375,938	194,755,698
Profit for the year	—	—	—	—	5,019,587	5,019,587
Appropriations	—	—	—	—	—	—
At 30th June, 2005	93,400,000	48,868,818	4,073,962	2,036,980	51,395,525	199,775,285

Notes:

1. BASIS OF PRESENTATION

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

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

2. TURNOVER

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

	For the three months ended 30th June,		For the six months ended 30th June,	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Sales of computer software products	1,311,515	5,455,043	13,070,250	12,649,641
System integration	77,940,941	82,521,435	118,250,128	172,688,854
Import and export of IT related products	23,310,777	—	25,681,622	—
	102,563,233	87,976,478	157,002,000	185,338,495

3. PROFIT FROM OPERATIONS

	For the six months ended 30th June,	
	2005	2004
	RMB	RMB
Profit from operations has been arrived at after charging:		
Depreciation and amortisation on:		
— property, plant and equipment	2,976,534	1,578,438
— intangible assets (included in research and development costs)	2,416,945	1,462,265
Cost of Sale	127,909,998	152,845,120

4. TAXATION

	For the three months ended 30th June,		For the six months ended 30th June,	
	2005	2004	2005	2004
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
The charge comprises:				
PRC income tax				
Current year	191,420	(67,504)	651,286	125,832

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 15% is used.

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

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB2,029,000 and RMB5,020,000 for the three and six months ended 30th June, 2005(2004: RMB1,400,000 and RMB4,379,000) and on 934,000,000 (2004: 934,000,000) shares in issue during the periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2005 and 2004 as there were no potential dilutive securities in existence during the relevant periods.

6. TRADE DEBTORS

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

	(Unaudited)	(Audited)
	30th June, 2005 <i>RMB</i>	31st December, 2004 <i>RMB</i>
0 — 90 days	54,477,330	61,979,743
91 — 180 days	15,402,050	21,978,579
181 — 365 days	36,941,714	9,820,954
Over 365 days	17,973,752	18,890,569
	124,794,846	112,669,845

7. TRADE CREDITORS

Aged analysis of trade creditors are as follows:

	(Unaudited) 30th June, 2005 RMB	(Audited) 31st December, 2004 RMB
0 — 90 days	32,775,475	23,796,922
91 — 180 days	2,046,348	2,841,988
181 — 365 days	3,303,279	9,202,140
Over 365 days	5,885,118	5,911,100
	44,010,220	41,752,150

8. RESERVES

Other than the profit for the period as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the Group for the relevant periods in 2004 and 2005.

9. CAPITAL COMMITMENTS

As at 30th June, 2005, the Group had a contracted but not provided for capital commitments of approximately RMB56.7 million in respect of acquisition of a piece of land located at the Software Property Park, Zhujiang Road Nanjing City, the PRC. These commitments or plans for investments in capital assets synchronized with the business objectives as stated in the Prospectus.

10. SEGMENT INFORMATION

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

	Sales of computer software products six months ended		System Integration six months ended		Import and export of IT related products six months ended		Total six months ended	
	30th June,		30th June,		30th June,		30th June,	
	2005	2004	2005	2004	2005	2004	2005	2004
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Turnover								
External Sales	13,070,250	12,649,641	118,250,128	172,688,854	25,681,622	—	157,002,000	185,338,495
Result								
Segment result	6,600,518	5,563,000	228,744	179,695	877,953	—	7,707,215	5,742,695
Investment income							561,834	17,230
Unallocated Corporate expense							(571,993)	(417,921)
Profit from operations							7,697,056	5,342,004
Finance costs							(684,248)	(176,507)
Profit before taxation							7,012,808	5,165,497

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the period (2004: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Results

Since 2005, the Group shift part of the human resources from system integration to development of self-owned software product which can generate higher profit margin. Thus, the Group has achieved the turnover of RMB157,002,000 and the net profit of RMB5,020,000 for the six months ended 30th June, 2005 which represent a drop of 15.3% in turnover and an increase of 14.6% in revenue, respectively when compare with the same period of 2004.

The new strategy not only stimulates the sales channel but also reduce the distribution cost of the Group. Hence, the Group has accomplished a revenue of approximately RMB102,563,000 and a net profit of approximately RMB2,029,000 for the three months ended 30th June, 2005. This represented a growth of 16.6% in total turnover and 44.9% in net profit, respectively as compared to the same period in the previous year.

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

Financial Resources and liquidity

As at 30th June, 2005, shareholders' funds of the Group amounted to approximately RMB199,775,000. Current assets amounted to approximately RMB281,393,000, of which approximately RMB33,510,000 were cash and bank deposits. The Group had non-current liabilities of RMB1,409,000 and its current liabilities amounted to approximately RMB158,538,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.214. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2005, the Group had a gearing ratio of 16.2% and the Group has short-term loan of RMB61,203,000.

Others

On 18th April, 2005, the Company, Nanjing University Asset Administration Company Limited (南京大學資產經營有限公司), Nanjing University Science and Technology Enterprise (Group) Limited (南京大學科技實業(集團)公司) and Shenzhen Light Enterprise Development Company Limited (深圳市之光實業發展有限公司) entered into the Agreement for the establishment of a joint-venture company, namely, Nanda Research Institute in Shenzhen (the "Nanda Research Institute") (深圳南大研究院有限公司) with a registered capital of RMB10 million for the purpose of, inter alia, investment in real property, property leasing, technology development, technology transfer, technology consultation and technology services. The Company contribute a sum of RMB3 million as the registered capital of Nanda Research Institute amounting to 30% of the registered capital of Nanda Research Institute.

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.

As at 30th June, 2005, there were no charges on group assets, and it is the same as the comparative six months ended 30th June, 2004.

As at 30th June, 2005 the Group had a contracted but not provided for capital commitments of approximately RMB56.7 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.

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

As at 30th June, 2005, the Group had no material contingent liabilities and it is the same as the comparative six months ended 30th June, 2004

FOREIGN CURRENCY RISK

During the six months ended 30th June, 2005, as all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

EMPLOYEE AND REMUNERATION POLICIES

As at 30th June, 2005, total remuneration cost for the Group is RMB10,989,000 (2004: RMB11,330,000) and the Group had 523 employees (2003: 760 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

Product Development

Network Security Total Solutions

Facing the overall situation of information security in the PRC as well as the emerging trends and changes, the responsible government department has implemented timely strategic measures in response. It was stated that the principle of protection strategies on information security was to implement comprehensive proactive safety and preventive measures. The same article stated that the strategic objectives of information security were to strengthen the information security system of the PRC with an emphasis on protecting fundamental information networks and important information systems, so as to create a safe and healthy network environment, protect and promote information development, safeguard public interests and ensure the national security. To shape and to support the strategic measures of the Country at the industry level, the Company devised a 3-year overall development plan for Soft's security products and service market during the period, by leveraging on its past experiences in security product development and

dealing with changes in the demand from domestic customers, as well as the researches on the trend of international technology development. While it was formulated around the phasic development objectives in respect of the marketing, R&D and sales divisions, the plan put forward a series of detailed implementation plans for maintaining the Company's leading position in the area of information security and continuously increasing its market share in the PRC in the next three years.

During the period, the company launched the following new products according to the plan:

- SoftWall V2.4, an upgraded software version for firewall product series;
- SoftNIDS V2.2, an upgraded software version for intrusion detect system product series;
- WatchOnline 1.0, an intranet surveillance product; and
- Security management platform products.

In order to maintain its technologies at the leading domestic and advanced international levels, the Company has conducted in-depth research on the core technologies of security products. During the period, the R&D of two products (NSS-2, the integrated security protection system with high-performance network environment, and built-in Linux operation system) was initiated, with planning completed and design commenced.

In order to build up the technologies for future product development, the Company has conducted R&D in the following areas:

- Security of built-in operation system;
- Synchronizing mechanism for security products with different structures;
- Investigation, statistics and correlation analysis of substantial security audit records;
- Auto-security protection of high-performance security systems; and
- IPv6 network environment security protection technology.

In respect of security services, the Company has formulated relevant documents including the outline and implementation standards of Soft security services. The Company was also awarded the security service qualification, laying the foundation for obtaining security service projects in the future.

MARKETING AND BUSINESS DEVELOPMENT

The Company continued to implement its development strategy of “sector-oriented in Jiangsu, channel-oriented outside Jiangsu (省內走行業·省外走渠道)”. During the first half of 2005, the Company obtained a number of large-scale projects within the government market, including electronic government businesses security design of Provincial Software Park, Provincial Finance Department, Jiangsu Jiaotong Holdings Company, Provincial Administration of Quality and Technical Supervision and Jiangsu Province, in addition to Wenzhou electronic municipal government business. At the same time, the Company also secured important projects from customers such as Xuzhou Everbright Group, further expanding the Company’s market in the area of corporate informatization. In respect of sales channels, the Company implemented the strategic geographic planning of security products sales within the domestic market, which forms a system with geared-up channels encompassing the Northern, Eastern and Southern PRC markets that took Beijing, Nanjing and Shenzhen as their focal points respectively.

Paralleled to its efforts in bringing forward the security services, the Company has also launched the system service that centered on the protection of high-end IT systems. During the period, the Company has entered into the significant projects of IT system service for the year with the Jiangsu Industrial and Commercial Administrative Department.

Aiming at enhancing the reputation of the Soft brand through marketing promotion and customer exchange campaigns and to stimulate higher demand from the customers, the Group has rolled out Soft security service and security integration. The Company has launched all-round, systematic, comprehensive, in-depth marketing campaigns. A number of marketing campaigns were held successively, including “Fujian Province Network Security Professional Seminar and New Product Launch event (‘福建省網絡安全精英懇談會暨新產品發佈會’)”, “Henan Province Digital Industrial and Commercial and Electronic Government Business Security Seminar (‘河南省數字化工商及電子政務安全研討會’)”, “Exchange Meeting of Senior Government Officers on Information Security, Jiangsu Province (‘江蘇省資訊安全高級政府主管交流會’)”, “Jiangsu Province Highway Transportation System, Legal System Security Seminar (‘江蘇省公路交通系統安全研討會’)” and “Jiangsu Province Political and Legal System Security Seminar (‘江蘇省政法系統安全研討會’)”.

The series of campaigns represented an reinforcement of the Company’s marketing efforts, and expedited the establishment of its sales channels and the development of its agents, creating new breaking grounds in the market share of NandaSoft security products in the regional markets. The brand share of Nandasoft was, on the other hand, increased with the promotion and application inside and outside the province and in key sectors.

ELECTRONIC GOVERNMENT BUSINESS

NandaSoft has been actively participating in the construction of electronic government businesses, and became one of the most valued partners in the electronic government business construction in Jiangsu Province and the State. NandaSoft electronic government business total solutions emphasize the major technological characteristics of synchronizing technology and exchange platform.

The Company launched the “Total Solution for the New Generation Electronic Governmental Office Synchronizing Platform” (新一代電子政務協同辦公平台整體解決方案) during the period, which has passed the examination and acceptance procedures by the authorized department and experts. The supporting platform of total solution is comprised of data exchange, workflow, simultaneous communication and knowledge management, and adopts componentization and workflow as the core technologies. It proposed the innovative technical development of business applications in the forms of “functional component, performing component and deploying component” (“功能件”, “表現件”, “功能配置件”), realizing a “people-oriented” application concept that can cater for the needs of the governmental reform development. With the implementation of the project, Soft can continue to upgrade its technological R&D capability, and becomes one of the regional standard setters of electronic government software, thereby providing significant advantages for its future rapid development and increase in market share of the area.

With the successful projects implementation for Jiangsu Provincial Government, Wuxi Provincial Government, Jiangsu Provincial Water Resources Department and Communication Department, the Company has developed total solutions for electronic government business data exchange platform at provincial, municipal, departmental and bureau levels. On this basis, the Company has modularized its data exchange platform products, allowing prompt installation of required software components according to different user requirements in future projects, thereby lowering development costs and increasing the Company’s earnings. The development and production mode of “modularized” software attracted positive response and favorable reception from the governmental customers.

In the “2004 Survey on Outstanding Governmental Websites of the PRC (2004中國政府優秀門戶網站調查)”, the website “Electronic Government Business Portal of Jiangsu, the PRC (中國江蘇電子政務門戶)” developed and implemented by the Company was ranked one of the best among the governmental portal websites of all provinces, autonomous regions and municipalities.

INTERNET APPLICATION SOFTWARE

Based on the establishment of the Company's primary business direction of "security-based electronic government businesses comprehensive solutions", the Company integrated its existing technologies and self-own products in response to the diversified needs of its long-standing customers. Such integration represented an extension of its primary business in the form of "Internet application software", and achieved significant benefits.

The company further enhanced Soft office automation system during the period, and the installation of educational materials publishing system throughout Jiangsu Province was completed. At the same time, the modernized information circulation system of Jiangsu Salt Industry was completed. The promotion works of technology plan application and report platform solutions with electronic government business functions in Suzhou and Changzhou were also completed.

The Company has also ventured into the field of value-added communication service. The VIP management system developed for China Unicom has passed the examination and acceptance procedures, and development of animation and games for mobile phones was on the Company's roadmap.

The Suzhou Company successfully secured a number of software projects during the period, including a cartoon project for Science and Technology Park of Suzhou Industrial Park, the environment monitoring system for Qinshan Nuclear Power Co. Ltd., the solid waste treatment management system for Environmental Protection Department of Suzhou Industrial Park, and the waterway information management system for Suzhou Waterway Bureau. The Beijing Company has undertaken various projects, including the construction project of Digitalization Phase I of Jinrong Road Offices in Xixing area, Beijing, as well as the intelligentization project of Zhanshan Software Research Building in Fucai Center, Qingdao.

In respect of digital filing construction, the Company has accomplished the development of combined file management platform and electronic document center, which were promoted and adopted in the related cities in the Jiangsu Province.

The Company has launched the business of exporting and subcontracting software in full force, with steady growth in the business and technology teams of the software export and subcontracting business focused on Japan. Apart from receiving orders from existing customers, the Company also secured new overseas customers during the period, creating new profit growth points. Through co-operation with overseas companies, the Company has further enhanced the standard and quality of its self-developed software, providing Soft with the fundament foundation in gearing up with international software companies.

FUTURE PROSPECT

Network Security Products

According to its Network Security Product Development Plan, the Company will continue to reinforce the research and development efforts of network security products. Products to be developed in the later half of the year are as follows:

1000Hz Security System NSS-10

Given the increasing popularity of high-speed network environment, the Company set foot at solving different kinds of common technical problems that incurs with 1000Hz network, starting by analyzing the underlying problems on the demand for security product technology in respect of high-speed network environment. Based on the research results related to these common problems, the Company integrated the specific technological demands of different network security product types. Firewall, IDS, VPN and different kinds of 1000M line speed network security products (such as gateway) were developed, forming a complete 1000M line speed security system together.

Network Integration Security Protection Platform System NSS-2

This product adopts component technology, distribution technology and middleware technology. Identification technology, access control technology, password technology, hacking detection technology, security surveillance technology, synchronizing technology, auditing technology and intelligent management technology were integrated in the product to provide a platform for network security total solutions that delivers all-round network information security protection functions including margin protection, hacking detection, in-depth protection, intranet surveillance monitoring, security management and auditing analysis.

Electronic Government Businesses

Targeting at the requirements of the electronic government businesses, the Company plans to launch the following electronic business products in the future:

Data Exchange Platform

The product is a type of “Network Exchanger” at application-level, which protects the users’ investments as the primary premise and is targeted at solving the existing common problems of information and application disconnection.

The product is based on information communication middleware, and connects heterogeneous databases and application systems via XML packaged information pack and adapter. It enables data route selection and exchange services through single- or multiple-level exchange center, therefore solving the problem of application-level information exchange between heterogeneous systems that widely exists in the Internet.

Synchronized Office System

Synchronized Office System is a kind of all-round synchronized management that is centered on people management. It includes people management, information management (knowledge management), work flow management (synchronizing task) and management of application synchronization. It provides flexible capabilities, rich tool box, high-performance communication, as well as reliable security. It adopts objectization and component technology to support the construction of animated synchronizing office functions as well as the electronic government businesses across departments, systems and platforms.

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

The Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"), one of the domestic shareholders and promoters of the Company, held 110,000,000 domestic shares on behalf of various individuals, including directors, supervisors, staff members of the Company and other members of the Union. Between 2004 and 2005, the Union transferred all domestic shares held by it to various parties. Xie Li, Chen Dao Xu, the spouse of Zhang Yun Xia, Zhou Ming Hai, Wang Dao Wu, Zhou Wen Da and Shi Jian Jun were amongst some of the transferees to whom the Union transferred the domestic shares in June 2005.

As at 30th June, 2005, 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 domestic shares held directly or indirectly		Number of H shares	Percentage of deemed beneficial interest in the Company's domestic share capital	Percentage of deemed beneficial interest in the Company's total share capital
		Direct	Indirect			
Directors						
Xie Li	Personal (Note 1)	11,900,000	—	—	1.70%	1.27%
Zhang Yun Xia	Family (Note 2)	—	17,000,000	—	2.43%	1.82%
Chen Dao Xu	Personal (Note 1)	500,000	—	—	0.07%	0.05%
Supervisors						
Zhou Ming Hai	Personal (Note 1)	5,000,000	—	—	0.71%	0.54%
Wang Dao Wu	Personal (Note 1)	1,000,000	—	—	0.14%	0.11%
Zhou Wen Da	Personal (Note 1)	780,000	—	—	0.11%	0.08%
Shi Jian Jun	Personal (Note 1)	500,000	—	—	0.07%	0.05%

Notes:

1. These shares are directly held by the individual directors and supervisors.
2. These shares are directly held by an ex-director of the Company, who is also the spouse of Zhang Yun Xia.

Save as disclosed in this paragraph, as at 30th June, 2005, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

In 2004 and 2005, the Union entered into various agreements to transfer an aggregate of 110,000,000 domestic shares to various parties including Nanjing University Asset Administration Company Limited, Jiangsu Co-Creation Educational Development Co. Ltd. and Jiangsu Provincial IT Industrial Investment Co., Ltd..

On 30th June, 2005, two of the domestic shareholders and promoters of the Company, namely, Jiangsu Zongyi Company Limited and Jiangsu Provincial Hi-Tech Industry Investment Company Limited (formerly known as Jiangsu Property Business Company Limited), entered into separate agreements with Jiangsu Furen Group Company Limited for the sale of 160,000,000 and 40,000,000 domestic shares of the Company respectively at the consideration of RMB0.209 Yuan per domestic share which sales have not yet been completed as at the date of this report.

On 30th June, 2005, 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 domestic shares	Percentage of domestic shares	Number of H shares	Percentage of H shares	Number of domestic and H shares	Percentage of domestic and H shares
Nanjing University Asset Administration Company Limited (Note 1)	Beneficial Owner	236,340,000	33.76%	—	—	236,340,000	25.30%
Jiangsu Furen Group Company Limited (Note 2)	Beneficial Owner	200,000,000	28.57%	—	—	200,000,000	21.41%
Jiangsu Zongyi Company Limited (Note 2)	Beneficial Owner	160,000,000	22.86%	—	—	160,000,000	17.13%
Jiangsu Provincial Hi-Tech Industry Investment Company Limited (Note 2)	Beneficial Owner	40,000,000	5.71%	—	—	40,000,000	4.28%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 3)	Beneficial Interest of a controlled corporations	60,000,000	8.57%	—	—	60,000,000	6.42%
		104,750,000	<u>14.96%</u>	—	—	104,750,000	<u>11.22%</u>
			<u>23.54%</u>				<u>17.64%</u>

Shareholder	Capacity	Number of domestic shares	Percentage of domestic shares	Number of H shares	Percentage of H shares	Number of domestic and H shares	Percentage of domestic and H shares
Jiangsu Provincial IT Industrial Investment Company Limited	Beneficial Owner	45,850,000	6.55%	—	—	45,850,000	4.91%
Jiangsu Co-Creation Education Development Company Limited	Beneficial Owner	104,750,000	14.96%	—	—	104,750,000	11.22%
Golden 21 Investment Holdings Limited (Note 4)	Beneficial Owner	—	—	25,362,000	10.84%	25,362,000	2.72%

Notes:

- Nanjing University Asset Administration Company Limited is a wholly owned subsidiary of Nanjing University, a domestic shareholder and promoter of the Company. Nanjing University transferred all equity interests in the domestic shares of the Company, being 200,000,000 domestic shares, to Asset Administration Company Limited at nil consideration on 1st July, 2004.
- Jiangsu Furen Group Company Limited entered into separate agreements with Jiangsu Zongyi Company Limited and Jiangsu Provincial Hi-Tech Industry Investment Company Limited for the transfer of 160,000,000 and 40,000,000 domestic shares in the Company on 30th June, 2005, thereby creating a long position of 21.41% in the entire share capital of the Company. Completion of the shares transfer has not yet taken place.
- Jiangsu Management Center is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1st July, 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
 - 60,000,000 domestic shares (representing approximately 6.42% of the Company's total issued share capital) held by Jiangsu Management Center; and
 - 104,750,000 domestic shares (100% deemed interests held by Jiangsu Management Center representing approximately 11.22% of the Company's total issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Center.
- The interest of Golden 21 Investment Holdings Limited represents approximately 10.84% of total H shares and representing approximately 2.72% of the total domestic and H shares.

Save as disclosed above, as at 30th June, 2005, 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 30th June, 2005, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 2005, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any rights to acquire H shares in the Company or had executed any such right during the year.

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

During the year ended 30th June, 2005, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 2005, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the year.

DIRECTORS' 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.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principle terms and conditions of the share option scheme is set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 30th June, 2005, no option has been granted pursuant to such share option scheme.

COMPETING INTERESTS

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

THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied, throughout the six months ended 30th June, 2005, with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 15 to the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM Listing Rules") of the Stock Exchange of Hong Kong Limited.

The Company established an audit committee on 8th 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 the 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 Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry, 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 six months ended 30th June, 2005.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive director as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the six months ended 30th June, 2005, the Company has appointed three independent non-executive directors, namely Mr. Xu Huan Liang, Mr. Yim Hing Wah and Professor Wang Zhi Jian.

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 listed securities of the Company during the three months ended 30th June, 2005.

On behalf of the Board

Xie Li
Chairman

28th July, 2005, Nanjing, the PRC