

## Third Quarterly Report 2005



**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.*



# JIANGSU NANDASOFT COMPANY LIMITED \*

## 江蘇南大蘇富特軟件股份有限公司

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

(Stock Code: 8045)

### HIGHLIGHTS

- Achieved a turnover of approximately RMB299,472,000 for the nine months ended 30th September 2005, representing an approximately 3.34% increase as compared with that of the corresponding period in 2004.
- Accomplished a net profit of approximately RMB7,821,000 for the nine months ended 30th September 2005.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2005.

### THIRD QUARTERLY 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 nine months ended 30th September 2005.

For the three months ended 30th September 2005, the unaudited turnover is approximately RMB142,470,000, representing an increase of approximately RMB38,020,000, or approximately 36.4% in turnover as compared with that of the same period in 2004.

For the nine months ended 30th September 2005, the unaudited turnover is approximately RMB299,472,000, representing an increase of approximately RMB9,684,000, or approximately 3.34% in turnover as compared with that of the same period in 2004.

The unaudited net profit of the Group for three months ended 30th September 2005 is approximately RMB2,801,000, representing a increase in the results of approximately 1.37%. For the nine months ended 30th September 2005, the unaudited net profit of the Group is approximately RMB7,821,000, representing an increase in the results of approximately 9.5% as compared with the corresponding figures in 2004.

\* For identification purpose only

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

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2005 RMB	2004 RMB	2005 RMB	2004 RMB
Turnover	2	<b>142,469,932</b>	104,449,797	<b>299,471,933</b>	289,788,291
Cost of sales		<b>(125,624,691)</b>	(88,768,268)	<b>(253,534,690)</b>	(241,613,388)
Gross profit		<b>16,845,241</b>	15,681,529	<b>45,937,243</b>	48,174,903
Other revenue		<b>1,057,287</b>	1,272,474	<b>4,359,724</b>	3,124,230
Distribution costs		<b>(5,426,161)</b>	(7,787,910)	<b>(15,250,794)</b>	(21,112,607)
Research and development costs		<b>(1,779,694)</b>	(832,982)	<b>(4,172,687)</b>	(4,331,280)
Administrative expenses		<b>(6,292,977)</b>	(4,699,869)	<b>(18,772,734)</b>	(16,880,000)
Profit from operations		<b>4,403,696</b>	3,633,242	<b>12,100,752</b>	8,975,246
Finance costs		<b>(565,806)</b>	(245,449)	<b>(1,250,054)</b>	(421,956)
Profit before taxation		<b>3,837,890</b>	3,387,793	<b>10,850,698</b>	8,553,290
Taxation	3	<b>70,889</b>	(16,667)	<b>(580,396)</b>	(142,499)
Net profit before minority interests		<b>3,908,779</b>	3,371,126	<b>10,270,302</b>	8,410,791
Minority interests		<b>(1,107,414)</b>	(607,746)	<b>(2,449,349)</b>	(1,268,094)
Net profit attributable to shareholders		<b>2,801,365</b>	2,763,380	<b>7,820,953</b>	7,142,697
Earnings per share — basic	4	<b>0.0030</b>	0.0030	<b>0.0084</b>	0.0076

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 September		For the nine months ended 30th September	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
Sales of computer software products	<b>2,015,787</b>	4,420,778	<b>15,086,037</b>	17,070,419
System integration	<b>99,250,815</b>	100,029,019	<b>217,500,943</b>	272,717,872
Import and Export of IT products	<b>41,203,330</b>	—	<b>66,884,953</b>	—
	<b>142,469,932</b>	104,449,797	<b>299,471,933</b>	289,788,291

### 3. TAXATION

	For the three months ended 30th September		For the nine months ended 30th September	
	2005	2004	2005	2004
	RMB	RMB	RMB	RMB
The charge/(credit) comprises:				
PRC income tax	<b>(70,889)</b>	16,667	<b>580,396</b>	142,499

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%.

#### **4. EARNINGS PER SHARE**

The calculation of basic earnings per share is based on the profit attributable to shareholders of approximately RMB2,801,000 and RMB7,821,000 for the three and nine months ended 30th September 2005 (2004: RMB2,763,000 and RMB7,143,000) 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 nine months ended 30th September 2005 and 2004 as there were no potential dilutive securities in existence during the relevant periods.

#### **5. 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.

### ***INTERIM DIVIDEND***

The Directors do not recommend the payment of an interim dividend for the nine months period ended 30th September 2005. (2004: Nil)

## ***MANAGEMENT DISCUSSION AND ANALYSIS***

### **Financial Review**

#### ***Results***

Follow the management strategy for the first half year, the Group continued to shift the human resources from performing system integration to generating higher profit margin self-owned software products which leads the Group achieving the turnover of 299,472,000 and the net profit of 7,821,000 for the nine months ended 30th September 2005 which represent an increase of 3.34% and 9.5%, respectively when compare with the same period of 2004.

The strategy kept on for reducing the distribution cost of the Group since 2005 and thus the Group has accomplished a revenue of approximately RMB142,470,000 and a net profit of approximately RMB2,801,000 for the three months ended 30th September 2005. This represented a growth of 36.4% and 1.37%, 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.

## ***BUSINESS REVIEW***

### **Product Development**

#### ***Network Security Total Solutions 10,000,000,000***

In 2004, the sales income of software and system integration of Nanjing City has overfulfilled the 10 billion key-point, marking the completion of the Tenth Five Year Plan one year ahead of schedule. At present, the overall scale of software industry in Nanjing ranks top among the cities in the PRC and is at the critical moment of rapid development. According to the directive requirement to 'capture the golden opportunity of rapid development of software industry in the world, realize preferential development of software industry in Jiangsu Province, accelerate development and focus development, make Jiangsu as a major "software" province' issued by Jiangsu provincial Party committee, Nanjing City People's Government promulgated Ning Zheng Fa No. (2005) 156 document during the Period (on 16 August 2005), which puts forward the target to, with all efforts, enhance the overall competitiveness of the software industry in Nanjing, to establish Nanjing as a famous "software" city in China and to rank fourth to even third among the cities in the PRC in terms of software industry scale in three to five years.

In respect of the strategic decision of 'To make Jiangsu as a major "software" province, and to establish Nanjing as a famous "software" city' and series of software industry development measures timely released by the government departments, Nandasoft gives enthusiastically respond and all-out supports. Nandasoft will continuously enhance its technological innovation ability as a software enterprise and fully support the accomplishment of the target to forge Jiangsu as a major "software" province and Nanjing as a famous "software" city in the industry level. At the same time, the Company, as a key R&D unit of national internet and e-business research projects, not only will continue deepening its demonstrative and leading role in informatization construction in Jiangsu Province, and even nationally, but also will further broaden its market platform and market share on the basis of maintaining its leading position established in the realm of information security in the PRC.

According to Soft's 3-year overall development plan for the security product and services market, the Company has, in respect of the marketing, R&D and sales divisions, ascertained the phasic development objectives of its security product and security services and put forward a detailed implementation plan.

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

- SoftNIDS v2.4, an upgraded software version for intrusion detect system product series;
- WatchOnLine v2.0, an intranet surveillance product.

In order to maintain its technologies at leading domestic and international levels, the Company has conducted in-depth research on the core technologies of security products. During the period, the '**Network Integration Security Protection Platform System NSS-2**' initiated during the year was formally approved and listed as a state information security key project by National Development and Reform Commission. This is a forceful governmental support and high accreditation to Soft with great significance.

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

- Distributed security domain logic territory protection technology;
- Distributed multi-layer defense technology;
- Desktop operation system research;
- Continuing research on built-in operation system; and
- Continuing research on IPv6 network security protection technology.

In addition, based on perfecting technology and implementation standards of Soft security services, the Company has initiated all-out security services and made encouraging results.

## **MARKETING AND BUSINESS DEVELOPMENT**

The Company continued to implement its development strategy of "sector-oriented in Jiangsu, channel-oriented outside Jiangsu (省内走行业·省外走渠道)" in respect of marketing development. During the third quarter of 2005, the Company has secured a number of large-scale security projects from different department and systems such as Forestry Department of Fujian Province, Civil Affairs Department of Jiangsu Province, Employment Fujian of Zhejiang Province, provincial confidential systems of Jiangsu Province, provincial highways of Jiangsu Province and etc. In respect of sales channels, the Company has implemented the strategic geographic planning of security products sales within the domestic market, which forms a system with geared-up channels encompassing the coexisting of Northern, Eastern and Southern China markets that take Beijing, Nanjing and Shenzhen as their focal points respectively.



Aiming at enhancing the reputation of the Soft brand through marketing promotion and customer exchange campaigns and at fuelling higher demand from the customers, the Company has conducted all-round, systematic, comprehensive, in-depth marketing campaigns for its key Soft security service and security integration. A number of marketing campaigns were held successively, including “Digital Fujian network security new products promotion meeting (數字福建網絡安全新品推介會)” and “Promotion meeting for quality inspection system network security products of Jiangsu Province (江蘇省質檢系統網絡安全產品推介會)”.

Such 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, powerfully 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 BUSINESSES***

NandaSoft has been actively participating in the construction of electronic government businesses, and has become 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.

Jiangsu Province Government has taken the lead in the construction of government department synchronization, and made it the key project of government informatization construction of 2005. Facing up to the growing demand of government department synchronization, the Company launched the key “Total Solution for the New Generation Electronic Governmental Businesses Synchronizing Platform” (新一代電子政務協同辦公平台整體解決方案). 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 proposes the innovative technical development of business applications in 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 businesses software, thereby providing significant advantages for its future rapid development and increase in market share of this area.

With the successful projects implementation for Jiangsu Provincial Government, Wuxi Municipal Government, Jiangsu Provincial Water Resources Department, Communication Department and Public Health 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 has attracted positive response and favorable reception from the governmental customers.

## ***INTERNET APPLICATION SOFTWARE***

Based on the establishment of the Company's primary business direction of "security-based electronic government businesses comprehensive solutions", the Company has integrated its existing technologies and products, extended 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.

During the period, the Suzhou Company successfully undertook a number of software projects, including the logistics government end software project of bonded logistics centre of Suzhou Industrial Park, the public technology services platform supporting system of Suzhou City Software Assessment Centre, the integrated information net construction of Suzhou City Parks and Greenery Administration Bureau, the unified identity recognition system of Suzhou Industrial Park Computer Centre, the residential community intelligentization project for Suzhou Hexin Real Estate Development Company Limited (蘇州和信房地產開發有限公司小區智能化工程), Suzhou urban area logistics system of Suzhou City Science and Technology Bureau and enterprise integrated enquiry system for the management committee of Suzhou Industrial Park. The Beijing Company has undertaken the project of construction and renovation work and computer network of CEC Building International Group Department Area as well as integrated figuration for CNMEG (中國機械裝備公司). The Shenzhen Company settled in Shenzhen High New Area Virtual University Campus and registered as an authorized agent of 'Huawei' during this period. It joined hands with Shenzhen Research Centre of Nanjing University to construct Nanjing University's Shenzhen production, study, research base, and at the same time became the subordinate unit of Shenzhen R&D Centre of Computer Software Project Centre of Nanjing University. During the period, Computer Project Company entered into large-amount micro-computer sales contract with Nanjing Army Command College, Zhongshan College, Hungtu Triplets High Technology Stock Company Limited respectively, and the contracts were all completed. During the period, the Changsu Company continued to complete the network project of Changsu Polytechnic College, and successfully undertook projects such as Changsu City Finance Bureau Government Tender (Server and frame), Changsu Education Bureau (Experimental Secondary School) Network.

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 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 has 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 for it transformation to an international software company.

## ***FUTURE PROSPECT***

### **Network Security Products**

Up to July 2005, the number of Internet users in the PRC has surpassed 100 millions, ranking second in the world. The number of broad-band connected users has exceeded 301 millions, a growth of 17% as compared to the previous half year, and a growth of 35% as compared to the same period last year. The total traffic of international exit bandwidth amounted 74429M. According to the statistics up to the end of 2004, the number of registered domains under CN was 420,000, and that of WWW site was 596,000.

The rapid development of Internet has brought about network security problems of concern. With the dual impact of unlimited expansion of network and soaring user number, network security threats worsen whereas market demand fuels the development of network security products. As people worry about deteriorating virus and hacker attacks, the global network security equipment and software sales income in the period recorded continued stable growth, with the sales volume in the second quarter this year 4% higher than that of the first quarter to reach USD1 billion. In the latest research report issued by Infonetics Research, it is found that VPN/firewall application equipment and software accounted for 78% of the market gross income, invasion monitor/protection accounted for 14%, and gateway anti-virus software accounted for 8%.

Under the existing market environment, the market share of network security products expands rapidly, and so does the product variety. A larger share of network security products come from virus protection and firewall products and VPN (virtual private network technology) related products. Along with the surges in network security products market demand in China, Soft Company, with leading position in the network security market in the PRC, will reinforce the R&D effort of network security products according to the its network security products development plans. After that, it will continue the R&D of products like ***1000Hz Security System NSS-10*** and ***Network Integration Security Protection Platform System NSS-2***.

## Electronic Government Businesses

In recent years, informatization construction in the PRC has made remarkable progress, particularly for electronic governmental businesses projects, the leader of informatization, which are hasty and rash. The informatization construction of government authorities is currently the largest market segment in the IT market of the PRC. Its IT investment accounted for over one fifth of the entire IT investment by industry in the PRC. In 2004 the government IT investments by industry was RMB40.8 billion, an increase of 18.3% as compared to the same period of the previous year. The large-scale, all round construction of electronic government businesses in 2004 has laid a solid foundation for future development. In 2005, service-oriented and scale application will be the development trends of electronic government businesses construction.

At present, the main bottleneck which restricts the development of electronic government businesses application is that there is no synchronized sharing of application system and information resources between local governments and departments, forming certain "information islets". In order to eliminate barriers, to realize information resource integration, development and utilization, enabling optimization and sharing of resources among systems, thus realizing value, in 2005 the integration of electronic government businesses resources has been accelerating, and the dynamics of which intensifying as well. Meantime, the strengthening of superstructure design and the construction of a unified network platform has become focuses of the electronic government businesses construction in 2005, and a powerful safeguard for the all-round development of electronic government businesses application. strengthening superstructure design, doing well in first-phase coordination and planning, fostering inter-department, inter-system synchronized applications, are tasks of top priority for the advancement of electron government businesses construction.

In light of the increasing demand for electronic government businesses, the Company plans to, on the premise of safeguarding existing investments of the users, launch electronic government businesses products such as **Information Exchange Platforms** that solves the common 'information islets' and 'application islets' problems, and **Synchronized Office Systems** that support inter-department, inter-system and inter-platform electronic government businesses synchronized work.

## ***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 30th September 2005.

As at 30th September 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			
<b>Directors</b>						
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%
<b>Supervisors</b>						
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 September, 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 September 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.

On 30th September 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	Percentage	Number	Percentage	Number	Percentage
		of domestic shares	of domestic shares		of H shares	of H shares	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%

Shareholder	Capacity	Number	Percentage	Number	Percentage	Number	Percentage
		of domestic shares	of domestic shares		of H shares	of H shares	of domestic and H shares
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 3)	Beneficial Owner	60,000,000	8.57%	—	—	60,000,000	6.42%
	Interest of a controlled corporations	104,750,000	14.96%	—	—	104,750,000	11.22%
		Sub-total:	23.54%			Sub-total:	17.64%
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:

- (1) 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.
- (2) 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 September 2005, thereby creating a long position of 21.41% in the entire share capital of the Company.
- (3) Jiangsu Management Center is a professional unit entity established which 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 total issued share capital) held by Jiangsu Management Center; and
  - (b) 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.

- (4) 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 September 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 period ended 30th September 2005, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th September 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 period ended 30th September 2005, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 30th September 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 September 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 nine months ended 30th September 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 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 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 nine months ended 30th September 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 nine months ended 30th September 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 nine months ended 30th September 2005.

On behalf of the Board  
**Xie Li**  
*Chairman*

7th November 2005, Nanjing, the PRC