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)

ANNUAL REPORT 05

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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, Terrence

SUPERVISORS

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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*

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Professor Wang Zhi Jian
Mr. Yim Hing Wah

NOMINATION COMMITTEE

Professor Xie Li
Mr. Yuen Ren Wei
Mr. Yim Hing Wah, Terrence

REMUNERATION COMMITTEE

Professor Xie Li
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COMPLIANCE OFFICER

Professor Xie Li

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PRC Lawyers

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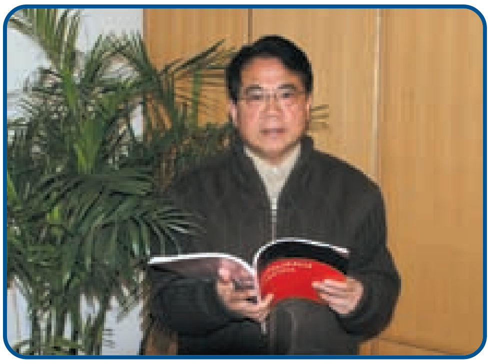
CHAIRMAN'S STATEMENT



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 2005 of Jiangsu NandaSoft Company Limited ("Jiangsu NandaSoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for their review.

Year 2005 marks an important time in which the Company realized its objectives of scaling up, internationalization and modernization. During the year, every member of the Company worked together and strived for the accumulation of know-hows, expansion of market and increment in market shares. With a new management system and newly recruited talents, the Company is pleased to see that its core businesses under the two pillars of network security total solutions and electronic government businesses total solutions was moving toward maturity. Through continuous efforts to optimize its research and development capacity for network security software products, the Company continued to reinforce its demonstrative and leading role in informatization construction in Jiangsu Province and within the whole country. During the year, the growth of the whole Group has gained strong momentum and the Company was once again honored as one of the "Top 100 Enterprises for scale of the PRC Software Industry 2005" by the Ministry of Information Industry and the National Bureau of Statistics of China. Our product, 1,000Hz security system, was accredited with the Certificate of State's Torch Plan by the Ministry of Science and Technology, while our intrusion detect system, SoftNIDS V2.0, was successfully selected into the first round of the "Excellent Software Product Recommendation Campaign 2005" organized by China Software Industry Association.

BUSINESS PERFORMANCE

For the 2005 financial year, the Group recorded a turnover of approximately HK$440,742,000, representing an increase of approximately 14.6% as compared to those of the previous year and a net loss of approximately HK$247,000. The substantial increase in the Group's turnover was attributable to the diversification of sales channels and expansion in the scale of the Group during the year. The Directors do not recommend a final dividend for the year ended 31 December 2005.

INTRODUCING ADVANCED MANAGEMENT PRINCIPLES AND CULTIVATING OUR CORPORATE CULTURE

As a high technology software listed company with world-level advanced management principles, the Company has focused its corporate management efforts on the establishment of a modern management system during the year. This is targeted to bolster innovation, enhance its combined competitiveness, perfect its reward and punishment system and strengthen its talent force, which in turn will ensure the efficient implementation of a modernized management system and achievement in management results. In respect of cultivating our corporate culture, the Company highlights the values of "Teamwork, Exertion, Efficiency and Execution" and encouraged the philosophies of "Vision based on Innovation, Control based on Management, Strength based on Technology, Asset based on Talents, Value based on Products, Incentives based on Market" for the Company's sustainable development through promoting technological advancement and meeting up with social needs. Meanwhile, the Company centers its research and development efforts on the beliefs of "Reinforcing Application, Reinforcing Innovation, Focusing on NandaSoft, Rooted in China, Targeting the World", with the objective of building "NandaSoft" as the network security bulwark of the new era.

REINFORCING THE PILLAR PRODUCTS AND FORTIFYING THE LEADING POSITION IN THE REGION

Successive to its efforts in establishing the network security total solutions and electronic government businesses total solutions as its two major pillar products in 2005, the Company leveraged on the tide of national informatization and grasped the opportunity brought about by the policy "To make Jiangsu as a major software province, and to establish Nanjing as a famous software city", for stepping up the technological content of its pillar products and fortifying its leading position in the Region.

In 2005, the Company has successively launched a number of new products, including SoftWall v2.4, an upgraded software version for Soft firewall product series; SoftNIDS v2.4, an upgraded software version for Soft intrusion detect system product series; WatchOnLine v2.0, a Soft intranet surveillance product; and NSS-1.0, a Soft network integration security protection platform system product series. During the year, 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. At the same time, the Company has commenced research in government's management of network environmental remediation technology and approach and has developed a control system and an exclusive enforcement tool for the inspection of illegal games for Ministry of Culture of the People's Republic of China. Such development has already passed the inspection by the related authority of the Ministry of Culture and will soon be promoted on a nationwide level, bringing in fruitful social and economic benefits.

During the year, the Company has achieved significant results in the area of electronic government business. Apart from consolidating its existing key businesses and the traditional system integration businesses, the Company has concentrated on exploring the market of technical services. With two key development directions in system integration and technical services, the Company endeavors to maintain its leading position in the regional electronic government business while stressing on the provision of technical services with high technological content as its new profit growth point.

CHAIRMAN'S STATEMENT

During the period, the Company has undertaken a number of major network construction projects on province-level, such as provincial network maintenance project for industrial and commercial computers in Jiangsu Province(江蘇省工商計算機全省網絡維護項目). It has also undertaken various system integration projects including the Quality and Technical Supervision Bureau of Jiangsu Province(江蘇省無線電管理局全省網絡集成項目). Among these projects, the implementation of the industrial and commercial management IT server project of Jiangsu Province(江蘇省工商管理資訊系統服務器項目) embodies significant meanings and influence in its capability to satisfy the ever-increasing information amount in the provincial industrial and commercial administration and management system.

ENHANCING SALES OF SECURITY PRODUCTS AND OPENING UP NATIONAL MARKET

In regard to marketing operations in 2005, the Company has employed the strategy of promoting sales of network security products with extension of security integration products and security services, establishing the positive image of "NandaSoft — Your Network Security Expert". During the year, the Company successfully rode on the sales momentum of last year by timely promoting its corporate slogan of "Constructing the Network Security Bulwark of the New Era", and the sales of its network security products such as Soft firewall, Soft intrusion detect system and Soft intranet surveillance system have recorded further growth.

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) in respect of marketing development. During the year, the Company has secured a large number of security projects from Provincial government general office of Jiangsu Province and Provincial Finance Department of Jiangsu Province. Meanwhile, the Company has further boosted the eminence and popularity of the "Soft" brand outside the Jiangsu Province in many ways and effectively opened up the sales channel outside the province with the engagement of new customers. A large number of security projects were secured from Forestry Department of Fujian Province, Labor Administration Bureau of Zhejiang Province etc. The Company has also further refined its product sales infrastructure with the establishment of controlling/participating companies in Shenzhen, Hangzhou and other regions, thereby completing its overall arrangement for sales of security products in the PRC market. With these efforts, the Company has successfully set up a parallel, 3D-integrated sales system with geared-up channels encompassing the coexisting of Eastern, Northern and Southern China markets that take Nanjing, Beijing and Shenzhen as their respective focal points.

EXPANDING GROUP SCALE AND FOSTERING INTERNATIONAL COOPERATION

As at the end of 2005, NandaSoft Technology Group has emerged after years' sustained growth as a well-known high technology industry group in the country, comprising 16 directly or indirectly owned subsidiaries and 9 directly or indirectly invested companies.

CHAIRMAN'S STATEMENT

Among these companies, Nanjing NandaSoft Technology Company Limited completed the accreditation for ISO9000 and consolidated the technological management mechanism in 2005. Beijing NandaSoft Digital Technology Company Limited has undertaken several major projects including the project of informatization construction Phase 1 of Jinrong Road in the Xicheng District of Beijing (北京市西城區金融街資訊化一期建設項目), successfully exploring and realizing the co-operation with new partners such as China Machinery Group Company (中國機械集團總公司).

In 2005, Shanghai NandaSoft Information Technology Company Limited, which is principally engaged in undertaking of software outsourcing projects from Japan, has undertaken overseas development projects valued close to 170 million Yen and obtained CMM3 accreditation. Meanwhile, apart from being recognized as a backbone enterprise of the software industry of the State's Torch Plan and a new and high technology entity in Jiangsu Province, Suzhou NandaSoft Technology Company Limited has passed the accreditation for ISO9000 and obtained the qualification of senior certification agent of Cisco.

Shenzhen NandaSoft Network Technology Company Limited (深圳南大蘇富特網絡技術有限公司), newly established during the year, is one of the Shenzhen production, study and research bases for Nanjing University, and is also the focal point in Southern China market of the Company's national sales system of security products. Established in June 2005, Jiangsu Kangyuan Environment Protection Technology Co., Ltd. (江蘇康源環保科技有限公司) carries out environment purification businesses with a focus on different kinds of pollutions like air, noise, oil, water and solid waste pollution.

At the same time, the Company has continued to gear up its total strategic cooperation in the areas of technology, marketing and management with renowned international and domestic high technology enterprises. In 2005, NandaSoft continued to maintain close relations with domestic and overseas original manufacturers while its strategic co-operation with Huawei and Dell were recognized. The Company has also participated in a number of government informatization projects.

Looking forward to the forthcoming year, the staff of NandaSoft Group will adhere to our corporate philosophy of "Protecting Network Security for User, Promoting Interests of Shareholders, Realizing the Values of Employees, Exemplifying the Power of Technology, and Facilitating the Harmonious Development of Society". To reciprocal our shareholders' long-standing trust and support, we will also leverage on the integrated advantages of Nanjing University for the scaling up, internationalization and modernization of the Group, striving for the Group's becoming an internationally renowned software enterprise.

Xie Li
Chairman

Nanjiang, PRC
6 April 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The audited consolidated turnover of the Group for the year ended 31 December 2005 was approximately RMB440,742,000, representing an increase of approximately 14.6% over 2004. The improvement in the sale of the Group was due to a diversifications of sales network and successful marketing efforts which provide the Company with good business development and market recognition.

The audited loss attributable to shareholders and loss per share of the Group for the year ended 31 December 2005 were approximately RMB247,000 and RMB0.0003 respectively. During the year, the Group encountered a substantial decrease in the profit of the Company as the Group has changed its bad debt provision policy from 15% to 20% for amount due over 1 year and from 35% to 50% for amount due over 2 years which lead to be a substantial amount of provision for the year.

With the rapid development in technology market, the Group faces with unprecedented competition which directly affect the market share and gross profit of the Group. During the year, the Group has made investment in various industry for the purpose of expanding sales channel and ensure the stabilizing of the result of the Group. Two major investments during the year including investment in 南通明德重工有限公司 ("Nantung Minde") and investment in 南京水木年華餐飲有限公司("南京水木年華").

Jiangsu Sheng Feng Investment Company Limited ("Sheng Feng"), subsidiary of 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 lids for five years and this investment has generated RMB558,000 investment income for the Group during the year and Sheng Feng shares 25% of the result of the project.

Sheng Feng had also entered into an agreement with南京水木年華 ("Shuimu Nianhua") regarding a project of operating a club in Nanjing. Sheng Feng invested RMB4,000,000 as the entire capital which would be repaid at RMB500,000 in first year (i.e. 2005), RMB1,000,000 in each of the following three years and RMB500,000 in the fourth year to Sheng Feng from the profit of the project. After the return of its contribution, Sheng Feng only entitles to 50% of the operating result of the project. Sheng Feng received RMB500,000 refund in accordance with the above repayment term. Shuimu Nianhua had presented the PRC audited financial statements for the year ended 31 December 2005 issued by 南京蘇建聯合會計師事務所, based on which the total assets of the project as at 31 December 2005 was approximately RMB4,108,000 and the profit for the year was approximately RMB436,000.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group believes that all those investments can generate considerable revenue and enhance the goodwill for the Company.

Financial Resources and Liquidity

As at 31 December 2005, shareholders' funds of the Group amounted to approximately RMB194,492,000. Current assets amounted to approximately RMB287,749,000, of which approximately RMB34,721,000 were cash and bank deposits. The Group had no non-current liabilities and its current liabilities amounted to approximately RMB162,009,000 comprising mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.208. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 31 December 2005, the Group had a gearing ratio of 9.4% and the Group has short-term loan of RMB35,000,000.

Charge on Group Assets

As at 31 December 2005, the Group pledged its bank deposits of RMB6,195,785 (2004: RMB4,570,643) for banking facilities granted to the Group.

The pledged deposits carry fixed interest rate of 0.72% per annum. The pledge on the bank deposits will be released upon the settlement of the relevant bank borrowings. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

Except for the above-mentioned, none of the Group's assets was pledged as security for liabilities. (2004: Nil).

Foreign Currency Risk

As the Group's operations are situated in PRC and substantially all the Group's sales & purchases were denominated in RMB consequently, there is no foreign currency risk would affect the Group's results of operations.

Material Acquisitions/Disposals and Significant Investments

Throughout the year in 2005, the Group did not make any material acquisitions or disposals and no proceeds was invested in any significant financial instruments.

Capital Commitments

As at 31 December 2005, the Group had an authorized and contracted 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Contingent Liabilities

As at 31 December 2005, the Group had no material contingent liabilities

Employees and Remuneration Policies

The remuneration for the employees of the Group amounted to approximately RMB28,187,000, including the directors' emoluments of approximately RMB451,000 during the year ended 31 December 2005 (2004: approximately RMB28,648,000, including the directors' emoluments of approximately RMB547,000). The increase in employee remuneration resulted from the increase in bonus to individual staff during the year. The number of employees for the year had increased from 552 to 659.

BUSINESS REVIEW

(I) Business Development

A. Network Security

Product Development

In 2005, the State Informatization Leading Group has made comprehensive preparatory work for the key development of informatization, including the decisions to motivate the development of electronic government business, pushed the growth of software industry, strengthen information security protection, enhance the exploration and utilization of information resources, and accelerate the decision-making for series of electronic business development. NandaSoft, being the leading provider of information security total solutions in the PRC, leveraged on the tide of national informatization and grasped the opportunity brought about by the policy "To make Jiangsu as a major "software" province, and to establish Nanjing as a famous "software" city", for golden growth opportunity of continuously enhancing its capacity of R&D and technological innovation for network security software products. During the year, NandaSoft not only continued to reinforce its demonstrative and leading role in informatization construction in Jiangsu Province and within the whole country, but also further broadened its market platform and enlarged its market share on the basis of maintaining its leading position established in the area of information security in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

In line with the development trend of informatizing network security, 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 year.

During the year, the Company has launched the following new products as planned:

— SoftWall v2.4, a Soft upgraded software version for firewall product series;

— WatchOnline v2.4, a Soft upgraded software version for intrusion detect system product series;

— WatchOnline v2.0, a Soft intranet surveillance product; and

— NSS-1.0, a Soft network integration security protection platform system product series.

Meanwhile, in order to maintain its leading position both domestically and internationally in term of technology, NandaSoft has conducted in-depth researches on the core technologies deployed by security products. During the year, 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 was a forceful governmental support for the development of the Company and a high accreditation to our products, and thus it was of great significance to the Company.

Besides, in order to build up 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;

— Research on embedded operation system; and

— Research on IPV6 network security protection technology.

In the meantime, on the basis of perfecting technology and implementation standards of Soft security services, the Company has initiated all-out security services and security integration, which has achieved encouraging results in 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

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)" in respect of marketing development. During 2005, the Company has secured a series of security projects from Provincial Software Park of Jiangsu Province, Provincial government general office of Jiangsu Province, Provincial Finance Department of Jiangsu Province, provincial confidential systems of Jiangsu Province, provincial highways of Jiangsu Province and etc. Meanwhile, apart from further consolidating the advantages enjoyed by the brand "Soft" among various industries in the province, the Company has opened up a number of sales channels aiming at different customers using the applications. Among these, the Company has achieved breakthroughs in Fujin and Zhejiang regions and has successively secured a number of large-scale projects from various departments, including Forestry Department of Fujian Province, Civil Affairs Department of Fujian Province, Ministry of Labour and Social Security of Zhengzhou Municipal etc. In respect of sales channels, the Company has implemented strategic geographic planning of security products sales within the domestic market in general, which formed a system with geared-up channels encompassing the coexisting of Northern, Eastern and Southern China markets that take Beijing, Nanjing and Shenzhen as their respective focal points.

To enhance Soft's brand reputation through marketing and exchange campaigns with customers and to fuel higher demand from customers, NandaSoft has conducted all-round, systematic, comprehensive, in-depth marketing campaigns for its key Soft security service and security integration. During the year, a number of marketing campaigns were held successively, including "Digital Fujian Soft Network Security New Products Promotion Meeting(數字福建蘇富特網絡安全新品推介會)", "Hangzhou Labour Insurance System - Soft Network Security New Products Promotion Meeting(杭州勞保系統蘇富特網絡安全新品推介會)", "Jiangsu Quality Inspection System - Soft Network Security New Products Promotion Meeting(江蘇省質檢系統蘇富特網絡安全產品推介會)", "Jiangsu Provincial Court System - Network Security Training and New Products Promotion Meeting(江蘇省法院系統網絡安全培訓及新品推介會)", "Summit for agents of Soft network security products(蘇富特網絡安全產品代理商峰會)". In September 2005, the Company also participated in the first "China (Nanjing) International Software Products Fair(中國(南京)國際軟件產品博覽會)".

The above series of campaigns represented a reinforcement of the NandaSoft's marketing efforts, and expedited the opening up of its sales channels and the development of its agents. These in turn powerfully created new breaking grounds for NandaSoft security products to enlarge its market share in the regional markets. With the promotion and application inside and outside the province and in key sectors, the brand share and reputation of NandaSoft's products have been further increased.

B. *Electronic Government Business*

Development Review

In early 2005, the Company has confirmed the launch of system integration business in regard of the electronic government business and expanded the development direction of IT services. Meanwhile, the Company also built up different kinds of technologies and has its personnel well-trained. Apart from consolidating and developing its existing key sectors and traditional system integration business, the Company has doubled its effort in market exploration for IT services. Two main development directions, i.e. system integration and IT services, were confirmed, and IT services embedded with advanced technologies were set as the new focus in enhancing profitability.

In 2005, the successful implementation of the provincial network integration project for the Quality and Technical Supervision Bureau of Jiangsu Province(江蘇省無線電管理局全省網絡集成項目), video conference project for the Labor and Social Security Department of Jiangsu Province(江蘇省勞動廳全省視頻會議項目), provincial networking project for the Health Department of Jiangsu Province(江蘇省衛生廳全省網絡項目), the project for the Quality and Technical Supervision Bureau of Jiangsu Province(江蘇省質監局項目), etc, have gained remarkable achievements in relevant sectors and thus constituted greater significance.

Meanwhile, NandaSoft has undertaken a number of IT services project, such as provincial network maintenance project for industrial and commercial computers in Jiangsu Province(江蘇省工商計算機全省網絡維護項目), "e-Securities Project"(金保工程)networking of Jiangsu Province(江蘇省金保工程網絡), employment system network of Jiangsu Province(江蘇省就業系統網絡), informatization network project of Jiangsu Provincial government(江蘇省政府信息化網絡), control and management project of Land and Resources Department of Jiangsu Province (江蘇省國土廳監理項目), campus network of Anhui Normal University(安師大校園網絡), medical insurance computer engineering network project of Jiangsu Province(江蘇省醫保計算機工程網絡項目), etc. Such projects in general shared the common characteristics of being large in scale, involving wide scopes of areas and technologies for IT services and having strict requirements from customers. During the year, the Company has successful undertaken of a number of IT service projects, which reflected the Company's capacity in technology and service have already reached a higher level.

MANAGEMENT DISCUSSION AND ANALYSIS

Co-operation with Manufacturers

In 2005, NandaSoft continued to maintain close relations with domestic and overseas original manufacturers while its strategic co-operation with Huawei and Dell, which are domestically and internationally renowned original manufacturers, were recognized. As an important partner and the prime agent of Huawei, NandaSoft have participated in a number of government informatization projects. The Company has incredibly improved its results in electronic government business and has gained recognition from different levels of governments and various users. As a partner of Dell, the Company has jointly completed a series of significant projects with Dell in Jiangsu Province and a typical example of which was industrial and commercial server project of Jiangsu Province (江蘇省工商服務器項目). Having employed and embedded with different technologies, the project covered both hardware and software systems, involved various operational units and required a huge amount of investment. Upon successful implementation, the project satisfied the demand for data collection, storage, exchange and back-up of the data center platform of industrial and commercial administrative management system of Jiangsu Province to a large extent and it was well received. Through the co-operation with above manufacturers, NandaSoft has further fortified its leading position in the industry.

Corporate Training

NandaSoft has long been following its tradition of emphasizing comprehensive strategic co-operation with renowned international and domestic high-tech enterprises in respect of technology, marketing and management. During the year, the Company, aiming at consolidating its close co-operation with Huawei in order to achieve further and comprehensive protection and co-operation in various projects, has sent relevant technicians to sit for the training and examinations of Huawei 3COM HCTE and Huawei 3COM HCSE. Through this, the Company has enhanced the business capacity and service quality of its core personnel and gradually established an excellent system of network IT services, as well as regulated its service flow and had a clear definition of service contents and service items. These in turn further enhanced the brand name of the Company's IT services.

Development of NandaSoft Technology Group

After years of continuous development, NandaSoft Technology Group has emerged as a well-known high technology industry group in the province, comprising 16 directly or indirectly owned subsidiaries and directly or indirectly invested in 9 companies. All the companies of the Group have maintained strong development stamina.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, Suzhou NandaSoft Technology Company Limited has maintained its leading position as the state recognized "Software Enterprise" within Suzhou regions. It has successfully undertaken various projects such as environment monitoring system of Qinshan Nuclear Power Company(秦山核電公司環境監測系統), waterway information management system of Suzhou Municipal(蘇州市航道資訊管理系統), logistics government end software project of Bonded Logistics Centre of Suzhou Industrial Park(蘇州工業園區保稅物流中心物流政府端軟件項目), the public technology services platform supporting system of Suzhou Municipal Software Assessment Centre (蘇州市軟件評測中心公共技術服務平台支撐系統)and Suzhou urban area logistics system of Suzhou Municipal Science and Technology Bureau(蘇州市科學技術局蘇州市區物流系統).

Beijing NandaSoft Digital Technology Company Limited has undertaken several major projects including the project of informatization construction Phase 1 of Jinrong Road in the Xicheng District of Beijing(北京市西城區金融街資訊化一期建設項目), the intelligentization project of Zhanshan Software Research Building in Qingdao Fucai Center(青島市福中心湛山軟件研發大廈智慧化項目) and the project of construction and renovation work and computer network of CEG Building International Group Department Area (中國機械裝備公司CEC大廈國際集團辦公區裝修改造工程及計算機繼絡與綜合佈線項目). It has also explored and realized the co-operation with new partners such as China Meteorological Press(中國氣象出版社), China Machinery Group Company(中國機械集團總公司), China National Pharmaceutical Industry Corporation(中國醫藥工業公司), Qingdao Haier Ltd(青島海爾)and Qingdao Fucai Center(青島市福彩中心).

In 2005, Shanghai NandaSoft Information Technology Company Limited, which is principally engaged in undertaking of software outsourcing projects from Japan, has undertaken overseas development projects valued close to 170 million Yen, representing a remarkable growth as compared with last year. Through CMM3 accreditation, the Company has established a model for scientific software development quality according to international standards. At the same time, the Company convened the "2005 Business Report Conference" with its Japanese counterparts in late 2005 with the purpose to strengthen the relation and exchange with its Japanese customers. During the conference, the Company introduced its operation results for the year, progress of customer exploration and technological capacity, which helped to consolidate and further its co-operation with its Japanese counterparts.

Meanwhile, Shenzhen NandaSoft Network Technology Company Limited(深圳南大蘇富特網絡技術有限公司) jointed hands with Shenzhen Research Institute of Nanjing University for the construct the Shenzhen production, study and research base for Nanjin University in June 2005, and the Shenzhen Research Institute of Nanjing University has become a subordinate unit of Shenzhen R&D Centre of Computer Software Project Centre of Nanjing University(南京大學計算機軟件工程

MANAGEMENT DISCUSSION AND ANALYSIS

中心深圳研發中心). Jiangsu Kangyuan Environment Protection Technology Co., Ltd.(江蘇源環保科技有限公司)was established in June 2005. In the light of different kinds of pollutions like air, noise, oil, water and solid waste pollution, it has leveraged on strength of scientific research of Nanjing University and the transformation towards high-technology in the Science Park of Nanjing University, has adopted approach with a combination of both traditional and new high technologies for environmental remediation. It also conducted R&D in regard of promoting technologies and products relating to reusable energies.

During the year, Nanjing NandaSoft Technology Company Limited has completed the accreditation for ISO9000 and has consolidated the technological management mechanism. As for industry exploration, its main achievement was entering into the land tax industry. Recently, it has established business relations with various regions like Nantong, Yencheng, Yangzhou, Suqian and KunShan. Besides system integration, its peripheral business system has also been expanding. The Company's newly launched project of digital control has obtained the projects from various industries such as public security and waterway.

(II) Research and Development

C. Network Security Total Solutions

In 2005, the Company has successfully developed and launched SoftNIDS v2.4, an upgraded software version for intrusion detect system product series and WatchOnline v2.0, an intranet surveillance product. The Company has achieved a breakthrough in development of 1000Hz Security System Products and has successfully developed 1000Hz Firewalls, IDS and VPN products. On the other hand, management platform products and audit server products for 1000Hz Security System has been put under trial phase. It is expected that a complete 1000Hz Network Security Protection Total Solutions will be launched in the First Quarter of 2006. Meanwhile, the continuous in-depth research in relation to "Open Security Enhancement Operation System", "Integrated Security Protection Platform Technology" and "IPV6 Network Security Protection System" has attained significant results. These results were supported by 2005 Technology Transformation Fund of Jiangsu Province("2005江蘇省科技成果轉化基金"), 2005 National Information Security Key Project Fund("國家信息安全重大專項項目基金")and Software and Integrated Circuit Project Fund of Jiangsu Province("江蘇省軟件與集成電路專項基金")respectively and relevant industrialization has been fully launched during the year. Moreover, the Company has commenced research in government's management of network environmental remediation technology and approach and has developed a control system and an exclusive enforcement tool for the inspection of illegal games for Ministry of Culture of the People's Republic of China, and such development has brought about fruitful social benefits.

Electronic Government Solutions

During the year, in response to the government's call for synchronization, NandaSoft has been playing an active role in the construction of electronic government business and remained as the most important partner in the electronic government business construction in Jiangsu Province and the State. With its major technological characteristics of synchronizing technology and exchange platform, NandaSoft electronic government business total solutions enjoyed an obvious advantage as a leader in domestic market of technology.

As for relevant technological R&D of electronic government business, the Company launched the key "Total Solution for the New Generation Electronic Governmental Business 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 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. The development and production mode of "modularized" software has attracted positive response and favorable reception from the governmental customers.

D. Business Prospects

With the Internet industry in the PRC's entering into a phase of strong and rational development and the network becoming prosperous, there is a huge gap exists in information security and digitalization, as well as challenges from new problems induced by the development of new technologies and new applications. Therefore, the Minister of the Ministry of Information Industry expressed at the 2005 China Internet Conference that the key for information construction laid on the application of information technology in the government, finance, financial and taxation and trading, as well as the reform of traditional industries. Meanwhile, strengthening network and information security management was another important mission in the process of Internet development.

MANAGEMENT DISCUSSION AND ANALYSIS

In the blueprint of "11th 5-Year" development plan for Jiangsu announced during the period, it is clearly urged that, the increase of capacity for independent innovation should be served as the first step for a throughout implementation of the Strategy of Revitalizing The Province though Science and Education. While strengthening the capacity for independent innovation, the formation of several enterprises, which should possess famous brands with intellectual rights and be internationally competitive, will be the major objective of socio-economic development during the "11th 5-Year" period. As for industry construction, the socio-economic informatization should be put in a more prominent position and development and share of information resources should be strengthened. Besides, information technology should be promoted in different industries so as to increase its popularity and application, and thus making informatization as the leading factor in accelerating and increasing industrialization.

According to the instruction of "capturing the rapid development of global software industry, realizing the prioritized development of software industry in Jiangsu, accelerating and centralizing development, developing Jiangsu to become the major "software province"(抓住世界軟件業快速發展的機遇，實現江蘇軟件業優先發展，加速發展和集聚發展，建設江蘇成為軟件大省)" of the Jiangsu Provincial Party, the Company has timely proposed its general corporate objectives of striving to become an internationally leading and domestically renowned professional security manufacturer and to possess a number of innovative technologies reached advanced international level and products with intellectual rights during the "11th 5-Year" period. At the same time, the Company also proposed its insistence in product characterization, market internationalization, and expansion of its scale into a conglomerate and management modernization as the corporate development strategies.

BUSINESS OUTLOOK

Research and Development

Network Security Total Solutions

Network security is increasing threatened by the continuous expansion of information industry. Therefore, information security industry has attracted much attention and there is an increase in types of security products. Currently, along with the surges in network security product market demand in China, Soft Company, as the leader in the domestic network security market, will double its efforts in R&D according to its network security products development plan. It will continue to maintain the advantage of it products like the existing firewall and intrusion detection, and on top of such basis, it will focus on the R&D work on 1000Hz Security Protection System NSS-10, Network Security Integrated Protection Platform System NSS-2, Open Security Enhancement Operation System NSS-3, IPV6 Network Security, Integrated Security Protection System ZAP 1.0.

MANAGEMENT DISCUSSION AND ANALYSIS

In 2006, the Company will initiate improvements on its 1000Hz Security System Product Series and a complete 1000Hz Network Security Protection Total Solution and 1000Hz Firewall Products of leading standard in the PRC will be launched in the first quarter. In 2006, the Company will put more emphasis on the industrialization of "Open Security Enhancement Operation System" and "Integrated Security Protection Platform Technology". It is planned to conduct R&D on Soft Security Desktop Operation System SoftOS 2.0 products and Integrated Security Platform ZAP 1.0 products. As for "IPV6 Network Security Protection System", the Company has planned to provide security protection products and total solutions targeting at IPv6 network environment in two to three years time.

Electronic Government Solutions

There has been remarkable progress in the PRC information construction in the recently years and electronic government business projects, as pioneers in informatization, has been under vigorous development. Currently, the main bottleneck that restricts the development of electronic government business application is the lack of synchronized sharing application system and information resources between local governments and departments, and thus formed certain "information islets". In order to eliminate barriers, the Company needs to realize information resources integration, development and utilization, thus enabling optimization and sharing of resources among system in order to realize value. The strengthening of superstructure design and the construction of a unified network platform has become focuses of the electronic government business construction at the moment. In light of this, the Company plans to launch Information Exchange Platforms that solves the common problems of "information islets" and "application islet", and Synchronized Office Systems that support inter-department, inter-system and inter-platform electronic government business synchronized work.

Sales and Development

As for sales and development, NandaSoft will gradually perfect its market operation and monitoring system. In short run, the Company plans to set up branches or offices in a number of provinces and municipals all over the country at stages in order to strive for a further expansion in the market coverage of Soft network security products. Meanwhile, the Company will define its partners, strengthen co-operation, and enhance the quality of co-operation between the Company, original manufacturers, agents and suppliers.

REPORT OF THE DIRECTORS

The Board of Directors present their annual report and the audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is the development, manufacture 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, jointly controlled entity and associates are set out in notes 44, 20 and 19 to the financial statements, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's sales to its five largest customers accounted for less than 11.3% of the Group's turnover for the year.

Purchases from major suppliers accounted for the following percentages:

The largest supplier	3.9%
The five largest suppliers	13.4%

None of the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any material interest in the five largest customers and suppliers.

RESULTS AND DIVIDENDS

The Group's results for the year ended 31 December 2005 are set out in the consolidated income statement on page 55 of the Annual Report.

The directors do not recommend the payment of a dividend.

SHARE CAPITAL

Details of the Company's share capital are set out in note 34 to the financial statements.

REPORT OF THE DIRECTORS

PROPERTY, PLANT AND EQUIPMENT

Details of movements of property, plant and equipment of the Group are set out in note 16 to the financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders at 31 December 2005 comprised the retained profits of RMB26,686,983 (2004: RMB28,544,738).

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. Chen Zheng Rong

Non-Executive Directors:
Professor Chen Dao Xu
Ms. Zhang Yun Xia
Mr. Yuan Ren Wei (appointed on 9 January 2006)

Independent Non-executive Directors:
Mr. Xu Huan Liang
Professor Wang Zhi Jian
Mr. Yim Hing Wah

Supervisors:
Professor Shi Jian Jun
Mr. Zhou Wen Da
Mr. Zhou Ming Hai
Mr. Zhou De Fan
Mr. Zuo Song Lin
Mr. Shaw Yong Lei
Mr. Xu Ke Jian (appointed on 9 January 2006)
Mr. Wang Dao Wu (resigned on 9 January 2006)

REPORT OF THE DIRECTORS

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 2008. 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.

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 31 December 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 31 December 2005, 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

SUBSTANTIAL SHAREHOLDERS

At 31 December 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 position 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 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 corporation	104,750,000	14.96%	–	–	104,750,000	11.22%
		Sub-total:	23.53%			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 *(Note4)*	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 1 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 30 June 2005, thereby creating a long position of 21.41% in the entire share capital of the Company.

(3) Jiangsu Management Centre 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 Centre comprises:

    (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's total issued share capital) held by Jiangsu Management Centre; and

    (b) 104,750,000 domestic shares (100% deemed interests held by Jiangsu Management Centre 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 Centre.

(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 31 December 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.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principal 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 issued by the Company dated 19 April 2001. Up to 31 December 2005, 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARE

During the year ended 31 December 2005, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 December 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.

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 with Nanjing University set out in note 43 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 with Nanjing University described in note 43 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

Jiangsu NandaSoft Company Limited is committed to upholding good corporate governance. This year, considerable efforts were made to identify and formalize the best practices according to international standards. The Board has adopted the Corporate Governance Code, ensuring greater transparency and quality of disclosure as well as more effective risk control. We believe our commitment to the highest standards of governance will translate into long-term value and ultimately maximize returns to shareholders and stakeholders. Management's commitment to building long-term interest for shareholders and to conducting business in a socially responsible and honest manner has earned the Company widespread market recognition.

The Board

The Board's primary role is to protect and enhance long-term shareholders value. If focuses on the Group's overall strategic policy, monitors performance and provides proper supervision to ensure appropriate business conduct and effective management of the highest quality, The Positions of Chairman are held separately to reinforce their respective independence, accountability and responsibility. This separation of positions ensures clearly defined roles between the Chairman's responsibility to monitor the Groups' business strategies and to manage the day-to-day operations.

The Board comprises seven Directors, including the Chairman of The Board, two of them being Executive Directors, and the remaining five Non-Executive Directors, of whom three are independent. The Non-Executive Directors come from diverse business and professional backgrounds, providing valuable expertise and experience for promotion the best interests of the Group and its shareholders. Independent Non-Executive Directors ensure the Board accounts for the interests of all shareholders and that all issues are considered in an objective manner. The Company has received confirmation from each Independent Non-Executive Director about his independence under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), and continues to consider each of them to be independent.

The Board conducts four regular Board meetings a year and additional meetings are held as and when required to discuss significant events and important issues. The Group ensures that appropriate and sufficient information is provided to Board member in a timely manner to keep them abreast of the Group's latest developments thereby assisting them in discharging their duties.

REPORT OF THE DIRECTORS

The oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities, the Board has established three Board Committees, namely Audit Committee, Nomination Committee and Remuneration Committee. Non-Executive Directors play an important role in these committees to ensure independent and objective views are expressed and to promote critical review and control.

Audit Committee

The Audit Committee was established to assist the Board in safeguarding the Group's assets by providing an independent review of the effectiveness of the financial reporting process and the internal control and risk management systems of the Group. The committee also oversees the audit process and performs other duties as assigned by the Board. Terms of reference of the Audit Committee have been adopted by the Board and posted on the Company's website. All the members of our Audit Committee are Non-Executive Directors, with a majority of Independent Non-Executive Directors. The committee met four times for the year 2005.

During the financial year, the Audit Committee reviewed the accounting principles and practices adopted by the Group, reviewed the nature, scope and findings of external audits and reviewed the Group's treasury activities, liquidity and risks management. Specifically, the Audit Committee has performed a detailed review of the procedures and controls over the Group's investments in projects and the loan receivables. The details of the investments and loan receivables are set out in notes 21 and 25 to the financial statements, respectively.

In addition, the management and Audit Committee have instituted the following controls over the Group's new and existing investments:

(1) Perform due diligence review for every potential investment;

(2) Review the management accounts of individual investments monthly;

(3) Meeting with the shareholders of the investment periodically; and

(4) Obtain audited accounts of the investment annually.

Nomination Committee

The Nomination Committee was established to enhance transparency and highlight fairness in the selection and appointment of Board members. The Nomination Committee consists of three members, the majority of which are Non-Executive Directors. Terms of reference of the Nomination Committee which have been adopted by the Board are posted on the Company's website. The committee met once during the financial year.

Remuneration Committee

The responsibility of the Remuneration Committee is to formulate transparent procedures for developing remuneration policies and packages for key executives. The Remuneration Committee comprises three members, the majority of which are Independent Non-Executive Directors. Terms of reference of the Remuneration Committee which have been adopted by the Board are posted on the Company's website. The Committee met once during the financial year.

Mode Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers under the Listing Rules (the "Model Code"). The Company has made specific enquiries of all the Directors and each of the Directors has confirmed that, for the year ended 31 December 2005, they have complied with the required standard set out in the Model Code.

Internal Control and Risk Management

An internal control system mitigates the Group's risk exposure while facilitating the effectiveness and efficiency of operations and ensuring compliance with laws and regulations. During the year, the management performed a review of the existing internal control system and identified certain deficiencies in respect of the procedures over investment process approval and monitoring, accordingly, has made some improvements to this system, including the following procedures:

1. Management will review the systems on an ongoing basis so that practical and effective control systems are implemented to provide reasonable assurance in relation to protecting material assets and in identifying business risks;

2. Decisions and implementation of the following matters with respect to the Company or any subsidiary of the Company (now or hereafter existing), as the case may be, shall require the approval of the Board by at least a majority vote of the Directors present in person or by their alternates:

   (a) capital expenditure: any single item of capital expenditure exceeding 10% of the total assets;

   (b) assets: acquiring or disposing of assets in any year with a book value or market value of more than 10% of total assets;

   (c) borrowings: incurring debts in excess of the amount approved more than 10% of total liabilities;

REPORT OF THE DIRECTORS

(d) provision of loans: providing loans to any person (excluding normal trade credit);

(e) guarantees: giving a guarantee, indemnity or other assurance for a debt of another person or about the financial condition of that person; and

(f) ordinary course: entering into an arrangement or incurring a liability exceeding 10% of the net assets.

3. Management is committed to the identification, monitoring and management of risks associated with its business activities and has implemented practical and effective control systems. These include:

- A tailored organizational and governance structure with clearly defined lines of responsibility;
- Budgeting and forecasting systems for performance measurement and monitoring of business units;
- A quarterly review of the Group's performance by the Audit Committee and the Board; and
- A cash management system deployed to enhance proper control and yield of cash assets.

Code of Best Practice

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the year ended 31 December 2005, in compliance with the Code of Best Practice as set out in Appendix 15 to the Listing Rules that was in force prior to 1 January 2005 and remains applicable for the financial year ended 31 December 2005.

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.

In November 2004, The Stock Exchange of Hong Kong Limited issued a new Code on Corporate Governance practices (the "New Code") which comes into effect for the reporting financial year commencing after 1 January 2005. The Company has considered the New Code and has taken steps to comply with the New Code where appropriate.

REPORT OF THE DIRECTORS

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 twelve months ended 31 December 2005.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 36 to the financial statements.

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

Nanjing, the PRC
6 April 2006

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 2005, 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 or 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, truely 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 compiled 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
6 April 2006

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Professor Xie Li, (謝立), 64, Chairman and President of the Company, and the Professor and PhD student mentor of Nanjing University. Professor Xie was graduated from the Department of Mathematics in Nanjing University majored in mathematical logic. He had been the visiting scholar of the Department of Computer Science in New York State University, Albany. He taught in the Department of Mathematics and Department of Computer Science in Nanjing University and had served consecutively as the Deputy Director of the Computer Software Research Institute, Assistant to the University President, Deputy Academic Dean, Dean of the Department of Computer Science, Director of the Computer Application Research Institute and Vice President of Nanjing University. Professor Xie is also serving as the Director of Jiangsu Province Software Project Research Center, standing member of China Computer Society, Deputy Director of the Open System Professional Committee. Professor Xie has engaged in the research of computer software over a long period of time, and had received 12 awards, including 4 national class awards, for his research achievements in fields of operating system, distribution computing, parallel processing and advanced operating system. He has published 4 monographs and more than 190 academic papers. Professor Xie joined the Company in September 1998.

Mr. Chen Zheng Rong, (陳崢嶸), 50, 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 Computor 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), 59, non-executive Director of the Company and a Professor. Professor Chen graduated from the Department of Computer Science in Nanjing University majored in Computer Software. He is now a Professor, PhD student mentor and Dean of the Department of Computer Science and Technology in Nanjing University and Chairman of the Jiangsu Province Computer Society. Professor Chen has engaged in the research and development of computer software over a long period of time and his recent research work concentrated in distributive processing, parallel calculation, computer network and computer support co-processing. He has undertaken more than 10 major national science and technology projects. Professor Chen obtained 4 ministry or provincial class science and technology advancement awards and 1 National Education Committee award. He has published two co-authored books and more than 30 academic papers. Professor Chen joined the Company in July 1999.

Ms. Zhang Yun Xia, (張雲霞), 42, is a university graduate and a senior designer of Zongyi. Ms. Zhang was fashion designer working in Tongzhou Embroidery Factory (通州市刺繡廠) in 1989. She worked in the technology department of Nantong Golden (Group) Co. Ltd. (南通黃金(集團)股份公司) during the period from 1990 to

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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.

Mr. Yuan Ren Wei,(袁仁偉), 36, is the vice president of Chengjiang Chamber of Commerce for Jiangyin City of Jiangsu Province(江蘇省江陰市澄江商會)and the member of the People's Political Consultative Conference of Jiangyin City. Mr. Yuan worked in Yaosai Air Conditioning Equipment Factory(要塞空調設備廠)in Jiangyin city during the period from 1987 to 1993. From 1989 to 1991, he was the general manager Furen Air Conditioning Equipment Company Limited(富仁空調設備有限公司). He has been the chairman and the general manager of Jiangsu Furen Group Company Limited (江蘇富仁集團有限公司)which is one of the substantial shareholders of the Company since 2003. Mr. Yuan was awarded the best factory manager in Jiangyin City and the top ten youth entrepreneur.

Independent non-executive Directors

Mr. Xu Huan Liang, (徐煥亮), 64, 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), 48, 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), 41, 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 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), 63, 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), 51, 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), 43, 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), 56, 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), 43, 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.

Mr. Xu Ke Jian, (徐克儉), 51, graduated from the Faculty of Humanities of Nanjing University of Science and Technology specialized in ideological and political education. Mr. Xu was the deputy officer of the international cooperation department, the vice division chief of foreign economic cooperation division of Zhongshan Group, the vice chairman of the union of Zhongshan Group during the period from 1989 to 1991. From 1991 to 1993, he was the chairman of the union of Nanjing Radio Company and the member of 12th session of Shi Zhong Gong Hui. He was the secretary and manager of Panda Electronics System Engineering Company(熊貓電子系統工程公司) during the period of 1994 to 1999. From 1999 to 2000, he was the deputy general manager of Jiangsu Nandasoft Company Limited. He was the assistant to the general manager, deputy general manager of Jiangsu Information Construction Investment Limited and deputy secretary of the general Party branch during the period of 2000 to August in 2005. Mr. Xu has been the vice party secretary and the director of Jiangsu High-Ti Investment Group(江蘇高科技投資集團), which is one of the shareholders of the Company since August in 2005.

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. Shaw Yong Lei, (邵永雷), 63, 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), 38, Vice 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), 45, 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), 42, 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) aged 33, 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 26 May 2006 (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 2005;

(2) To consider and pass the reports of the Supervisory Committee for the year 2005;

(3) To consider and pass the audited consolidated financial statements of the Company and its subsidiaries for the year 2005;

(4) To consider and pass the resolution of final dividend distribution for the year 2005;

(5) To consider and pass the resolution for making allotments of legal pension fund and legal social benefits for the year 2005;

(6) To consider and pass plans to appoint an auditor of the Company for the year 2006 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 resolution as a special resolution:

"**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;

(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 in revoked or varied by a special resolution of the members of the Company in general meeting; and

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 changes of Company Law of the People's Republic of China ("Company Law").

Original Article 1

The Company is a joint stock limited company established in accordance with the Company Law, Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Stocks by Limited Stock Companies ("Special Provisions") and other related laws and administrative regulations of the State.

The Company was established by way of promotion on 30 December 1999 under the approval of by the People's Government of Jiangsu Province of the People's Republic of China with approval document Suzhengfu [1999] No.65, and was registered at Jiangsu Provincial Administration of Industry and Commerce on 30 December 1999 and obtained the Enterprise Legal Person Business Licence with the registered number of 3200001104704. Promoters of the Company were:

Nanjing University
Legal representative: Jiang Shu Sheng
Legal address: 中國南京市漢口路22號

江蘇綜藝股份有限公司
Legal representative: Zan Sheng Da
Legal address: 中國通州市興東鎮黃金村

江蘇省教育設備與勤工儉學管理中心 (Formerly known as: 江蘇省教學儀器公司工會)
Legal representative: Chen Zheng Rong
Legal address: 中國南京市上海路207號

江蘇省教育設備與勤工儉學管理中心工會 (Formerly known as: 江蘇省教學儀器公司工會)
Legal representative: Chen Zheng Rong
Legal address: 中國南京市上海路207號

江蘇省資訊化建設投資有限責任公司
Legal representative: Wang Dao Wu
Legal address: 中國南京市浦口高新區03幢2樓

江蘇省共創教育發展有限公司
Legal representative: Wei Zhan Rong
Legal address: 中國南京市上海路207號

江蘇省高科技產業投資有限公司 (Formerly known as: 江蘇產權經營有限公司)
Legal representative: Xiong Xian Gen
Legal address: 中國南京市珠江路455號1418號

Amended as:

The Company is a joint stock limited company established in accordance with the Company Law of the People's Republic of China ("Company Law"), Special Provisions of the State Council Concerning the Floatation and Listing Abroad of Stocks by Limited Stock Companies ("Special Provisions") and other related laws and administrative regulations of the State.

The Company was established by way of promotion on 30 December 1999 under the approval of by the People's Government of Jiangsu Province of the People's Republic of China with approval document Suzhengfu [1999] No.65, and was registered at Jiangsu Provincial Administration of Industry and Commerce on 30 December 1999 and obtained the Enterprise Legal Person Business Licence with the registered number of 3200001104704. Promoters of the Company were:

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Legal address: 中國南京市漢口路22號

江蘇綜藝股份有限公司
Legal representative: Zan Sheng Da
Legal address: 中國通州市興東鎮黃金村

江蘇省教育設備與勤工儉學管理中心 (Formerly known as: 江蘇省教學儀器公司工會)
Legal representative: Chen Zheng Rong
Legal address: 中國南京市上海路207號

NOTICE OF ANNUAL GENERAL MEETING

江蘇省教育設備與勤工儉學管理中心工會 (Formerly known as: 江蘇省教學儀器公司工會)

Legal representative:	Chen Zheng Rong
Legal address:	中國南京市上海路207號

江蘇高科技投資集團有限公司 (Formerly known as: 江蘇省資訊化建設投資有限責任公司)

Legal representative:	Xu Jin Rong
Legal address:	中國南京經濟技術開發區(新港)金融樓創業中心01棟東三層

江蘇省共創教育發展有限公司

Legal representative:	Chen Zhan Rong
Legal address:	中國南京市上海路207號

江蘇省高科技產業投資有限公司 (Formerly known as: 江蘇產權經營有限公司)

Legal representative:	Zan Sheng Da
Legal address:	中國南京市珠江路455號1418號

Original Article 4 "The legal representative of the Company is the President of the Company."

Amended as: "The legal representative of the Company can be served by President, executive director or general manager of the Company."

Original Article 8 "The Company can invest in other limited companies and joint stock limited companies, and undertake for the invested company liabilities limited to the amount of its capital contribution. However, the Company shall not become the unlimited liability shareholder of other economic entities. Subject to the approval by the Companies Examination and Approval Department of the State Council, the Company can operate through holding companies as stipulated in Article 12, Clause 2 of the Company Law according to the needs of operation."

Amended as "The Company can invest in other limited companies and joint stock limited companies, and undertake for the invested company liabilities limited to the amount of its capital contribution. However, the Company shall not contribute to obligation related to liability commitments of the invested company."

Addition to Article 15 "Domestic shares can be converted to H shares subject to approval by the State Council or examining and approval authorities authorized by the State Council."

NOTICE OF ANNUAL GENERAL MEETING

Original Article 29 "The Company shall notify its debtors of its capital reduction within ten days of the resolution of capital reduction, and make at least three press announcements in newspapers within thirty days. Debtors have the right to demand the Company to settle the debt or provide corresponding settlement guarantee within thirty days from receipt of notice or within ninety days from the first announcement in case no notice is received."

Amended as: The Company shall notify its debtors of its capital reduction within ten days of the resolution of capital reduction, and make at least three press announcements in newspapers within thirty days. Debtors have the right to demand the Company to settle the debt or provide corresponding settlement guarantee within thirty days from receipt of notice or within forty-five days from the first announcement in case no notice is received.

Original Article 30 "The Company can repurchase its issued shares with the consent obtained in accordance with the articles of association of the Company and the approval of relevant governing authority of the State under the following circumstances: (1) cancellation of its shares to reduce the capital of the Company; (2) merge with other companies holding the shares of the Company; (3) other circumstances permitted under laws and administrative regulations."

Amended as: The Company can repurchase its issued shares with the consent obtained in accordance with the articles of association of the Company and the approval of relevant governing authority of the State under the following circumstances: (1) cancellation of its shares to reduce the capital of the Company; (2) merge with other companies holding the shares of the Company; (3) issue of shares to the staff of the Company as incentives; (4) demand from shareholder for share repurchase due to their dissenting view against the resolution in relation to the merge and separation of the Company passed at a general meeting ;(5) other circumstances permitted under laws and administrative regulations.

Original Article 33 "After repurchasing shares in accordance with laws, the Company shall cancel such shares within the period prescribed by laws and administrative regulations, and shall make an application to its original registration authority to modify the registration on its registered capital and have a relevant announcement published. The face value of the cancelled shares shall be reduced from the registered capital of the Company."

Amended as: After repurchasing shares in accordance with laws, the Company shall cancel or transfer such shares in accordance with the requirements under Article 30 within the period prescribed by laws and administrative regulations, and shall make an application to its original registration authority to modify the registration on its registered capital and have a relevant announcement published. The face value of the cancelled shares shall be reduced from the registered capital of the Company.

NOTICE OF ANNUAL GENERAL MEETING

Original Article 44: "The directors, supervisors, general manager, deputy general manager and other senior management shall report to the Company their holdings of the shares of the Company, and such shares may not be transferred during their terms of office."

Amended as: The directors, supervisors, general manager, deputy general manager and other senior management shall report to the Company their holdings of the shares of the Company, and shares transferred each year during their terms of office shall not exceed twenty-five per cent of the total number of shares of the Company they held; The shares of the Company they held may be transferred within one year since the listing of the shares of the Company and within six months after leaving office.

Original Article 45: "No change in register of members caused by share transfer shall be effected thirty days prior to a general meeting or five days prior to the base day for dividend distribution determined by the Company."

Amended as: No change in register of members caused by share transfer shall be effected twenty days prior to a general meeting or five days prior to the base day for dividend distribution determined by the Company.

Original Article 48: "Application made by domestic shareholders who lose their share certificate for reissue of the same shall be handled in accordance with Article 15 of the Company Law."

Amended as: Application made by domestic shareholders who lose their share certificate for reissue of the same shall be handled in accordance with Article 144 of the Company Law.

Matters to be discussed at general meetings The part of the original Article 57 "(13) to discuss resolutions proposed by shareholders holding shares conferring voting rights of the Company of more than five per cent (including five per cent);"

Amended as: "(13) to discuss resolutions proposed by shareholders holding shares conferring voting rights of the Company more than three per cent (including three per cent);"

Original Article 60: In case of general meeting convened by the Company, a written notice stating matters to be discussed at the meeting and notifying all registered members the place and time for the meeting forty-five days prior to the meeting. Shareholder who intends to attend the meeting shall deliver a written reply slip for his/her attendance to the Company within twenty days prior to the meeting.

Amended as: In case of general meeting convened by the Company, a written notice stating matters to be discussed at the meeting and notifying all registered members the place and time for the meeting thirty days prior to the meeting. Shareholder who intends to attend the meeting shall deliver a written reply slip for his/her attendance to the Company within twenty days prior to the meeting.

The part of the original Article 61 "At any annual general meeting convened by the Company, shareholders holding shares conferring voting right of more than five per cent (including five per cent) of the total voting rights are entitled to propose new resolutions in writing to the Company and the matters within the scope of general meeting in such resolution shall be included in the agenda of that meeting."

Amended as "At any annual general meeting convened by the Company, shareholders holding shares conferring voting right of more than three per cent (including three per cent) of the total voting rights are entitled to propose new resolutions in writing to the Company ten days prior to the meeting and the matters within the scope of general meeting in such resolution shall be included in the agenda of that meeting.

The part of the original Article 62 "Matters not included in the notice may not be decided at special general meetings."

Amended as "Matters not included in the notice may not be decided at general meetings."

Original Article 81 "General meetings are to be convened and chaired by the Chairman; If for any reason the Chairman is unable to attend the meeting, the vice-chairman shall act as the chairman of the meeting; If both the Chairman and the vice-chairman are unable to attend the meeting, the board of directors may assign a director of the Company to convene and chair the meeting on behalf of the board of directors; If no chairman of meeting is assigned, shareholders who attend the meeting may elect an individual to act sa the chairman; If for any reason shareholders fail to elect a chairman, the shareholder (including his/her proxy) who attends the meeting and holds shares conferring voting right of the largest percentage shall chair the meeting."

NOTICE OF ANNUAL GENERAL MEETING

Amended as "General meetings are to be convened by the board of directors and chaired by the Chairman; If the Chairman fails of unable to perform his/her duty, the vice-chairman shall act as the chairman of the meeting; If the vice-chairman fails of unable to perform his/her duty, the board of directors shall a director to chair the meeting; If the board of directors fails of unable to perform its duty, the supervisory committee shall convene and chair the meeting in a timely manner; If the supervisory committee does not convene or chair the meeting, shareholders holding individually or jointly more than ten per cent of the shares of the Company may convene and chair the meeting by themselves."

The part of the original Article 85 "Resolved matters which are discussed at generally meeting shall be recorded in the minutes of the meeting signed by the directors who attended the meeting."

Amended as "Resolved matters which are discussed at generally meeting shall be recorded in the minutes of the meeting signed by the chairman of the meeting and directors who attended the meeting."

Original Article 92: In case of class general meeting convening by the Company, a written notice stating matters to be discussed at the meeting and notifying all registered members of that class the place and time for the meeting forty-five days prior to the meeting. Shareholder who intends to attend the meeting shall deliver a written reply slip for his/her attendance to the Company within twenty days prior to the meeting.

Amended as: In case of class general meeting convening by the Company, a written notice stating matters to be discussed at the meeting and notifying all registered members of that class the place and time for the meeting thirty days prior to the meeting. Shareholder who intends to attend the meeting shall deliver a written reply slip for his/her attendance to the Company within twenty days prior to the meeting.

The part of the original Article 98 "Upon making decisions relating to market exploration, merge and takeover, investment into new areas, the board of directors shall engage social consultation firms for professional advices on projects with the amount of investment amount or assets merged and taken over more than ten per cent of the total asset of the Company, and such advices shall form important basis for the their decision."

Amended as "Purchase and disposal of substantial assets or guarantee provided by the Company within one year and the amount of which exceeds the thirty per cent of the total asset of the Company, shall be resolved at general meetings and passed by two third of voting rights held by shareholders who attend the meeting.

The part of the original Article 99 "If the Chairman fails to perform his/her authority, the Chairman shall assign a vice-chairman/a director to perform his/her duty on his/her behalf."

Amended as "If the Chairman fails to perform his/her authority or duty, the vice-chairman shall perform such duty; If the vice-chairman fails to perform his/her authority or duty, a director elected by majority of the board of directors shall perform such duty."

Original Article 100 "At least two board meetings shall be convened each year, and such meetings shall be convened by the Chairman and all directors shall be notified fifteen days prior to the meeting. In case of emergency, special board meeting may be convened when proposed by two or more directors."

Amended as "At least two board meetings shall be convened each year, and such meetings shall be convened by the Chairman and all directors shall be notified fifteen days prior to the meeting. In case of emergency, special board meeting may be convened when proposed by two or more directors or shareholders representing more than one tenth of voting rights or supervisory committee. The Chairman shall convene and chair a board meeting within ten days after the proposal is received."

The part of the original Article 120 "At least one supervisory meeting shall be convened each year, and such meeting shall be convened by the chairman of the supervisory committee."

Amended as At least one supervisory meeting shall be convened every six months, and such meeting shall be convened by the chairman of the supervisory committee."

The part of the original Article 125 "(4) Legal representative of any company or enterprise the business license of which was revoked due to violation of law and who is personally liable therefore, less than three years elapsed since the date of revocation of the business license of the company or enterprise;"

Amended as "(4) Legal representative of any company or enterprise the business license of which was revoked and was ordered to be closed down due to violation of law and who is personally liable therefore, less than three years elapsed since the date of revocation of the business license of the company or enterprise;"

NOTICE OF ANNUAL GENERAL MEETING

Original Article 152 "The profit after taxation of the Company are utilized in the following sequence: (1) making good the loss; (2) making contributions to statutory surplus reserve; (3) making contributions to statutory public welfare fund; (4) making contributions to discretionary reserve fund as resolved at general meeting; (5) paying dividend of ordinary shares. Neither dividend shall be paid nor other distributions by way of bonus issue shall be made before making good the loss and contributions of statutory surplus reserve and statutory public welfare fund."

Amended as "The profit after taxation of the Company are utilized in the following sequence: (1) making good the loss; (2) making contributions to statutory surplus reserve; (3) making contributions to discretionary reserve fund as resolved at general meeting; (4) paying dividend of ordinary shares. Neither dividends shall be paid nor other distributions by way of bonus issue shall be made before making good the loss and contributions of legal pension fund."

Original Article 154 "When allocating the profit after tax for the year, the Company shall contribute ten per cent of the profits to the statutory surplus reserve and five to ten per cent to the statutory public welfare reserve. No further contribution to statutory surplus reserve is required when its accumulative amount reaches fifty per cent or more of the registered capital of the Company. Where the statutory surplus is insufficient to make good the loss of the Company in prior years, the profit for the year shall be used to make good the loss before making contributions to statutory surplus reserve and statutory public welfare fund in accordance with the above provision. Contribution to discretionary reserve fund can only be made after making contribution to statutory surplus reserve and subject to resolutions adopted at a general meeting. The remaining profit after making good the loss and contributions to statutory surplus reserve and statutory public welfare fund will be distributed to shareholders pro rata to their shareholdings. Any profit distributed to shareholders by general meetings or the board of directors before making good the loss and contributions to statutory surplus reserve and statutory public welfare fund, which jeopardizes the above provision, must be returned to the Company."

Amended as "When allocating the profit after tax for the year, the Company shall contribute ten per cent of the profits to the statutory surplus reserve. No further contribution to statutory surplus reserve is required when its accumulative amount reaches fifty per cent or more of the registered capital of the Company. Where the statutory surplus is insufficient to make good the loss of the Company in prior years, the profit for the year shall be used to make good the loss before making contributions to statutory surplus reserve in accordance with the above provision. Contribution to discretionary reserve fund can only be made after making contribution to statutory surplus reserve and subject to resolutions adopted at a general meeting. The remaining profit after making good the loss and contributions to statutory surplus reserve will be distributed to shareholders pro rata to their shareholdings. Any profit distributed to shareholders by general meetings or the board of directors before making good the loss and contribution to statutory surplus reserve, which jeopardizes the above provision, must be returned to the Company."

Original Article 157 "The contribution made to the statutory public welfare fund by the Company shall be used for collective benefits of the staff of the Company."

Amended as "Capital reserve may not be used to make good the loss of the Company."

Original Article 182 "In case of separation, a separation agreement shall be entered into by the parties and a balance sheet and inventor of assets shall be prepared. The Company shall notify its creditors within ten days after the date of the resolution for separation and shall publish an announcement in a newspaper at least three times within thirty days of the date of the resolution."

Amended as "In case of merge, a merge agreement shall be entered into by the parties and a balance sheet and an inventory of assets shall be prepared. The Company shall notify its creditors within ten days after the date of the resolution for the merge and shall publish an announcement in a newspaper within thirty days of the date of the resolution."

Original article 183 "In case of separation, its assets shall be divided up accordingly. In case of separation, a separation agreement shall be entered into by the parties and a balance sheet and an inventor of assets shall be prepared. The Company shall notify its creditors within ten days after the date of the resolution for separation and shall publish an announcement in a newspaper at least three times within thirty days of the date of the resolution. Debts of the Company prior to the separation shall be assumed by the company which exists after the separation in accordance with the agreement reached."

NOTICE OF ANNUAL GENERAL MEETING

Amended as "In case of separation, its assets shall be divided up accordingly. In case of separation, a separation agreement shall be entered into by the parties and a balance sheet and an inventor of assets shall be prepared. The Company shall notify its creditors within ten days after the date of the resolution for separation and shall publish an announcement in a newspaper at least three times within thirty days of the date of the resolution. Debts of the Company prior to the separation shall be jointly liable to the company which exists after the separation, unless otherwise agreed between the Company and its creditors by a written agreement prior to the separation."

Original Article 184 "The Company shall be dissolved and liquidated upon the occurrence of any of the following events: (1) a resolution for dissolution is passed at general meeting; (2) dissolution is necessary due to merger or separation of the Company; (3) the Company legally declared insolvent due to its failure to repay its debts as the become due; (4) the Company is ordered to close down because of its violation of laws and administrative regulations."

Amended as "The Company shall be dissolved and liquidated upon the occurrence of any of the following events: (1) a resolution for dissolution is passed at general meeting; (2) dissolution is necessary due to merger or separation of the Company; (3) the Company has its business license legally revoked or is ordered to close down or deregistered; (4) serious problems occur in the operation and management of the Company, making its continuous existence a material damage to the interest of the shareholders and that there is no other solutions available so that shareholders holdings ten per cent or more of total voting rights of all shareholders may demand the People's Court to dissolve the Company."

Original Article 185 "Where the Company is dissolved under the provision of (1) of the preceding Article, a liquidation committee shall be set up within fifteen days and the composition of the liquidation committee shall be determined by an ordinary resolution of shareholders at a general meeting. If the Company fails to set up a liquidation committee within the prescribed time, the creditors may apply to the People's Court for appointment of committee members to proceed with the liquidation. Where the Company is dissolved under provision of (2) of the preceding Article, liquidation shall be jointly carried out by the parties involving in the merge or separation in accordance with the contract signed upon the merge or separation. Where the Company is dissolved under provision of (3) of the preceding Article, the People's Court shall in accordance with the provisions of relevant laws organize the shareholders, relevant organizations and relevant professionals to form a liquidation committee to proceed with the liquidation. Where the Company is dissolved under provision of (4) of the preceding Article, the relevant governing authorities shall organize the shareholders, relevant organizations and relevant professionals to form a liquidation committee to proceed with the liquidation."

Amended as: Where the Company is dissolved under the provisions of (1), (3) and (4) of the preceding Article, a liquidation committee shall be set up within fifteen days after the date on which the events leading to liquidation occurred to proceed with the liquidation. The liquidation committee comprised of directors or individuals determined at general meetings. If the Company fails to set up a liquidation committee within the prescribed time, the creditors may apply to the People's Court for appointment of committee members to proceed with the liquidation.

The part of the original Article 187 "The liquidation committee shall, within ten days of its formation, send notices to its creditors and shall, within sixty days of its formation, to make at least three press announcements in newspapers."

Amended as "The liquidation committee shall, within ten days of its formation, send notices to its creditors and shall, within sixty days of its formation, to make press announcements in newspapers."

The part of the original Article 188 "(4) to pay all outstanding taxes;"

Amended as "(4) to pay all outstanding taxes and taxes arising from liquidation procedures;"

The part of the original Article 189 "The liquidation committee, after sorting out the assets of the Company and preparing the balance sheet and an inventory of assets, shall formulate a liquidation plan, which shall be submitted to a general meeting or relevant governing authority for confirmation."

Amended as "The liquidation committee, after sorting out the assets of the Company and preparing the balance sheet and an inventory of assets, shall formulate a liquidation plan, which shall first be submitted to a general meeting or the People's Court for confirmation and then present it to the companies approval authorities for filing."

Original Article 191 "Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses and financial accounts for the liquidation period which shall be submitted to a general meeting or relevant governing authorities for confirmation upon the verification of the a PRC certified accountant. The liquidation committee shall, within thirty days after the date of confirmation by the general meeting or the relevant governing authorities, shall file the above documents to the companies registration authority for a deregistration application and an announcement relating to the close of the Company shall be made."

NOTICE OF ANNUAL GENERAL MEETING

Amended as "Following the completion of the liquidation, the liquidation committee shall prepare a liquidation report, a statement of income and expenses and financial accounts for the liquidation period which shall be submitted to a general meeting or the People's Court for confirmation and reported to the companies approval authorities for filing upon the verification of the a PRC certified accountant. After the submission of the liquidation report to the companies approval authorities, the liquidation committee shall proceed with the deregistration to the tax authorities and companies registration authority and an announcement relating to the close of the Company shall be made."

On behalf of the Board
Jiangsu NandaSoft Company Limited
Xie Li
Chairman

Nanjing, the PRC
10 April 2006

Notes:

1. A member entitled to attend and note 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, Room 1901-5, 19th 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 2006 to 26 May 2006, both days inclusive. All transfers accompanies by relevant share certificates must be lodged with Company's Share Registrar not less than 4:00 p.m. on 26 April 2006.

5. Shareholders entitled to attend the AGM are requested to deliver the reply slip for attendance to the Company Registrar before 12 May 2006.

AUDITORS' REPORT

Deloitte.
德勤

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 consolidated financial statements of Jiangsu NandaSoft Company Limited (the "Company") and its subsidiaries (the "Group") from pages 55 to 114 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 consolidated financial statements which give a true and fair view. In preparing consolidated 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 statements and to report our opinion 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned 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 consolidated financial statements are free from material misstatement. However, the evidence available to us was limited as set out below.

1. As explained in note 21 (a) to the consolidated financial statements, the Group invested in a project operated by南通明德重工有限公司("Nantung Mingde") and from which it is entitled to share 25% of the operating result. However, according to the Directors of the Group, they were unable to exert significant influence over this investment, and accordingly were unable to gain access to the books and records of the project. As a result, the directors were unable to determine reliably the fair value of this investment at 31 December 2005 and therefore the investment was stated at its cost of RMB10,000,000 as at 31 December 2005. We were unable to obtain reliable financial information for the project so as to assess whether the current classification and measurement of the investment is appropriate and whether any impairment is required to be recognised in respect of the Group's investment in Nantung Mingde of RMB10,000,000 as at 31 December 2005.

BASIS OF OPINION - *continued*

2. As explained in note 21 (b) to the consolidated financial statements, the Group invested in a project operated by 南京水木年華餐飲有限公司 ("Shuimu Nianhua"). According to the Directors of the Group, although the Group contributed the entire capital of the project, which will be repaid from the profit of the project, and after the return of its contribution, the Group will only be entitled to 50% of the operating result of the project. In the opinion of the Directors of the Group, the Group did not have control, joint control nor significant influence over the project and was further denied access to the books and records of the project. Consequently, the Directors of the Group were unable to determine reliably the fair value of this investment at 31 December 2005. Therefore, the investment was stated at its cost of RMB3,500,000 as at 31 December 2005. We were unable to obtain reliable financial information for the project so as to assess whether the current classification and measurement of the investment is appropriate and whether any impairment is required to be recognised in respect of the Group's investment in Shuimu Nianhua of RMB3,500,000 as at 31 December 2005.

Any adjustments to the above figures would, as appropriate, affect the net assets of the Group as at 31 December 2005 and the loss and cash flows of the Group for the year then ended.

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.

QUALIFIED OPINION ARISING FROM LIMITATIONS OF AUDIT SCOPE

Except for any adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning the matters described in the basis of opinion section of this report, in our opinion the financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the loss 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.

In respect alone of the limitations on our work relating to the matters described in the basis of opinion section of this report:

— we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

— we were unable to determine whether proper books of account had been kept.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
6 April 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	Notes	2005 RMB	2004 RMB
Revenue	6	**440,742,213**	384,496,927
Cost of sales		**(383,385,350)**	(321,770,383)
Gross profit		**57,356,863**	62,726,544
Other income	8	**4,627,115**	3,837,193
Distribution costs		**(23,944,896)**	(26,757,142)
Research and development costs		**(5,001,220)**	(4,237,612)
Administrative expenses		**(28,543,866)**	(20,372,587)
Share of results of associates		**57,212**	134,074
Share of result of a jointly controlled entity		**(319,810)**	–
Finance costs	9	**(1,748,149)**	(498,617)
Profit before tax		**2,483,249**	14,831,853
Income tax expenses	10	**(1,355,154)**	(1,853,975)
Profit for the year	11	**1,128,095**	12,977,878
Attributable to:			
Equity holders of the parent		**(246,721)**	12,039,403
Minority interests		**1,374,816**	938,475
		1,128,095	12,977,878
Dividend	14	**–**	–
(Loss) earnings per share	15	**(0.0003)**	0.0129

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB	2004 RMB (restated)
Non-current assets			
Property, plant and equipment	16	**25,667,853**	26,532,045
Prepaid lease payments	17	**10,045,105**	10,282,105
Intangible assets	18	**20,590,559**	22,719,776
Interests in associates	19	**11,573,836**	3,116,624
Interest in a jointly controlled entity	20	**933,677**	–
Available-for-sale investments	21	**16,366,113**	–
Investments in securities	22	**–**	3,523,748
Investments in projects	23	**–**	25,500,000
Deferred tax assets	35	**787,509**	1,476,344
		85,964,652	93,150,642
Current assets			
Inventories	24	**36,185,451**	26,147,811
Loan receivables	25	**10,000,000**	10,000,000
Trade and other receivables	26	**201,153,815**	143,273,300
Prepaid lease payments	17	**237,000**	237,000
Investment held for trading	27	**962,410**	–
Investments in securities	22	**–**	950,928
Deposit for investment	28	**–**	10,000,000
Amounts due from shareholders	29	**4,279,128**	4,686,954
Amounts due from minority shareholders	29	**210,000**	212,318
Amount due from an associate	30	**–**	501,950
Pledged bank deposits	41	**6,195,785**	4,570,643
Cash and bank balances	41	**28,525,251**	55,092,151
		287,748,840	255,673,055

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	Notes	2005 RMB	2004 RMB (restated)
Current liabilities			
Trade and other payables	*31*	**71,891,042**	58,863,208
Receipts in advance, other creditors and accrued expenses		**52,784,137**	11,316,686
Amounts due to shareholders	*29*	**115,297**	2,751,516
Amount due to an associate	*30*	**359,500**	56,000
Provision for taxes and levies	*32*	**1,859,398**	5,920,653
Unsecured short-term bank loans	*33*	**35,000,000**	57,875,771
		162,009,374	136,783,834
Net current assets		**125,739,466**	118,889,221
Total assets less current liabilities		**211,704,118**	212,039,863
Capital and reserves			
Share capital	*34*	**93,400,000**	93,400,000
Reserves		**101,092,444**	101,355,698
Equity attributable to equity holders of the parent		**194,492,444**	194,755,698
Minority interests		**17,211,674**	15,874,767
Total equity		**211,704,118**	210,630,465
Non-current liabilities			
Deferred tax liabilities	*35*	**–**	1,409,398
		211,704,118	212,039,863

The financial statements on pages 55 to 114 were approved and authorised for issue by the Board of Directors on 6 April 2006 and are signed on its behalf by:

Xie Li	**Yuen Ren Wei**
Chairman	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Attributable to equity holders of the parent								
	Share capital RMB	Share premium RMB	Statutory surplus reserve RMB *(note 37(b))*	Statutory public welfare fund RMB *(note 37(c))*	Translation reserve RMB	Retained earnings RMB *(note 37(d))*	Total RMB	Minority interests RMB	Total RMB
At 1 January 2004	93,400,000	48,868,818	2,981,173	1,490,586	–	35,975,718	182,716,295	8,347,137	191,063,432
Profit for the year and total recognised income for the year	–	–	–	–	–	12,039,403	12,039,403	938,475	12,977,878
Appropriations *(note 37(a))*	–	–	1,092,789	546,394	–	(1,639,183)	–	–	–
Capital contribution by minority shareholders of subsidiaries	–	–	–	–	–	–	–	7,205,136	7,205,136
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(615,981)	(615,981)
At 31 December 2004 and 1 January 2005	93,400,000	48,868,818	4,073,962	2,036,980	–	46,375,938	194,755,698	15,874,767	210,630,465
Exchange differences arising on translation of foreign operation recognised directly in equity	–	–	–	–	(16,533)	–	(16,533)	–	(16,533)
(Loss) profit for the year	–	–	–	–	–	(246,721)	(246,721)	1,374,816	1,128,095
Total recognised income and expense for the year	–	–	–	–	(16,533)	(246,721)	(263,254)	1,374,816	1,111,562
Appropriations *(note 37(a))*	–	–	617,724	308,862	–	(926,586)	–	–	–
Capital contribution by minority shareholders of subsidiaries	–	–	–	–	–	–	–	1,950,000	1,950,000
Dividend paid to minority shareholders	–	–	–	–	–	–	–	(97,985)	(97,985)
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	(220,405)	(220,405)
Liquidation of a subsidiary	–	–	–	–	–	–	–	(1,669,519)	(1,669,519)
At 31 December 2005	93,400,000	48,868,818	4,691,686	2,345,842	(16,533)	45,202,631	194,492,444	17,211,674	211,704,118

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	**2005**	2004
		RMB	RMB
			(restated)
Operating activities			
Profit before tax		**2,483,249**	14,831,853
Adjustments for:			
Interest expense		**1,586,846**	345,949
Interest income		**(298,647)**	(585,047)
Share of results of associates		**(57,212)**	(134,074)
Share of result of a jointly controlled entity		**319,810**	–
Allowance for doubtful debts		**6,414,594**	4,458,556
Allowance for inventories		**3,010,861**	–
Impairment loss of investments in securities		**–**	113,679
Gain on disposal of investments in securities		**–**	(22,191)
Gain on disposal of available-for-sale investments		**(384,968)**	–
Impairment loss on available-for-sale investments		**740,953**	–
Fair value gain on investment held for trading		**(11,482)**	–
Loss on disposal of property, plant and equipment		**77,587**	111,065
Depreciation of property, plant and equipment		**3,502,634**	3,474,947
Amortisation of intangible assets		**4,752,990**	3,183,595
Prepaid lease payments		**237,000**	237,000
Operating cash flows before movements in working capital		**22,374,215**	26,015,332
Increase in inventories		**(13,845,978)**	(4,504,314)
Increase in trade and other receivables		**(64,325,447)**	(23,735,055)
Increase in trade and other payables		**13,040,468**	13,863,279
Increase (decrease) in receipt in advance, other creditors and accrued expenses		**41,467,451**	(13,444,858)
Decrease in provision for taxes and levies		**(2,371,743)**	(776,849)
Cash used in operating activities		**(3,661,034)**	(2,582,465)
PRC income tax paid		**(3,764,510)**	(1,819,740)
Net cash used in operating activities		**(7,425,544)**	(4,402,205)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	**2005** **RMB**	2004 RMB (restated)
Investing activities			
Interest received		**298,647**	585,047
Proceeds from disposal of investments in securities		**–**	16,925,053
Proceeds from disposal of available-for-sale investment		**770,000**	–
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)
Refund (deposit made) for an investment		**10,000,000**	(10,000,000)
Decrease (increase) in loan receivables		**13,000,000**	(10,000,000)
New cash outflow arising from liquidation of a subsidiary	38	**(60,826)**	–
Expenditure on intangible assets		**(3,403,773)**	(4,460,218)
Purchases of property, plant and equipment		**(2,730,260)**	(3,788,094)
Acquisition of additional interest in a subsidiary		**(220,405)**	(615,981)
Acquisition of a jointly controlled entity		**(1,253,487)**	–
Acquisition of associates		**(8,400,000)**	–
Purchases of available-for-sale investments		**(1,468,350)**	–
Investments in projects		**–**	(25,500,000)
Repayment from (advance to) shareholders		**407,826**	(4,686,954)
Repayment from (advance to) minority shareholders		**2,318**	(212,318)
Repayment from (advance to) an associate		**501,950**	(501,950)
Dividend paid to minority shareholders		**(97,985)**	–
Increase in pledged deposit		**(1,625,142)**	(4,570,643)
Net cash from (used in) investing activities		**5,720,513**	(64,182,441)
Financing activities			
Capital contribution by minority shareholders of subsidiaries		**1,950,000**	7,205,136
(Decrease) increase in amounts due to shareholders		**(2,636,219)**	2,513,637
Advance from (repayment to) an associate		**303,500**	(144,020)
Interest paid		**(1,586,846)**	(345,949)
New bank loans raised		**61,329,439**	64,275,771
Repayment of bank loan		**(84,205,210)**	(10,000,000)
Net cash (used in) from financing		**(24,845,336)**	63,504,575
Net decrease in cash and cash equivalents		**(26,550,367)**	(5,080,071)
Cash and cash equivalents at beginning of the year		**55,092,151**	60,172,222
Effect of foreign exchange rate changes		**(16,533)**	–
Cash and cash equivalents at end of the year, represented by cash and bank balances		**28,525,251**	55,092,151

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

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 sales of computer hardware and equipment, and continues 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.

The registered office and the places of business in China and Hong Kong of the Company are disclosed in Corporate Information of page 1 of the annual report.

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

The consolidated financial statements are presented in Renminbi, which is the same as the function currency of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates and jointly controlled entity has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current year are prepared and presented:

Financial instruments

In the current year, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 and HKAS 39 had no material impact to the Group's financial position, results and on how financial instruments of the Group are presented for current and prior accounting periods.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with HKAS 39. The application of HKAS 39 had no material impact to the Group's assets, liabilities and retained earnings at 1 January 2005.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment. Accordingly, prepaid lease payments (non-current) and prepaid lease payments (current) amounted to RMB10,282,105 and RMB237,000, respectively, were reclassified from property, plant and equipment as at 31 December 2004.

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 RMB *(originally stated)*	Adjustments RMB *(Note)*	As at 31 December 2004 RMB *(restated)*	Adjustments RMB	**As at 1 January 2005 RMB *(restated)***
Property, plant and equipment	37,051,150	(10,519,105)	26,532,045	–	**26,532,045**
Prepaid lease payments	–	10,519,105	10,519,105	–	**10,519,105**
Available-for-sale investments	–	–	–	16,023,748	**16,023,748**
Investments in securities	4,474,676	–	4,474,676	(4,474,676)	**–**
Investments in projects	25,500,000	–	25,500,000	(25,500,000)	**–**
Loan receivables	10,000,000	–	10,000,000	13,000,000	**23,000,000**
Investments held for trading	–	–	–	950,928	**950,928**
Other assets/liabilities	133,604,639	–	133,604,639	–	**133,604,639**
Net assets	210,630,465	–	210,630,465	–	**210,630,465**

Note: The amounts represent adjustments to comparative figures for 2004 arising from reclassification of leasehold interests in land to prepaid lease payments under operating leases according to HKAS 17. These changes of accounting policies have been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost convention except for certain financial instruments which are measured at revalued amounts or fair values, as explained in the accounting policies set out below:

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and by the Hong Kong Companies Ordinance.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective dates of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a subsidiary, an associate or a jointly controlled entity for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities, and contingent liabilities of the relevant subsidiary at the date of acquisition.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill arising on acquisitions on or after 1 January 2005 *(Continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Excess of an acquirer's interest in the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over cost ("discount on acquisitions")

A discount on acquisition arising on an acquisition of a subsidiary for which an agreement date is on or after 1 January 2005 represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in profit or loss.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, for part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Joint venture

Jointly controlled entity

Joint venture arrangement that involves the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entity.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

(i) Sales 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 system integration services is recognised when the services are rendered. Other service income is recognised over the terms of the contracts.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

(iii) Disposal of securities

Revenue from disposal of securities is recognised on a trade-date basis.

(iv) Interest income

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment is stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits costs

Payments to the schemes managed by the PRC government are charged as an expense as they fall due.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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 items of income or expense that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated 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 it 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 from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

On initial recognition, intangible assets acquired separately and from business combinations are recognised at cost and at fair value respectively. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses (see the accounting policy in respect of impairment losses below).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Impairment

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually by comparing their carrying amounts with their recoverable amounts, irrespective of whether there is any indication that they may be impaired. 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. An impairment loss is recognised as an expense immediately.

When 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment *(Continued)*

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted are set out below.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss have two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, receivables including trade and other receivables, bank balances and deposits, loan receivables, amounts due from shareholders, amounts due from minority shareholders and amount due from an associate are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in the profit and loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Available-for-sale financial assets (Continued)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including bank borrowings, trade and other payables, receipts in advance, other creditors and accrued expenses, amounts due to shareholders and amount due to an associate are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

Financial assets are derecognised when the rights to received cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expires). The difference between the carrying amount of the financial liability derecognised and the consideration paid or payable is recognised in profit or loss.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Impairment (other than goodwill, intangible assets with indefinite useful lives and intangible assets that are not yet ready for use)

At each balance sheet date, the Group reviews the carrying amounts of its 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. An impairment loss is 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, such 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet dates, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Allowances for bad and doubtful debts

The provision policy for bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete and slow moving items.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, borrowings, trade and other receivables, amounts due from (to) shareholders, minority shareholders and associates, and trade payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

The Group's transactions are mainly denominated in Renminbi and Hong Kong dollars. The Group has not used any derivative contracts to hedge its exposure to currency risk as the foreign currency risk is considered as minimal.. Certain bank balances and cash was denominated in Renminbi which is not freely convertible into other currencies.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to certain fixed rate bank borrowings. The Group has not used any derivative contracts to hedge its exposure to interest rate risk.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on liquid funds is limited because majority of the counterparties are banks of high credit quality in Hong Kong and state-owned banks with good reputation in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Price risk

The Group is exposed to equity price risk through its held for trading and available-for-sale investments. For held for trading investments, the management manages this exposure by maintaining a portfolio with different risk profiles and monitors the price movement of investments. In addition, the management is committed to identify, monitor and manage risks associated with the available-for-sale investments and has implemented practical and effective control systems in respect of the procedures over investment process approval and monitoring.

6. REVENUE

Revenue, which is stated net of value 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.

	2005	2004
	RMB	*RMB*
Sales of computer software products	**13,722,708**	17,716,687
System integration service	**335,501,282**	354,204,806
Import and export of IT related product and equipment	**91,518,223**	12,575,434
	440,742,213	384,496,927

7. 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 and equipment, 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 service		Import and export IT related products and equipment		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
REVENUE	**13,722,708**	17,716,687	**335,501,282**	354,204,806	**91,518,223**	12,575,434	**440,742,213**	384,496,927
RESULT	**91,707**	3,973,858	**6,848,738**	15,067,340	**909,991**	190,498	**7,850,436**	19,231,696
Other income							**1,892,436**	677,672
Unallocated corporate expenses							**(5,248,876)**	(4,712,972)
Share of results of associates							**57,212**	134,074
Share of result of a jointly controlled entity							**(319,810)**	–
Finance costs							**(1,748,149)**	(498,617)
Profit before tax							**2,483,249**	14,831,853
Income tax expenses							**(1,355,154)**	(1,853,975)
Profit for the year							**1,128,095**	12,977,878

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Business segments *(Continued)*

	Sales of computer software products		System integration service		Import and export IT related products and equipment		Total	
	2005 RMB	2004 RMB	**2005 RMB**	2004 RMB	**2005 RMB**	2004 RMB	**2005 RMB**	2004 RMB
BALANCE SHEET								
ASSETS								
Segment assets	**45,268,710**	49,536,590	**193,711,119**	156,098,916	**29,946,095**	8,286,070	**268,925,924**	213,921,576
Interests in associates							**11,573,836**	3,116,624
Interest in a jointly controlled entity							**933,677**	–
Unallocated assets							**92,280,055**	131,785,497
Consolidated total assets							**373,713,492**	348,823,697
LIABILITIES								
Segment liabilities	**188,677**	569,018	**63,824,278**	57,057,597	**42,910,209**	6,987,638	**106,923,164**	64,614,253
Unallocated liabilities							**55,086,210**	73,578,979
Consolidated total liabilities							**162,009,374**	138,193,232
OTHER INFORMATION								
Additions of property, plant and equipment	**81,185**	196,474	**2,016,975**	3,574,258	**632,100**	17,362	**2,730,260**	3,788,094
Additions of intangible assets	**3,403,773**	4,460,218	**–**	–	**–**	–	**3,403,773**	4,460,218
Allowance for doubtful debts	**–**	–	**6,414,594**	4,458,556	**–**	–	**6,414,594**	4,458,556
Allowance for inventories	**–**	–	**3,010,861**	–	**–**	–	**3,010,861**	–
Amortisation of intangible assets	**4,752,990**	3,183,595	**–**	–	**–**	–	**4,752,990**	3,183,595
Depreciation of property, plant, and equipment	**866,281**	850,771	**2,610,286**	2,622,967	**26,067**	1,209	**3,502,634**	3,474,947
Impairment losses of available-for-sale Investment – unallocated	**–**	–	**–**	–	**–**	–	**740,953**	–
Impairment loss of investments in securities	**–**	–	**–**	–	**–**	–	**–**	113,679

Geographical segments

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

8. OTHER INCOME

	2005	2004
	RMB	*RMB*
PRC value added tax refunded	**2,734,679**	2,787,577
Investment income from available-for-sale investments	**558,000**	–
Interest on bank deposit	**298,647**	585,047
Gain on disposal of available-for-sale investments	**384,968**	–
Gain on disposal of investment held for trading	**28,100**	–
Fair value gain on investment held for trading	**11,482**	–
Gain on disposal of investments in securities	**–**	22,191
Exchange gain	**–**	70,434
Others	**611,239**	371,944
	4,627,115	3,837,193

9. FINANCE COSTS

	2005	2004
	RMB	*RMB*
Interest on borrowings wholly repayable within five years	**1,586,846**	345,949
Bank charges	**161,303**	152,668
	1,748,149	498,617

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

10. INCOME TAX EXPENSES

	2005	2004
	RMB	*RMB*
The charge (credit) comprises:		
PRC Enterprise Income Tax		
Current year	**2,424,217**	2,792,031
Overprovision in prior years	**(348,500)**	(554,701)
	2,075,717	2,237,330
Deferred taxation *(note 35)*	**(720,563)**	(383,355)
	1,355,154	1,853,975

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

	2005	2004
	RMB	*RMB*
Profit before tax	**2,483,249**	14,831,853
Tax at the domestic income tax rate at 33% (2004: 33%)	**819,472**	4,894,511
Tax effect of share of results of associates	**(19,662)**	–
Tax effect of expenses not deductible	**4,001,509**	3,650,797
Tax effect of income not taxable	**(1,337,268)**	(1,492,213)
Overprovision in the prior years	**(348,500)**	(554,701)
Tax effect of tax losses not recognised	**104,609**	428,569
Effect of concessionary tax rate	**(2,066,443)**	(3,054,159)
Effect of changes in opening deferred taxation resulting from change in applicable tax rate *(note 35)*	**–**	(2,005,227)
Others	**201,437**	(13,602)
	1,355,154	1,853,975

10. INCOME TAX EXPENSES *(Continued)*

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 the concessionary tax rate of 15%.

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

Details of the deferred taxation are set out in note 35.

11. PROFIT FOR THE YEAR

	2005	2004
	RMB	*RMB*
Profit for the year has been arrived at after charging(crediting):		
Auditors' remuneration	**578,000**	477,730
Allowance for doubtful debts	**6,414,594**	4,458,556
Allowance for inventories	**3,010,861**	—
Depreciation and amortisation on:		
— property, plant and equipment	**3,502,634**	3,474,947
— intangible assets (included in research and development costs)	**4,752,990**	3,183,595
Fair value gain on investment held for trading	**(11,482)**	—
Impairment loss of investments in securities	**—**	113,679
Impairment loss of available-for-sale investments	**740,953**	—
Loss on disposal of property, plant and equipment	**77,587**	111,065
Minimum lease payment for land and buildings under operating leases	**1,658,670**	1,028,506
Prepaid lease payments	**237,000**	237,000
Share of tax of associates	**19,662**	—
Staff costs (including directors' and senior executives' emoluments)	**28,186,770**	28,647,554
Subsidy income for research and development (included in research and development costs)	**(1,335,000)**	(4,220,000)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS

	2005 RMB	2004 RMB
Directors' fees	**24,000**	18,667
Directors' emoluments:		
Salaries and other benefits		
Executive directors	**407,138**	508,828
Non-executive directors	**20,000**	20,000
	427,138	528,828
	451,138	547,495
Supervisors' emoluments:		
Salaries and other benefits	**178,276**	163,153

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2005 RMB	2004 RMB
Mr. Xu Huan Liang	**8,000**	8,000
Professor Wang Zhi Jian	**8,000**	8,000
Mr. Yim Hing Wah	**8,000**	2,667
	24,000	18,667

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

12. DIRECTORS', SUPERVISORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Employee share option benefits	Pension scheme contributions	Total remuneration
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
2005						
Executive directors:						
Professor Xie Li	**–**	**295,138**	**–**	**–**	**–**	**295,138**
Mr. Chen Zheng Rong	**–**	**112,000**	**–**	**–**	**–**	**112,000**
	–	**407,138**	**–**	**–**	**–**	**407,138**
Non-executive directors:						
Professor Chen Dao Xu	**–**	**8,000**	**–**	**–**	**–**	**8,000**
Ms. Zhang Yun Xia	**–**	**12,000**	**–**	**–**	**–**	**12,000**
	–	**427,138**	**–**	**–**	**–**	**427,138**
2004						
Executive directors:						
Mr. Xie Li	–	396,828	–	–	–	396,828
Mr. Wei Zhan Rong	–	30,000	–	–	–	30,000
Mr. Chen Zheng Rong	–	82,000	–	–	–	82,000
	–	508,828	–	–	–	508,828
Non-executive directors:						
Professor Chen Dao Xu	–	8,000	–	–	–	8,000
Ms. Zhang Yun Xia	–	12,000	–	–	–	12,000
	–	528,828	–	–	–	528,828

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

13. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2004: one) directors, details of whose remuneration are set out in note 12 above. Details of the remuneration of the remaining four (2004: four) non-director, highest paid employees for the year are as follows:

	2005 RMB	2004 RMB
Salaries and other benefits	**751,800**	955,600
Contributions to pension scheme	**9,284**	—
	761,084	955,600

14. DIVIDEND

No dividend was paid or proposed during 2005, nor has any dividend been proposed since the balance sheet date (2004: Nil).

15. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss attributable to equity holders of the parent of RMB246,721 (2004: profit of RMB12,039,403) and on 934,000,000 (2004: 934,000,000) shares in issue during the year.

Diluted earnings per share is not presented for the two years ended 31 December 2005 as there were no potential ordinary shares outstanding for both years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
COST					
At 1 January 2004	20,912,783	319,753	9,642,413	3,107,037	33,981,986
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	20,912,783	422,157	11,100,047	4,159,526	36,594,513
Additions	–	39,360	1,895,575	795,325	2,730,260
Disposals	–	–	(1,176,119)	–	(1,176,119)
Liquidation of a subsidiary	–	–	(17,977)	–	(17,977)
At 31 December 2005	20,912,783	461,517	11,801,526	4,954,851	38,130,677
DEPRECIATION					
At 1 January 2004	2,254,282	93,419	3,902,586	1,010,256	7,260,543
Provided for the year	677,574	154,779	2,058,039	584,555	3,474,947
Eliminated on disposals	–	–	(655,818)	(17,204)	(673,022)
At 31 December 2004	2,931,856	248,198	5,304,807	1,577,607	10,062,468
Provided for the year	677,574	97,912	2,061,411	665,737	3,502,634
Eliminated on disposals	–	–	(1,098,532)	–	(1,098,532)
Eliminated on liquidation of a subsidiary	–	–	(3,746)	–	(3,746)
At 31 December 2005	3.609,430	346,110	6,263,940	2,243,344	12,462,824
NET BOOK VALUES					
At 31 December 2005	17,303,353	115,407	5,537,586	2,711,507	25,667,853
At 31 December 2004	17,980,927	173,959	5,795,240	2,581,919	26,532,045

The buildings are situated in the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

16. 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:

Buildings	3%, or over the term of the lease, whichever is shorter
Leasehold improvements	20%
Furniture, fixtures and equipment	20%
Motor vehicles	16%

17. PREPAID LEASE PAYMENTS

	2005	2004
	RMB	*RMB*
The prepaid lease payments comprise:		
Medium-term leasehold land outside Hong Kong	**10,282,105**	10,519,105
Analysed for reporting purposes as:		
Current asset	**237,000**	237,000
Non-current asset	**10,045,105**	10,282,105
	10,282,105	10,519,105

18. INTANGIBLE ASSETS

	Development costs	Copy right	Intellectual property	Total
	RMB	*RMB*	*RMB*	*RMB*
COST				
At 1 January 2004	18,463,863	5,979,060	1,000,000	25,442,923
Additions	3,621,756	838,462	—	4,460,218
At 1 January 2005	22,085,619	6,817,522	1,000,000	29,903,141
Additions	3,402,273	1,500	—	3,403,773
Liquidation of a subsidiary	—	(800,000)	—	(800,000)
At 31 December 2005	25,487,892	6,019,022	1,000,000	32,506,914
AMORTISATION				
At 1 January 2004	2,460,942	1,380,494	158,334	3,999,770
Provided for the year	1,860,424	1,223,171	100,000	3,183,595
At 1 January 2005	4,321,366	2,603,665	258,334	7,183,365
Provided for the year	3,438,391	1,214,599	100,000	4,752,990
Eliminated on liquidation of a subsidiary	—	(20,000)	—	(20,000)
At 31 December 2005	7,759,757	3,798,264	358,334	11,916,355
NET BOOK VALUES				
At 31 December 2005	17,728,135	2,220,758	641,666	20,590,559
At 31 December 2004	17,764,253	4,213,857	741,666	22,719,776

The development costs were internally generated. The development costs and copy right were amortised over a period of 5 years and the intellectual property was amortised over a period of 10 years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

19. INTERESTS IN ASSOCIATES

	2005	2004
	RMB	*RMB*
Cost of investments in associates		
Unlisted	**10,750,000**	2,350,000
Share of post-acquisition profits	**823,836**	766,624
	11,573,836	3,116,624

Details of the Group's associates at 31 December 2005 are as follows:

Name of associate	**Place of registration and operation**	**Fully paid registered capital**	**Percentage of registered capital indirectly held by the Company**	**Principal activity**
Nanjing Qitong Electronics Co., Ltd. (formerly known as "Nanjing NandaSoft Information Processing Company Limited") ("Nanjing Qitong")	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
深圳南大研究院有限公司	PRC	RMB10,000,000	30%	Not yet commenced business
江蘇南大蘇富特天目湖高新技術創業有限公司	PRC	RMB20,000,000	25%	Not yet commenced business
杭州蘇富特信息技術有限公司	PRC	RMB2,000,000	20%	Development and distribution of software and hardware

19. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	RMB	*RMB*
Total assets	**46,522,765**	18,377,443
Total liabilities	**(7,388,245)**	(11,396,338)
Net assets	**39,134,520**	6,981,105
Group's share of net assets of associates	**11,573,836**	3,116,624
Revenue	**12,425,671**	2,108,298
Profit for the year	**141,155**	350,701
Group's share of results of associates for the year	**57,212**	134,074

20. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005
	RMB
Cost of unlisted investment in jointly controlled entity	**1,253,487**
Share of post-acquisition loss	**(319,810)**
	933,677

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

20. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

As at 31 December 2005, the Group had interest in the following jointly controlled entity.

Name of entity	Form of Business structure	Country of incorporation	Principal Place of operation	Class of share held	Proportion of Registered capital held by the Group	Proportion of Voting power held	Principal activity
江蘇康源環保科技有限公司	Incorporated	PRC	PRC	Ordinary	50%	50%	Development of environmental protection projects

The jointly controlled entity is accounted for using the equity method of accounting.

The summarized financial information in respect of the Group's jointly controlled entity is set out below:

	2005
	RMB
Total and net assets	**3,113,866**
Group's share of net assets of the jointly controlled entity	**933,677**
Loss for the year	**(639,621)**
Group's share of result of the jointly controlled entity for the year	**(319,810)**

21. AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2005 RMB
Investments in:		
南通明德重工有限公司	(a)	10,000,000
南京水木年華餐飲有限公司	(b)	3,500,000
Other unlisted equity securities	(c)	2,866,113
		16,366,113
Analysed for reporting purposes as:		
Non-current assets		16,366,113

Notes:

(a) On 5 November 2004, a subsidiary of the Company, Jiangsu Sheng Feng Investment Company Limited ("Sheng Feng") entered into an agreement with 南通明德重工有限公司 ("Nantung Mingde") regarding a project of manufacturing of vessel-related lids for five years. Sheng Feng and Nantung Mingde contributed RMB10,000,000 and RMB30,000,000 respectively to finance the operations of the project. Nantung Mingde has the unilateral control of the project. Sheng Feng is entitled to share 25% of the operating results of the project during the operation period in accordance with the agreement. In accordance with an undated supplementary agreement, Sheng Feng did not have the controlling power over the operations and management of the project. Sheng Feng has recognised income from this investment amounting to RMB558,000 of which RMB418,000 has been received before 31 December 2005.

In the opinion of the Directors of the Group, the Group is unable to exercise any significant influence over the project. They were unable to gain access to the books and records of the project, and consequently, were unable to determine reliably the fair value of this investment at 31 December 2005. Therefore, the investment was stated at its cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

21. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

Notes: (Continued)

(b) On 20 October 2004, Sheng Feng entered into an agreement with 南京水木年華餐飲有限公司 ("Shuimu Nianhua") regarding a project of operating a club in Nanjing. Sheng Feng invested RMB2,500,000 to finance the operations of the project. Shuimu Nianhua has the control of the management of the club. On 1 October 2005, Sheng Feng cancelled the above agreement and entered into a new agreement for the same project. Sheng Feng invested RMB4,000,000 as the entire capital which would be repaid at RMB500,000 in the first year (i.e. 2005), RMB1,000,000 in each of the following three years and the remaining RMB500,000 in the fourth year to Sheng Feng from the profit of the project. After the return of its contribution, Sheng Feng will be entitled to 50% of the operating result of the project. In accordance with an undated supplementary agreement, Sheng Feng did not have the controlling power over the operations and management of the project. For the year ended 31 December 2005, Sheng Feng received the RMB500,000 return of capital for 2005 in accordance with the above repayment terms.

In the opinion of the Directors of the Group, the Group did not have control, joint control nor significant influence over the project and was denied access to the books and records of the project. Consequently, the Directors of the Group were unable to determine reliably the fair value of this investment at 31 December 2005. Therefore, the investment was stated at its cost.

(c) Other unlisted equity securities represent unlisted equity securities issued by private entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Group are of the opinion that their fair values cannot be measured reliably.

In the current year, the Group disposed of certain unlisted equity securities with carrying amount of RMB385,032, which had been carried at cost less impairment before the disposal. A gain on disposal of RMB384,968 has been recognised in profit or loss for the current year.

22. INVESTMENTS IN SECURITIES

Investment securities as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, investment securities were reclassified to appropriate categories under HKAS 39. Other investments were reclassified as investments held for trading *(Note 2)*.

	2004
	RMB
Investment securities	
Unlisted investments	3,523,748
Other investments	
Listed investment in the PRC	950,928
	4,474,676
Market value of listed shares	950,928
Carrying amount analysed for reporting purposes as:	
Current	950,928
Non-current	3,523,748
	4,474,676

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

23. INVESTMENTS IN PROJECTS

Investments in projects as at 31 December 2004 are set out below. Upon the application of HKAS 39 on 1 January 2005, these investments in projects were reclassified to appropriate categories under HKAS 39 *(Note 2)*.

	Notes	2004 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 a software for motor vehicle business management and logistics. Details of the project are set out in note 25(a).

(b) On 5 November 2004, the Group entered into an agreement with 南通明德重工有限公司 ("Nantung Mingde") regarding a project of manufacturing of vessel-related lids for five years. Nantung Mingde is controlled by Mr. Jie Feng Hua, who is also a director of Jiangsu Zhongyi Company Limited ("Jiangsu Zhongyi"), an ex-substantial shareholder of the Company. Details of the project are set out in note 21(a).

(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 Nianhua") regarding a project of operating a club in Nanjing. Details of the project are set out in note 21(b).

24. INVENTORIES

	2005	2004
	RMB	*RMB*
Computer hardware products, equipment and software products	**36,185,451**	26,147,811

At the balance sheet date, inventories amounted to RMB264,484 (2004: Nil) are carried at net realisable value.

25. LOAN RECEIVABLES

		2005	2004
	Notes	***RMB***	*RMB*
Fixed-rate loan receivables		**10,000,000**	10,000,000
Loan receivables from:			
通州至誠軟件開發有限公司	*(a)*	**10,000,000**	–
Tungzhou Yahu Trading Co., Ltd.	*(b)*	**–**	10,000,000
		10,000,000	10,000,000

In the opinion of the Directors, the fair value of the Group's loan receivables approximates to the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

25. LOAN RECEIVABLES *(Continued)*

Notes:

(a) On 5 November 2004, Jiangsu Zhong Chang Digital Technology Company Limited ("Zhong Chang"), a subsidiary of the Company, 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 a software for motor vehicle business management and logistics ("1st Agreement"). Zhong Chang invested RMB13,000,000 to finance the operations of the project, while Tungzhou Software is responsible for the operations and management of the project. Tungzhou Software guaranteed a minimum annual return of 5.58% to Zhong Chang during the investment period. Tungzhou Software would distribute its profit once a year and guaranteed that Zhong Chang would receive the whole contribution after 3 years. In accordance with an undated supplementary agreement, Zhong Chang did not have the controlling power on the operation and management of the project.

In early 2005, the Group decided to change the investing entity of this project to Sheng Feng, another subsidiary of the Company, whose principal activity is investment holding, and Tungzhou Software agreed. According to the verbal agreement between Zhong Chang and Tungzhou Software, both parties agreed to terminate the 1st Agreement.

On 27 April 2005, Sheng Feng entered into a new agreement with Tungzhou Software regarding the same project ("2nd Agreement"). Total investment is RMB13,000,000 in accordance with the 2nd Agreement and Sheng Feng contributed RMB5,000,000 and RMB5,000,000 on 29 April 2005 and 27 May 2005, respectively, to finance the operations of the project, while Tungzhou Software is responsible for the operations and management of the project. Tungzhou Software guaranteed a minimum annual return of 5.58% to Sheng Feng during the investment period. Tungzhou Software would distribute its profit once a year and guaranteed that Sheng Feng would receive its contribution back after 2 years.

Tungzhou Software delayed the refund of contribution of the 1st Agreement to Zhong Chang due to its financial difficulty. Zhong Chang received the refund of RMB10,000,000 and RMB3,000,000 on 20 October 2005 and 21 October 2005, respectively. The maximum outstanding balance due from Tungzhou Software during the period from 27 May 2005 to 20 October 2005 was RMB23,000,000.

In view of the unsatisfactory performance of the project, the Group terminated the 2nd Agreement with Tungzhou Software on 16 March 2006. The investment costs were refunded to the Group at RMB5,000,000 each on 24 March 2006 and 27 March 2006, respectively. The Group had sought a legal opinion that the rights and obligations of the 1st Agreement had been cancelled. The Group did not record any income or expense from the investment.

(b) 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 is repayable within one year.

26. TRADE AND OTHER RECEIVABLES

	Notes	2005 RMB	2004 RMB
Trade receivables	*(a)*	**154,068,819**	122,769,932
Less: accumulated impairment		**(15,843,704)**	(10,100,087)
		138,225,115	112,669,845
Advances to suppliers		**36,477,727**	16,282,245
Other receivables		**14,054,973**	14,321,210
Other receivable from 中國石油天然氣股份有限公司	*(b)*	**4,990,000**	–
Advance to Yahu	*(c)*	**7,406,000**	–
Total trade and other receivables		**201,153,815**	143,273,300

The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing. The aged analysis of trade debtors is stated as follows:

	2005 RMB	2004 RMB
Aged:		
0 - 90 days	**82,685,248**	61,979,743
91 - 180 days	**9,789,385**	21,978,579
181 - 365 days	**18,255,780**	9,820,954
Over 365 days	**27,494,702**	18,890,569
	138,225,115	112,669,845

At the balance sheet date, the fair value of trade and other receivables approximates to the carrying amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Included in the balance is trade receivable from an associate amounted to RMB500,000 (2004: Nil).

(b) On 7 December 2005, the Group entered into an agreement with 中國石油天然氣股份有限公司江蘇宿遷銷售分公司 ("China Petroleum") regarding a project of operating a gas station in Suqian, the PRC. The Group contributes RMB4,990,000 to purchase land use right for China Petroleum, and the Group is responsible for the construction of the whole project. On 2 March 2006, China Petroleum guarantees that it will refund all the investments (including but not limited to the land use right and other general and administration expenses) to the Group, if both sides cannot reach a cooperation agreement before 1 October 2006.

(c) The balance was unsecured, interest-free and has been fully settled subsequent to the balance sheet date.

27. INVESTMENTS HELD FOR TRADING

Investments held for trading as 31 December 2005 included:

	2005	2004
	RMB	*RMB*
Listed securities:		
— Equity securities listed in the PRC	**962,410**	—

The fair values of the above investments are determined based on the quoted market bid prices available on the relevant exchanges.

28. DEPOSIT FOR INVESTMENT

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 was the major shareholder of Jiangsu Zhongyi in 2004.

29. AMOUNTS DUE FROM (TO) SHAREHOLDERS/MINORITY SHAREHOLDERS

	2005 RMB	2004 RMB
Amounts due from shareholders		
Nanjing University	**1,099,009**	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	**818,232**	818,231
	4,279,128	4,686,954
Amounts due from minority shareholders		
Mr. Liu Xiao Min	**210,000**	210,724
Mr. Chen Wang Juan	**–**	1,594
	210,000	212,318
Amounts due to shareholders		
Nanjing University	**–**	2,330,000
Jiangsu Co-Creation	**115,297**	119,496
Jiangsu Zhongyi	**–**	302,020
	115,297	2,751,516

The amounts due from (to) shareholders of the Company represented advances from/to shareholders during the year. The balances are unsecured, non-interest bearing and repayable on demand.

The fair values of the Group's amounts due from (to) shareholders/minority shareholders at 31 December 2005 approximate to the corresponding carrying amounts.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

30. AMOUNT DUE FROM (TO) AN ASSOCIATE

The amounts due from (to) an associate of the Group are unsecured, non-interest bearing and repayable on demand.

	2005	2004
	RMB	*RMB*
Amount due from an associate		
Nanjing Qitong	**–**	501,950
Amount due to an associate		
杭州蘇富特	**359,500**	–
Nanjing Qitong	**–**	56,000
	359,500	56,000

The fair values of the Group's amounts due from (to) an associate at 31 December 2005 approximate to the corresponding carrying amounts.

31. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	RMB	*RMB*
Trade payables aged:		
0 — 90 days	**40,446,871**	23,796,922
91 — 180 days	**3,030,168**	2,841,988
181 — 365 days	**4,225,434**	9,202,140
Over 365 days	**5,022,287**	5,911,100
	52,724,760	41,752,150
Notes payable	**19,166,282**	17,111,058
	71,891,042	58,863,208

Included in the above is trade payable to an associate amounting to RMB143,590 (2004: Nil).

The fair value of the Group's trade and other payables at 31 December 2005 approximates to the corresponding carrying amount.

32. PROVISION FOR TAXES AND LEVIES

	2005	2004
	RMB	*RMB*
Value added tax	**–**	2,098,411
Income tax	**1,372,419**	3,061,931
Business tax	**348,933**	498,883
Other taxes	**138,046**	261,428
	1,859,398	5,920,653

33. UNSECURED SHORT-TERM BANK LOANS

During the year, the Group obtained new Renminbi loans in the amount of RMB61,329,439. The loans bear interest at fixed market rates from 4.65% to 5.58% per annum and will be repayable in 2006.

The fair value of the short-term bank loans at 31 December 2005 approximates to the corresponding carrying amount.

34. SHARE CAPITAL OF THE COMPANY

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	234,000,000	23,400,000
Total domestic shares and H Shares of RMB0.1 each at 1 January 2004, and 31 December 2004 and 2005	934,000,000	93,400,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

34. SHARE CAPITAL OF THE COMPANY *(Continued)*

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.

35. DEFERRED TAXATION

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

	Development costs	**Allowance for doubtful debts and inventories**	**Receipt in advance**	**Others**	**Total**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
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 1 January 2005	2,664,638	(1,402,229)	(1,314,355)	(15,000)	(66,946)
Charge (credit) to income for the year	(5,418)	(1,675,676)	1,314,355	(353,824)	(720,563)
At 31 December 2005	2,659,220	(3,077,905)	—	(368,824)	(787,509)

35. 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:

	2005	2004
	RMB	*RMB*
Deferred tax liabilities	**–**	1,409,398
Deferred tax assets	**(787,509)**	(1,476,344)
	(787,509)	(66,946)

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 applicable tax rate had been revised from 33% to 15% since the year ended 31 December 2004.

36. SHARE OPTIONS

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 8 December 2000 (the "Share Option Scheme"), the Company may grant options to executive directors and employees of the Company or its subsidiaries to subscribe for the H Shares in the Company for a consideration of HK$1 for each lot of share options granted. The Share Option Scheme will remain valid for a period of ten years commencing on 8 December 2000. Options granted are exercisable at any time not less than three years and not more than ten years from the date of grant of the options. The subscription price is not less than the higher of (a) the closing price of the Company's H Shares as quoted on the date of the grant of the options, (b) the average closing prices of the Company's H Shares for the five business days immediately preceding the date of the grant of the options and (c) the nominal value of the H Shares. However, for employees who are PRC nationals and have taken up any options to subscribe for the Company's H Shares, they shall not be entitled to exercise the options until:

(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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

36. SHARE OPTIONS *(Continued)*

(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.

37. RESERVES

(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.

37. RESERVES *(Continued)*

(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 included RMB1,091,397 (2004: RMB1,034,185) retained by the associates of the Group.

In the opinion of the directors, the reserves available for distribution to the shareholders at 31 December 2005 amounted to RMB26,686,983 (2004: RMB28,544,738).

38. LIQUIDATION OF A SUBSIDIARY

As at 31 December 2005, a subsidiary 南京蘇英教育軟件有限公司 has terminated its operation and commenced liquidation. The net assets of 南京蘇英教育軟件有限公司 at the date of its termination were as follows:

	31 December 2005 ***RMB***
NET ASSETS	
Property, plant and equipment	**14,231**
Intangible assets	**780,000**
Inventories	**797,477**
Trade and other receivables	**30,338**
Bank balances and cash	**60,826**
Trade and other payables	**(12,634)**
Provision for levies	**(719)**
Net assets	**1,669,519**
Minority interest	**(1,669,519)**
	–
Net cash outflow arising on liquidation:	
Bank balances and cash	**60,826**

During the current year, the loss of 南京蘇英教育軟件有限公司 up to the date of liquidation of RMB2,224,777 was charged to the Group's results but its cash flows in the current year is insignificant to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

39. 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:

	2005	2004
	RMB	*RMB*
Within one year	**1,512,391**	282,871
In the second to fifth year inclusive	**946,608**	28,572
	2,458,999	311,443

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 (2004: one to two years).

40. CAPITAL COMMITMENTS

	2005	2004
	RMB	*RMB*
Capital expenditure in respect of acquisition of property, plant and equipment contracted but not provided for	**50,000,000**	56,666,000
Outstanding capital contribution for investment in a jointly controlled entity	**1,246,513**	–

41. PLEDGED BANK DEPOSITS AND CASH AND BANK BALANCES

The Group pledged its bank deposits of RMB6,195,785 (2004: RMB4,570,643) for banking facilities granted to the Groups.

The pledged deposits carry fixed interest rate of 0.72% per annum. The pledge on the bank deposits will be released upon the settlement of the relevant bank borrowings. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less and fixed market interest rate. The carrying amount of the bank balances approximates their fair value.

42. 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 consolidated income statement amounted to RMB2,196,086 (2004: RMB2,518,809).

43. RELATED PARTY TRANSACTIONS

During the year, other than the transactions as disclosed in notes 28, 29 and 30 to the financial statements, the Group also had the following transactions with the following related parties:

Name of related party	**Nature of transactions**	**2005** *RMB*	2004 *RMB*
Revenue:			
Jiangsu Co-Creation	Sales	**379,573**	178,930
Nanjing University	Sales	**2,710,234**	304,731
Nanjing Qitong	Sales	**–**	448,402
杭州蘇富特	Sales	**34,615**	–
Expense:			
Jiangsu Co-Creation	Purchase	**–**	244,437
Nanjing Qitong	Purchase	**1,292,627**	–
Nanjing University	Development cost *(note a)*	**1,000,000**	1,400,000
Nanjing University	Revenue sharing *(note b)*	**170,000**	100,000
Nanjing Ze Tong Technology Company Limited	Technical consultancy fee	**–**	295,000
("Nanjing Ze Tong")	Purchase	**–**	172,650

Jiangsu Co-Creation is a shareholder of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

43. RELATED PARTY TRANSACTIONS *(Continued)*

Nanjing University is a shareholder of the Company.

Nanjing Qitong and 杭州蘇富特 are the associates of the Group.

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

Notes:

(a) For the year ended 31 December 2005, the Group paid development cost in an aggregate of RMB1,000,000 (2004: RMB1,400,000) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for the joint development of software products. The amounts for both years have been capitalised as intangible assets at the balance sheet date.

(b) For the year ended 31 December 2005, the Group paid a revenue sharing fee of RMB170,000 (2004: RMB100,000) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for joint development of software products.

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

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
Beijing NandaSoft Network Technology Company Limited (limited liability company)	PRC	RMB1,000,000	–	48.9%	Sale of computer hardware products and equipment
Jiangsu NandaSoft (Hong Kong) Company Limited (limited company)	PRC	RMB1,000,000	100%	–	Import and export of equipment

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary (form of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company Directly	Indirectly	Principal activities
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
Nanjing Fan Bang Import and Export Company Limited (limited liability company)	PRC	RMB1,000,000	–	52%	Import and export activities
Nanjing Mingjuan Digital Technology Company Limited (limited liability company)	PRC	RMB500,000	–	58.8%	Inactive
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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary (form of legal entity)	Place of registration and operation	Registered capital	Percentage of registered capital held by the Company Directly	Indirectly	Principal activities
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 Nanpu Culture and Media Company Limited (limited liability company)	PRC	RMB500,000	–	41.6%	Design and making of advertisement
Shanghai NandaSoft Information Technology Company Limited (limited liability company)	PRC	RMB5,000,000	51%	–	Sale of computer hardware products and equipment
Shenzhen NandaSoft Network Technology Company Limited	PRC	RMB5,000,000	90%	9.9%	Sale of computer hardware products and equipment
Suzhou NandaSoft Technology Company Limited (limited liability company)	PRC	RMB11,500,000	81.7%	3.5%	Sale of computer hardware products and equipment

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

FINANCIAL SUMMARY

RESULTS

	2001 *RMB*	2002 *RMB*	2003 *RMB*	2004 *RMB*	**2005** ***RMB***
Revenue	185,729,008	311,405,868	376,606,707	384,496,927	**440,742,213**
Cost of sales	(155,180,033)	(261,348,530)	(319,208,908)	(321,770,383)	**(383,385,350)**
Gross profit	30,548,975	50,057,338	57,397,799	62,726,544	**57,356,863**
Other operating income	3,413,826	3,952,207	2,810,679	3,837,193	**4,627,115**
Distribution costs	(9,981,482)	(18,779,758)	(23,294,614)	(26,757,142)	**(23,944,896)**
Research and development costs	(950,631)	(1,957,435)	(2,629,153)	(4,237,612)	**(5,001,220)**
Administration expenses	(9,406,529)	(16,361,828)	(20,476,572)	(20,372,587)	**(28,543,866)**
Share of results of associates	172,737	94,824	632,550	134,074	**57,212**
Share of result of a jointly controlled entity	–	–	–	–	**(319,810)**
Finance costs	(20,072)	(56,686)	(135,061)	(498,617)	**(1,748,149)**
Profit before tax	13,776,824	16,948,662	14,305,628	14,831,853	**2,483,249**
Income tax expenses	(1,658,463)	(1,973,102)	(1,889,833)	(1,853,975)	**(1,355,154)**
Profit for the year	12,118,361	14,975,560	12,415,795	12,977,878	**1,128,095**
Attributable to:					
Equity holders of the parent	12,029,608	13,990,832	11,741,869	12,039,403	**(246,721)**
Minority interests	88,753	984,728	673,926	938,475	**1,374,816**
	12,118,361	14,975,560	12,415,795	12,977,878	**1,128,095**

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	2001	2002	2003	2004	**2005**
	RMB	*RMB*	*RMB*	*RMB*	***RMB***
Total assets	204,402,925	254,537,094	274,818,966	348,823,697	**373,713,492**
Total liabilities	(39,807,689)	(69,934,672)	(83,755,534)	(138,193,232)	**(162,009,374)**
	164,595,236	184,602,422	191,063,432	210,630,465	**211,704,118**
Attributable to:					
Equity holders of the parent	161,653,594	175,644,426	182,716,295	194,755,698	**194,492,444**
Minority interests	2,941,642	8,957,996	8,347,137	15,874,767	**17,211,674**
	164,595,236	184,602,422	191,063,432	210,630,465	**211,704,118**

The application of the new accounting standards, as mentioned in note 2 to the financial statements, has resulted in a change in the presentation of the consolidated income statement and consolidated balance sheet. In particular, the presentation of minority interests and share of tax of associate and jointly controlled entity has been changed. The changes in presentation have been applied retrospectively. The adoption of these new accounting standards has had no material effect on how the results for the prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.