



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)



INTERIM REPORT

06

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

Highlights

- Achieved a turnover of approximately RMB217,219,000 for the six months ended 30th June, 2006, representing an approximately 38.4% increase as compared with that of the corresponding period in 2005
- Accomplished a net loss of approximately RMB7,717,000 for the six months ended 30th June, 2006
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2006

Interim Results

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th June, 2006.

For the three months ended 30th June, 2006, the unaudited turnover is approximately RMB94,639,000, representing a decrease of approximately RMB7,924,000, or approximately 7.7% in turnover as compared with that of the same period in 2005.

For the six months ended 30th June, 2006, the unaudited turnover is approximately RMB217,219,000, representing an increase of approximately RMB60,217,000, or approximately 38.4% in turnover as compared with that of the same period in 2005.

The unaudited net loss of the Group for three months and six months ended 30th June, 2006 is approximately RMB6,161,000 and RMB7,717,000.

The unaudited results of the Group for the three months and six months ended 30th June, 2006 together with the unaudited comparative figures for the corresponding period in 2005 are as follows:

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2006 RMB	2005 RMB	2006 RMB	2005 RMB
Revenue	2	94,638,849	102,563,233	217,218,818	157,002,000
Cost of Sales		(87,812,359)	(90,585,784)	(200,774,573)	(127,909,998)
Gross Profit		6,826,490	11,977,449	16,444,245	29,092,002
Other income		726,748	2,222,305	3,794,416	3,302,438
Distribution costs		(6,382,575)	(4,964,503)	(12,128,906)	(9,824,633)
Research and development costs		(1,458,602)	(1,244,851)	(2,413,644)	(2,392,993)
Administrative expenses		(5,360,864)	(4,851,565)	(12,058,197)	(12,479,758)
Finance costs		(421,062)	(335,415)	(1,016,516)	(684,248)
(Loss)/Profit before tax	3	(6,069,865)	2,803,420	(7,378,602)	7,012,808
Income tax expense	4	(276,496)	(191,420)	(355,446)	(651,286)
(Loss)/Profit for the period		(6,346,361)	2,612,000	(7,734,048)	6,361,522
Attributable to:					
Equity holders of the parent		(6,161,190)	2,028,541	(7,717,099)	5,019,587
Minority interests		(185,171)	583,459	(16,949)	1,341,935
		(6,346,361)	2,612,000	(7,734,048)	6,361,522
(Loss)/Earnings per share – basic	5	(0.0066)	0.0022	(0.0083)	0.0054

Consolidated Balance Sheet

	Notes	(Unaudited) 30th June, 2006 RMB	(Audited) 31st December, 2005 RMB
Non-current assets			
Property, plant and equipment		23,904,016	25,667,853
Prepaid lease payments		9,926,605	10,045,105
Intangible assets		19,859,761	20,590,559
Interest in an associate		13,226,464	11,573,836
Interest in a jointly controlled entity		933,677	933,677
Available-for-sale investments		6,366,113	16,366,113
Deferred tax		787,509	787,509
		75,004,145	85,964,652
Current assets			
Inventories		29,548,867	36,185,451
Loan receivable		—	10,000,000
Trade and other receivable	6	210,171,313	201,153,815
Prepaid lease payments		237,000	237,000
Investment held for trading		4,410	962,410
Bills receivable		227,938	—
Amount due from shareholder		4,279,128	4,279,128
Amount due from minority shareholders		210,000	210,000
Pledged bank deposits		227,024	6,195,785
Cash and bank balances		52,884,440	28,525,251
		297,790,120	287,748,840

Consolidated Balance Sheet (Continued)

		(Unaudited) 30th June, 2006 RMB	(Audited) 31st December, 2005 RMB
	Notes		
Current liabilities			
Trade and other payables	7	42,152,921	71,891,042
Receipt in advance, other creditor and accrual expense		56,570,890	52,784,137
Amounts due to shareholders		115,298	115,297
Amounts due to an associate		359,500	359,500
Provision for taxes and levies		1,332,186	1,859,398
Short-term loan (unsecured)		55,000,000	35,000,000
		155,530,795	162,009,374
Net current assets		142,259,325	125,739,466
Total assets less current liabilities		217,263,470	211,704,118
Capital and reserve			
Share capital		93,400,000	93,400,000
Reserves		93,368,147	101,092,444
		186,768,147	194,492,444
Minority interests		20,495,323	17,211,674
Non-current liabilities			
Long-term loan (unsecured)		10,000,000	—
		217,263,470	211,704,118

Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30th June, 2006 RMB	Six months ended 30th June, 2005 RMB
Cash flows from operating activities	(3,217,364)	(23,836,180)
Cash flow from taxation	3,104,770	(7,383,444)
Cash flows from investing activities	(320,136)	(3,812,935)
Cash flows from financial activities	24,799,117	10,565,948
Net (decrease) increase in cash and cash equivalent	24,366,387	(24,466,611)
Cash and cash equivalents at the beginning of the period	28,525,251	57,976,169
Effect of foreign exchange rate changes	(7,198)	—
Cash and cash equivalents at the end of the period	52,884,440	33,509,558

Statement of Changes in Equity (Unaudited)

	Share Capital RMB	Share Premium RMB	Statutory Surplus Reserve RMB	Statutory Public Welfare Fund RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB
At 1st January, 2005	93,400,000	48,868,818	4,073,962	2,036,980	—	46,375,938	194,755,698
Profit for the period	—	—	—	—	—	5,019,587	5,019,587
Appropriations	—	—	—	—	—	—	—
At 30th June, 2005	93,400,000	48,868,818	4,073,962	2,036,980	—	51,395,525	199,775,285
At 1st January, 2006	93,400,000	48,868,818	4,691,686	2,345,842	(16,533)	45,202,631	194,492,444
Loss for the period	—	—	—	—	—	(7,717,099)	(7,717,099)
Exchange difference arising on translation of foreign operation	—	—	—	—	(7,198)	—	(7,198)
At 30th June, 2006	93,400,000	48,868,818	4,691,686	2,345,842	(23,731)	37,485,532	186,768,147

Notes:

1. Basis of presentation

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

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

2. Turnover

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

	For the three months ended 30th June, 2006		For the six months ended 30th June, 2006		
	2005 RMB	2006 RMB	2005 RMB	2006 RMB	
Sales of computer software products		3,775,837	1,311,515	7,215,197	13,070,250
System integration		79,548,101	77,940,941	143,378,768	118,250,128
Import and export of IT related products		11,314,911	23,310,777	66,624,853	25,681,622
		94,638,849	102,563,233	217,218,818	157,002,000

3. Loss/profit before tax

	For the six months ended 30th June, 2006		2005
	RMB		RMB
Loss/profit before tax has been arrived at after charging:			
Depreciation and amortisation on:			
– property, plant and equipment	2,075,743		2,976,534
– intangible assets (included in research and development costs)	2,413,643		2,416,945
Cost of Sale	200,774,573		127,909,998

4. Income tax expense

	For the three months ended 30th June, 2006		For the six months ended 30th June, 2006	
	RMB	2005 RMB	RMB	2005 RMB
The charge comprises:				
PRC income tax				
Current year	276,496	191,420	355,446	651,286

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%.

5. Loss/earnings per share

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately RMB6,161,000 and RMB7,717,000 for the three and six months ended 30th June, 2006 (2005: Profit RMB2,029,000 and RMB5,020,000) and on 934,000,000 (2005: 934,000,000) shares in issue during the periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2006 and 2005 as there were no potential dilutive securities in existence during the relevant periods.

6. Trade and other receivable

	(Unaudited) 30th June, 2006 RMB	(Audited) 31st December, 2005 RMB
Trade receivables	138,427,972	154,068,819
Less: accumulated impairment	(17,366,538)	(15,843,704)
	121,061,434	138,225,115
Advance to suppliers	55,869,537	36,477,727
Other receivables	19,244,342	14,054,973
Other receivable from 中國石油天然氣股份有限公司	6,590,000	4,990,000
Advance to Yahu	7,406,000	7,406,000
Trade and other receivable	210,171,313	201,153,815

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 noninterest-bearing. The aged analysis of trade debtors is stated as follows:

	(Unaudited) 30th June, 2006 RMB	(Audited) 31st December, 2005 RMB
0 – 90 days	35,513,131	82,685,248
91 – 180 days	20,063,446	9,789,385
181 – 365 days	29,936,735	18,255,780
Over 365 days	35,548,122	27,494,702
	121,061,434	138,225,115

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

7. Trade and other payable

Aged analysis of trade creditors are as follows:

	(Unaudited) 30th June, 2006 RMB	(Audited) 31st December, 2005 RMB
0 – 90 days	25,808,716	40,446,871
91 – 180 days	2,871,031	3,030,168
181 – 365 days	6,971,254	4,225,434
Over 365 days	5,382,797	5,022,287
	41,033,798	52,724,760
Notes Payable	1,119,123	19,166,282
	42,152,921	71,891,042

8. Segment information

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

	Sales of computer software products six months ended 30th June,		System Intergration six months ended 30th June,		Import and export of IT related products six months ended 30th June,		Total six months ended 30th June,	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Revenue								
External Sales	7,215,197	13,070,250	143,378,768	118,250,128	66,624,853	25,681,622	217,218,818	157,002,000
Result								
Segment result	702,729	6,600,518	(7,984,976)	228,744	790,490	877,953	(6,491,757)	7,707,215
Other income							404,168	561,834
Unallocated corporate expense							(274,496)	(571,993)
Finance Cost							(1,016,517)	(684,248)
(Loss)/Profit before tax							(7,378,602)	7,012,808
Income tax expense							(355,446)	(651,286)
Loss for the period							(7,734,048)	6,361,522

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the period. (2005: Nil)

Management Discussion and Analysis

Financial review

Results

The consolidated revenue of the Group for the six months and three months ended 30th June, 2006 was approximately RMB217,219,000 and RMB94,639,000, representing an increase of approximately 38.4% and a decrease of approximately 7.7% 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 operating loss attributable to shareholders of the Group for the six months and three months ended 30th June, 2006 were approximately RMB7,717,000 and 6,161,000. 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.

Financial Resources and liquidity

As at 30th June, 2006, shareholders' funds of the Group amounted to approximately RMB186,768,000. Current assets amounted to approximately RMB297,790,000, of which approximately RMB53,111,000 were cash and bank deposits. The Group had non-current liabilities of RMB10,000,000 and its current liabilities amounted to approximately RMB155,531,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.2. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2006, the Group had a gearing ratio of 17.44% and the Group has short-term loan of RMB55,000,000.

Others

Throughout the six months ended 30th June, 2006, the Group cancel the investments with detail as:

On 5th November, 2004, 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, Nantung Mingde feel uncomfot for the audit procedures perform in 2005 and they propose to cancel the agreement with the Group and full amount of investment cost of RMB10,000,000 altogether with RMB1,819,000 investment income was received at 26th April, 2006.

Save as disclosed above, the Group did not make any material acquisitions or disposals and no proceeds was invested in any significant financial instruments.

Save as disclosed above, the Company did not have any future plan on material acquisitions or disposals.

As at 30th June, 2006, there were no charges on group assets, and it is the same as the comparative six months ended 30th June, 2005.

As at 30th June, 2006, the Group had no material contingent liabilities and it is the same as the comparative six months ended 30th June, 2005.

Foreign Currency Risk

During the six months ended 30th June, 2006, all the Group’s sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Employee and Remuneration Policies

As at 30th June, 2006, total remuneration cost for the Group is RMB10,621,000 (2005: RMB10,989,000) and the Group had 615 employees (2005: 523 employees). Remuneration is determined by reference to market terms and performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contribution to retirement scheme, medical scheme, unemployment insurance and housing fund.

Business Review

Development Trend of Network Security Market

With the expansion and increasing complexity of the network, it can be seen that the problem of internet threats is becoming more and more serious. Internet users are exposed to different levels of intrusion and damage, while the demand for security products gets more extensive and urgent, driving the network security market onto a persisted rapid growth trend. According to the research data of CCW Research, the network security product market in the PRC is still situated in a formative stage with rapid growth. The size of the market reached RMB3.65 billion in 2005, representing an increase of 27.3% as compared to 2004. It is expected that the compound growth rate for 2006 to 2009 will hit 22.1%, with a doubling in the size of the network security product market in the PRC by 2009 as compared to 2005, reaching RMB8.1 billion. During the first quarter of 2006, the aggregate size of the network security product market in the PRC reached RMB912 million, marking a 20.8% growth as compared to the same period in 2005.

In the first half of 2006, the network security product market attracted much attention from the government, manufacturers and users. On the one hand, this can be interpreted as a testament to the increasing leadership role of the government in the market, the intensifying competition among manufacturers and the users' concern for security issues; while on the other hand, it can be seen as the response of the network security market to the issues of spyware, junk mail and other issues in 2005.

As seen from the market performance last year, firewall once again stood out amongst numerous network security products, recording the highest market growth rate among the three major security product categories. Paralleled to its efforts to extend and expand its product lines, NandaSoft strived to enhance its total security solutions to deliver more outstanding performance, secured service capability and secured security consulting capabilities, with the objective to help more users build more secured information security infrastructure.

With the above market characteristics, NandaSoft considers that the information security market will be exposed to a new round of restructuring and competition. The new market opportunities and challenges include: brand and price competition among major manufacturers, new application demand and products, differentiation of subsectors. These will form the main features of the new market. In response to this, NandaSoft proposes to: intensify research and development efforts to launch differentiated products; accelerate exploration of national marketing channels; adopt responsive strategies to reinforce the force of brand promotion.

Product Development

Network Security Total Solutions

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

- 1000Hz firewall products were launched;
- The quarterly upgraded versions of SoftNIDS (a Soft intrusion detect system product) and SoftWALL (a Soft firewall product series) were launched;
- The research and development of the Soft Intranet Information Surveillance System 3.0 (蘇富特內網信息安全監控系統3.0) was fully initiated, and a new version is expected to be launched in the fourth quarter;
- 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.

Product Promotion and Marketing Activities

NandaSoft accelerated the development of marketing channels. Apart from the provinces with established market stands, the Company focused on the building of business in new provinces and devised the initial plan for setting up provincial offices in 10 provinces including Hubei, Sichuan, Dongbei, Xibei provinces. In line with its presence in 7 major

regions in the PRC, the Company will integrate its geographical layout of security product sale in the domestic market with its gear-up sales channels, stepping up its efforts in channel building. A marketing department will be established in each sub-region to take charge of the overall marketing planning, marketing activities, project management and client management, while the sales and technical support staff is boosted as required.

To support the market development outside Jiangsu Province, NandaSoft has devised the “Soft Partner Growth Project” (《蘇富特伙伴成長計劃》) that takes the development of core agents as the core of channel building efforts. Meanwhile, in order to strengthen the sales force of the major regions, NandaSoft has recruited a team of professional managers with substantial experience and influence in the industry to the management positions of different major regions, forming a strong management team for its national sales.

In the second quarter of 2006, the Company was chosen as a candidate for the Central Government’s purchases, in addition to successfully obtaining large-size security projects in respect of the departmental system of Forestry Department of Fujian Province, Department of Civil Affairs of Fujian Province, Administration of Complaints of Fujian Province, Socialism Institute of Fujian Province, Bureau of Complete Set of Fujian Province, Women’s Federation of Fujian Province, Bureau of Labour of Hangzhou Municipal, 容災辦 of Hangzhou Municipal, Women’s Federation of Hangzhou Municipal, Department of Labour of Jiangsu Province, Confidential Affairs Bureau of Jiangsu Province, Bureau of Radio Administration of Jiangsu Province, Department of Personnel of Jiangsu Province, Bureau of Agricultural Machinery Administration of Jiangsu Province, Bureau of Labour of Xuzhou Municipal, Administration of Quality and Technology Supervision of Taizhou Municipal, 連運港遠洋集團, 楊成電廠 and so on.

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 held this year continued to deepen. During the quarter, the “NandaSoft Network Information Security Product Sales Exhibition and Technical Forum 2006” and “NandaSoft Network Security Product Release 2006” were held in Zhengzhou, Henan and Hangzhou, Zhejiang respectively. The “NandaSoft Network Information Security Summit” was held in Fuzhou, Fujian. The Summit was attended by over 30 representatives in charge of informatization programmes at different government levels, as well as different levels of agents in Fujian Province. These activities have found a solid client base for full roll-out of Soft security products across the nation. 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 above activities 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.

Security System Integration and Services

With an established brand image that boosts Soft as the “Network Security Expert”, the Company has started to step up the launch and promotion of its security system integration and services business. A technical team focusing on security system integration and services was set up with the objective to integrate the critical technical services of Soft Security Total Solution with the network construction and maintenance for the government and industrial/commercial enterprises.

During the period, the Company signed a contract with the Administration of Industry and Commerce of Jiangsu Province in respect of the Provincial Network Maintenance of the Jiangsu industrial and commercial system, in order to provide protection for the secured running of the network of the provincial industrial and commercial system.

Development of NandaSoft Technology Group

During the period, the Suzhou company has won the bid for intelligentization projects for a number of buildings including Lakeside Palace (中海湖濱一號) and Andrew Telecommunications (China) Co. Ltd. (安德魯電信器材(中國)有限公司), signifying the leading position of our Suzhou company in building intelligentization in Suzhou.

Apart from continued efforts to fortify its cooperation with its existing customers, the Beijing company also successfully secured a new batch of orders, including the development and maintenance of Phase II project of the State Administration of Press and Publication (國家新聞出版總署二期項目), software development and implementation of Phase 2 Project Jinrong Road (金融街二期項目) and planning of Phase 3 Project Jinrong Road (金融街三期項目).

During the period, the Company was named one of the “Top 100 Software Income in China 2006”, while our network security product SoftNIDS v2.0 was named as “Outstanding Software Product 2005”, subsequent to our Soft firewall being awarded with the title “Outstanding Software Product”.

Prospects

In response to the change of demand for network security from products to services by customers, Soft will strive to provide a comprehensive range of network security and service to its customers.

In the future, the Company will initiate enhancement of its 1000Hz Security System Product Series and Intranet Information Surveillance System, putting 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, Soft Intranet Information Surveillance System 3.0 (蘇富特內網信息安全監控系統3.0) 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.

In terms of security integration and services, Soft will leverage on the established partnerships in relation to its nationwide product promotion, in order to achieve security integration and services that is targeted at the nationwide market. The cooperation with agents will form a brand-new Soft security service team, which is expected to become another focal point of our Soft Security Total Solution.

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 29th 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 30th June, 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			
Directors						
Xie Li	Personal (Note 1)	11,900,000	—	—	1.70%	1.27%
Zhang Yun Xia	Family (Note 2)	—	17,000,000	—	2.43%	1.82%
Chen Dao Xu	Personal (Note 1)	500,000	—	—	0.07%	0.05%
Supervisors						
Zhou Ming Hai	Personal (Note 1)	5,000,000	—	—	0.71%	0.54%
Wang Dao Wu	Personal (Note 1)	1,000,000	—	—	0.14%	0.11%
Zhou Wen Da	Personal (Note 1)	780,000	—	—	0.11%	0.08%
Shi Jian Jun	Personal (Note 1)	500,000	—	—	0.07%	0.05%

Notes:

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

Save as disclosed in this paragraph, as at 30th June, 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 30th June, 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%
		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	Beneficial Owner	104,750,000	14.96%	–	–	104,750,000	11.22%
Golden 21 Investment Holdings Limited (Note 4)	Beneficial Owner	–	–	25,362,000	10.84%	25,362,000	2.72%

Notes:

- (1) Nanjing University Asset Administration Company Limited is a wholly owned subsidiary of Nanjing University, a domestic shareholder and promoter of the Company. Nanjing University transferred all equity interests in the domestic shares of the Company, being 200,000,000 domestic shares, to Asset Administration Company Limited at nil consideration on 1st July, 2004.
- (2) Jiangsu Furen Group Company Limited entered into separate agreements with Jiangsu Zongyi Company Limited and Jiangsu Provincial Hi-Tech Industry Investment Company Limited for the transfer of 160,000,000 and 40,000,000 domestic shares in the Company on 30th 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 1st 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 30th June, 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 19th April, 2001. Up to 30th June, 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 year or at any time during the year.

Directors' and Supervisors' Rights to Acquire H Share

During the year ended 30th June, 2006, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 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 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.

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 24th April, 2001.

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

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 30th June, 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 six months ended 30th June, 2006.

On behalf of the Board
Xie Li
Chairman

28th July, 2006, Nanjing, the PRC