



**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)



FIRST QUARTERLY REPORT

**06**

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONGKONG LIMITED (THE “STOCK EXCHANGE”)**

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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.*

### Highlights

- Achieved a turnover of approximately RMB122,144,000 for the three months ended 31 March 2006, representing an approximately 124% increase as compared with that of corresponding period in 2005.
- Net loss attributable to equity holders of the parent of approximately RMB1,556,000 for the three months ended 31 March 2006.
- The Board does not recommend the payment of dividend for the three months ended 31 March 2006.

### First Quarter Results

The board of directors ("the Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2006.

For the three months ended 31 March 2006, the unaudited turnover is approximately RMB122,144,000, representing a sharp increase of approximately RMB67,705,000, or approximately 124% in turnover as compared with that of the same period in 2005. The Group's unaudited net loss attributable to equity holders of the parent for three months ended 31 March 2006 is approximately RMB1,556,000.

The unaudited results of the Group for the three months ended 31 March 2006 together with the unaudited comparative figures for the corresponding period in 2005 are as follows:

		<b>For the three months ended 31 March</b>	
		<b>2006</b>	2005
	<i>Notes</i>	<b>RMB</b>	<i>RMB</i>
Revenue	2	<b>122,143,634</b>	54,438,767
Cost of sales		<b>(112,525,879)</b>	(37,324,215)
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Gross profit		<b>9,617,755</b>	17,114,552
Other income		<b>3,158,620</b>	1,080,133
Distribution costs		<b>(5,746,330)</b>	(4,860,130)
Research and development costs		<b>(955,042)</b>	(1,148,141)
Administrative expenses		<b>(6,697,333)</b>	(7,628,192)
Finance costs		<b>(686,407)</b>	(348,833)
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(Loss)/Profit before taxation		<b>(1,308,737)</b>	4,209,389
Income tax expenses	3	<b>(78,950)</b>	(459,866)
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(Loss)/Profit for the period		<b>(1,387,687)</b>	3,749,523
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Attributable to:			
Equity holders of the parent		<b>(1,555,909)</b>	2,991,046
Minority interests		<b>168,222</b>	758,477
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		<b>(1,387,687)</b>	3,749,523
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(Loss)/earnings per share	4	<b>(0.0017)</b>	0.0032
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Notes:

## 1. Basis of presentation

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

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

## 2. 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 period.

	<b>For the three months ended 31 March</b>	
	<b>2006</b>	2005
	<b>RMB</b>	RMB
Sales of computer software products	<b>3,427,117</b>	11,758,735
System integration	<b>63,603,455</b>	40,309,188
Import and export of IT related products	<b>55,113,062</b>	2,370,844
	<b>122,143,634</b>	54,438,767

### 3. Income Tax Expenses

**For the three months  
ended 31 March**

**2006**                      2005  
**RMB**                      RMB

The charge comprises:

PRC income tax	<b>78,950</b>	459,866
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Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality, the Company has been designated as a new and high technology entity and is subject to a concessionary tax rate of 15%.

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

### 4. (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 RMB1,556,000 (2005: profit of RMB2,991,000) and on 934,000,000 (2005: 934,000,000) shares in issue during the period.

Diluted earnings per share is not presented for the three months ended 31 March 2006 and 2005 as there were no potential dilutive securities in existence during the relevant periods.

### 5. Reserves

Other than as disclosed below, there were no movements in reserves of the Group for the relevant periods in 2006 and 2005.

**Retained profits**

**2006**                      2005  
**RMB**                      RMB

As at 1 January	<b>45,202,631</b>	46,375,938
Net profit/(loss) for the period	<b>(1,555,909)</b>	2,991,046
As at 31 March	<b>43,646,722</b>	49,366,984

## **Dividend**

The Board does not recommend the payment of dividend for the period (2005: Nil).

## **Financial Review**

The consolidated turnover of the Group for the period ended 31 March 2006 was approximately RMB122,144,000, representing an increase of approximately 124% as compared to the same period in the previous year. 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 loss attributable to equity holders of the parent for the period ended 31 March 2006 were approximately RMB1,556,000. With the rapid development in technology market, the Group face with unprecedented competition which directly affect the market share and gross profit of the Group and thus the Group encountered a substantial decrease in the profit during the period.

## **Business Objectives Review**

### ***Product Development***

#### *Network Security Total Solutions*

As the information industry continues to grow, the rapid development of the Internet keeps on while network application began to gain popularity in different sectors with the number of users increasing dramatically. On the other hand, computer networks were exposed to more and more potential threats whereas network attacks were getting more complicated, making network security an even more difficult task than ever. All these can be evidenced by the overwhelming of Trojan virus, spyware, malicious websites, phishing, zombie attacks, etc. A reliable, stable and efficient environment for network operation is becoming indispensable nowadays. Responding to this trend, NandaSoft continued to double its efforts in network security research and development and reinforce its leading role in information construction in Jiangsu Province and across the nation during the period.

Meanwhile, NandaSoft will proactively work in line with the government's strategic decision of pushing the development of software industry. We have not only further enhanced the enterprise's capacity in innovation, originality and new business establishment, but also actively explored markets for the export and sub-contracting of software products and foster the export of products with intellectual rights. At the industrial level, we contributed our support and drive for the goal of making Jiangsu as a major "software province", and to establish Nanjing as a famous "software city".

With the objective to deliver effective assistance to our users to solve major network security problems, to realize a unified management and synchronization with other security products, to strengthen the visualization, control and management of network security and to reduce the costs for security risks management, the Company has ascertained the phasic development objectives for the Company's security products and security services, and has put forward a detailed implementation plan according to its overall plan of market development of NandaSoft's product and service in respect of the marketing, R&D and sales divisions during the period.

During the period, the Company has announced and completed the following products / projects:

- A complete version of 1000Hz Security Protection Total Solution was announced;
- The inspection for 1000Hz firewall products, which will be launched into the market during the second quarter, was passed;
- The "Inspection for Illegal Network Games" (非法網絡遊戲稽查) system of the Ministry of Culture undertaken by the Company demonstrated satisfactory results in its trial operation in regions like Chengdu, and the project has been fully completed during the period;



- The quarterly upgraded versions of SoftNIDS (a Soft intrusion detect system product) and SoftWALL (a firewall product series) were launched;
- In respect of security operation system, an application solution for desktop operation system targeting at government departments, was launched;
- “Network Security Integrated Protection System NSS-2”(網絡安全綜合防護系統 NSS-2), the National Information Security Key Project, has put into implementation as planned;

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;
- Research on desktop operation system;
- Research on server operation system and embedded operation continued;
- Research on IPV6 network security protection technology continued;

Moreover, on the basis of perfecting technology and implementation standards of Soft security services, the Company has initiated all-out security services and achieved encouraging results.

## **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 market development. During the first quarter of 2006, the Company has secured a number of large scale security projects from various departments and systems such as the Social Security Department of Fujian Province, the Municipal Government of Hangzhou Municipal, the Municipal Urban Management Office of Hangzhou Municipal, the Women's Union of Hangzhou Municipal, the Municipal Office of Civil Defense of Shanghai Municipal, the Provincial Government of Jiangsu Province, the Provincial Finance Department of Jiangsu Province, the Civil Defense of Jiangsu Province, the Labour Bureau of Xuzhou Municipal, the Yangzhou Post, the Financial Bureau of Huai'an, the Land And Resource Bureau of Xinhua and the Army Command College.

In respect of sales channels, the Company has consolidated the geographical layout of domestic market for the sale of security products, forming 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. The Company has reorganized and divided the domestic markets into 7 regions: Beijing Office (Beijing, Tianjin, Shandong, Heibei), Jilin Office, Shenzhen Office (Shenzhen, Guangdong), Jiangsu-Fujin Branch Office (Fujin, Jiangxi, Hunan), Zhejiang Branch Office (Zhejiang, Shanghai), Henan and Anhui Office. A marketing department responsible for overall marketing strategies, marketing campaigns, project management and customer management has been established in each region. Sales and technical support personnel are currently ready to assume their office.

To enhance Soft's brand reputation through marketing and exchange campaigns with customers and to fuel greater demand from customers, NandaSoft will conduct systematic, comprehensive and in-depth marketing campaigns for its key Soft security service and security integration in 2006. NandaSoft will organize the "Spotlight Launch of Soft: a Nationwide Circuit Exhibition of Security Products" (蘇富特亮劍出鞘 安全產品全國巡展) campaign in 15 large- and medium-sized municipals throughout the country. The campaign includes various themes such as a number of submits concerning network information security technology addressing to different targets, seminars on the sales of network information

security, seminars on network information security technology, press conferences on new Soft network security products, conferences for large-scale agents, etc. We have also organized 25 small- and medium-sized seminars on technologies and products aiming at different regions and industries and have participated in the process of selecting product finalists of the country as well as relevant provincials and municipals. At the moment, we are participating in drafting the classified protection standards for the information security of electronic government of Guangzhou Province. During the period, the relevant departments of Company have committed themselves with annual pre-market exploration tasks and has participated in the submit for network information security jointly organized by Zhejiang Public Security Department and Information Security Association (信息安全協會). The conference for Soft's national channel agents and subsidiaries were held in Nanjing on 17 March.

The above series of campaigns reflected a reinforcement of the Company's marketing efforts, and expedited the opening up of its sales channels and the development of its agents. These in turn created powerful new breaking grounds for NandaSoft security products for enlargement of their market shares in regional markets. With the promotion and implementation within and outside the province and in key sectors, the brand share of NandaSoft's products has been further increased.

### ***Electronic Government Business***

NandaSoft has been actively participating in the construction of electronic government, and has already become one of the valued partners in the construction of electronic government in Jiangsu Province as well as the State. NandaSoft electronic government business total solutions were mainly technically characterized by its synchronizing technology and exchange platform.

Meanwhile, with the tide of government information construction, there has been an increasing demand for synchronization from governments of different levels. Therefore, 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, instant 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 government reform and development. The Company has developed total solutions for electronic government business data exchange platform for provinces, municipals, departments and bureaus, and on this basis, the Company has completed componentization for data exchange platform products. By conducting such projects, Soft was able to enhance continuously its own capacity for R&D, and has been gradually become one of the formulator of the standards and regulations for local electronic business software. This has laid a solid foundation for a rapid development in the future and thus increases its market share in this area.

### ***Development of NandaSoft Technology Group***

During the period, the Suzhou company has won the bid for the software project about a high school e-enrollment system of the Enrollment Office of Suzhou Municipal. Currently, the Capability Maturity Model and Integrated (軟件企業能力成熟度模型及集成資質認證) (CMMI) accreditation has been commenced and was under assessment.

The Beijing company has completed the equipment purchase and implementation of intelligent system for Department Areas on Level Four of West Tower (Block A) of China Automobile Industry International Headquarter CEC Building (中國汽車工業國際合作總公司CEC大廈西樓(A座)四層辦公區) during the period. It also successfully executed the “Equipment Purchase and Construction of Integrated Networking of Computer Network System Engineering of the Summer Palace” (頤和園計算機網絡系統工程西區綜合布線項目設備採購及施工合同). The Beijing company has undertaken the “Construction Project of Phase 2 Digital Jinrong Road” (數字金融街二期建設項目) which forms an essential part of Digital Olympics of Beijing Municipal (北京市數字奧運), and the project has been completed smoothly after five months construction and has been pending for inspection. As for the promotion and sales of NandaSoft security products, the Beijing company, leveraged on NandaSoft’s strategy in the geographical layout of domestic market for the sales of security products, has established

offices in Shijiazhuang, Xi'an and Shenyang during the period. The Computer Engineering Company(計算機工程公司) has entered into contracts with a number of units such as Zhongshan College(鐘山學院) with substantial contract amounts.

As for the export and subcontracting of software, the momentum of healthy development in the export and subcontracting business to Japan and software technologies has been maintained. Apart from undertaking orders from existing customers, the Company has continuously seeking for new overseas customers, which has become a new focal point of profit growth for the Group. Leveraging on such foundation, NandaSoft has jointly injected capital for the establishment of Jiangsu Fuyue Technology Company Limited(江蘇富越科技有限公司) with Koshida Corporation, a Japanese Company. Jiangsu Fuyue Technology Company Limited specializes in outsourcing software, enterprise information technology services and the R&D, production and sale of software products. Consequently, the Company has further upgraded its own standards and quality for software development, which laid a sound foundation for NandaSoft to becoming an international software company.

At the same time, the Company has been accredited with the following honours: Nandasoft brand firewall was recognized by the People's Government of Nanjing Municipal as 2005 Famous Brand Product of Nanjing Municipal (Industrial Product)(2005年度南京市名牌產品(工業產品類)); the China Software Industry Association(中國軟件行業協會) has accredited the "Soft Network Inspection System SoftNIDS V2.0" as the 2005 Outstanding Software Product.

### **Prospects**

The Internet industry in the PRC is entering into a phase of strong and rational development. With the network prospering, the application of information technology in different industries and the security management of network and information have become critical parts under the current process of informatization. To keep in line with the Company's overall corporate objectives of striving to become an internationally leading and domestically renowned professional security manufacturer that possesses numerous innovative technologies of advanced international level and products with intellectual rights during the "11th Five-Year" period, the Company has planned its network security products and electronic government products as follows.

## **Network Security Products**

The continuous expansion of information industry, the rapid development of the Internet and the drastic increase in the number of users have all led to problems of network security, which in turn have drawn much public concern. Under the current market situation, anti-virus and firewall products and VPN (Virtual Private Network technology) -related products enjoy a greater share of network security products. Along with the surging demand for network security products in the PRC, Soft Company, being the leader in the domestic network security market, will continue to maintain the advantage of its firewall and intrusion detection. On top of that, we will focus on the R&D 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 and Integrated Security Protection System ZAP 1.0.

In 2006, the Company will initiate enhancement of its 1000Hz Security System Product Series and 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 SoftOS2.0 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 Products**

Currently, government information construction forms the largest market for information construction in the recently years. However, the lack of synchronized sharing application system and information resources between local governments and departments have form a major bottleneck that restricts the development of electronic government business application. In order to eliminate the barriers brought about by the "information islets", the Company needs to realize information resources integration, development and utilization, in order to optimize the systems and share resources among them. The strengthening of superstructure design and the construction of a unified network platform have 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.

## **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 March 2006, the interests and short positions of the Directors, Chief Executives and Supervisors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered

in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

### **Long positions in shares**

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

Notes:

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

Save as disclosed in this paragraph, as at 31 March 2006, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations.



## Substantial Shareholders

At 31 March 2006, 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%
			<b>Sub-total:</b>				<b>Sub-total:</b>
			23.53%				17.64%
Jiangsu Provincial IT Industrial Investment Company Limited	Beneficial Owner	45,850,000	6.55%	–	–	45,850,000	4.91%
Jiangsu Co-Creation	Beneficial Owner	104,750,000	14.96%	–	–	104,750,000	11.22%
Golden 21 Investment Holdings Limited (Note 4)	Beneficial Owner	–	–	25,362,000	10.84%	25,362,000	2.72%

Notes:

- (1) Nanjing University Asset Administration Company Limited is a wholly owned subsidiary of Nanjing University, a domestic shareholder and promoter of the Company. Nanjing University transferred all equity interests in the domestic shares of the Company, being 200,000,000 domestic shares, to Asset Administration Company Limited at nil consideration on 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 March 2006, 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 March 2006, no option has been granted pursuant to such share option scheme.

## 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 period or at any time during the period.

## Directors’ and Supervisors’ Rights to Acquire H Share

During the period ended 31 March 2006, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 March 2006, 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 period.

## 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.

## **Corporate Governance and Audit Committee**

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

The Company established an audit committee on 8 December 2000 with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Group. The audit committee comprises the three Independent Non-executive Directors, Mr. Xu Huan Liang, Mr. Yim Hing Wah and Professor Wang Zhi Jian.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period ended 31 March 2006.

## Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 31 March 2006.

On behalf of the Board

**Xie Li**

*Chairman*

12 May 2006, Nanjing, the PRC