NANDASOFT
南大苏富特

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 2007

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 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
Mr. Yuan Ren Wei

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

Supervisors

Professor Shi Jian Jun
Mr. Zhou Ming Hai
Mr. Shaw Yong Lei
Mr. Xu Ke Jian
Mr. Sun Xing Huan
Mr. Lv Lei

Qualified Accountant

Ms. Tong Sze Wan, *HKICPA, ACCA*

Company Secretary

Ms. Tong Sze Wan, *HKICPA, ACCA*

Audit Committee

Professor Wang Zhi Jian
Mr. Xu Huan Liang
Mr. Yim Hing Wah

Nomination Committee

Mr. Xie Li
Mr. Yuan Ren Wei
Mr. Xu Huan Liang
Professor Wang Zhi Jian
Mr. Yim Hing Wah

Remuneration Committee

Mr. Xie Li
Mr. Chen Zheng Rong
Mr. Xu Huan Liang
Professor Wang Zhi Jian
Mr. Yim Hing Wah

Compliance Officer

Professor Xie Li

Authorised Representatives

Professor Xie Li
Ms. Tong Sze Wan, *HKICPA, ACCA*

Auditors

Cachet Certified Public Accountants Limited

Legal Advisers

Arculli Fong & Ng In Association With King & Wood, PRC Lawyers

Principal Bankers

China Merchants Bank, Nanjing Branch
China Industrial And Commercial Bank, Nanjing Branch, South Town Sub-branch
HSBC, Hong Kong Branch

Hong Kong Share Registrar and Transfer Office

Hong Kong Registrars Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Registered Office

NandaSoft Tower, 8, Jingyin Street
Shanghai Road, Nanjing, The PRC
Postal code: 210008

Principal Place of Business in China

Nandasoft Tower, 8, Jingyin Street
Shanghai Road, Nanjing, The PRC
Postal Code: 210008

Principal Place of Business in Hong Kong

Room 1006-07, 10/F
New Victory House
93-103 Wing Lok Street
Sheung Wan, Hong Kong

Stock Code

8045

Chairman's Statement

On behalf of the Board of Directors (the "Board"), I am pleased to present the annual report for the year ended 31 December 2007 of Jiangsu NandaSoft Company Limited ("Jiangsu NandaSoft" or the "Company", and together with its subsidiaries, the "Group") to the shareholders for their review.

The market of IT services in the PRC has entered into a structural adjustment period since 2006 in which the growth of systems integration services has leveled off. Informatization of the entire community in China began to elevate stepwise at the phase of business application following the phase of purchasing and using fundamental systems. Against this background, the demand for IT services' providers by customers was refined and compounded gradually. Targeting at such market changes and coupled with the development need of the Company itself, the development strategies of NandaSoft in 2007 were upholding innovation, strengthening services, stabilizing operation and enhancing efficiency. The Company continued to rely on independent network security products and their total solutions to fortify the exploration of advantage industries and to focus on the business development of security services and software outsourcing, which aimed at enhancing operational cash flows of the Company and expanding high-end industries of telecommunication and finance so as to further strengthen the ability of continuing development of the Company.

In 2007, the Company successfully became one of the top hundred profit-making software enterprises in China and the SoftWall Web2.0 of the Company was awarded the Golden Prize in the eleventh China International Software Exhibition.

Results Performance

During the financial year of 2007, the turnover of the Group recorded a decrease of approximately 24.04% to approximately HK$305,728,000 and the Group's result turning from loss to profit of RMB6,445,000. The Board does not recommend the payment of a final dividend for the year ended 31 December 2007.

Upholding Innovative Development and Strengthening Target Services

As shown by the analysis reports on the industry prepared by different authoritative consulting organizations, domestic IT market will remain to grow steadily and the prospect of business of IT services will turn bright gradually in the upcoming years. Domestic IT investment constructions will be further connected with the overseas ones, which will further increase the proportion of services and software. System operation services become a substantial demand in practical situation and distributors of traditional channels begin to transform in order to provide value-added distributing services. Given this background, NandaSoft proposed a strategy of shifting business target by transforming completely from a supplier of network security total solutions into a service provider of network security total solutions based upon its research and development strength accumulated from network security total solutions over the years. As instructed by this strategy, NandaSoft became a province-level Emergency Service Support Unit of National Computer Network Emergency Response Technical Team/Coordinating Center relying on the subdivided solutions designated for customers, the full-scale innovative service contents and a high-quality standard service management. In 2007, NandaSoft also undertook various projects of network total service, including the network maintenance service for the business administration management system of Jiangsu Province, the network maintenance service for the expressway of Jiangsu Province and the network maintenance service for the Bureau of Quality Supervision of Jiangsu Province. The undertaking of these projects further stabilizes the operational cash flows of the Company and provides a stable support of cash flows for the development of other businesses of the Company.

In addition, software outsourcing business has long been a significant contributor to the cash flows of the Company. In 2007, based upon its all-time efforts to consolidate the software outsourcing business targeted at Japan, the Company has been actively seeking opportunities to start the outsourcing business in Europe and America, which would become new profit growth-points for the business development of the Company in future.

Upholding innovation has been a focus of the aspect of research and development of NandaSoft. In response to the new directions of network security development, NandaSoft carried out a series of visionary and innovative researches of wireless network security technology and embedded security technology during the period, striving to maintain its leading position in the development of network security technology in the PRC.

Expanding Business Fields and Supporting High-end Industries

While the IT industries in the PRC are encountering a decreasing gross profit margin, how to expand and maintain high-end industries has become a core concern for every IT enterprises. Under this situation, NandaSoft achieved the goal of fully penetrating into the IT businesses of high-end industries, such as telecommunication and finance, at the beginning of 2007. Telecommunication Department was also established and was engaged in expanding and maintaining customers from high-end industries such as those from telecommunication and mobile communication. After years of effort, NandaSoft successfully participated in the network upgrading project for the main website of Jiangsu Post in 2007, which laid down a solid foundation for subsequent sustainable penetration into this sector.

Stabilizing Operation Environment and Enhancing Management Efficiency

In 2007, NandaSoft passed the CMM3 certification which further enhanced the credibility of the software products developed by the Company. The Company further integrated the advantage resources of the Group and simplified the human resources in 2007, with the objective to enhance management efficiency.

During the period, the Company completed the work of design proposal and function module for NandaSoft Software City, well-preparing for the commencement of the NandaSoft Software City construction.

The software business development situation in the PRC brings a golden growth opportunity to the Company. It is expected that the Company will continue to transform its business and to strengthen its core competitiveness and sustainable profitability in order to bring prosperous return to our shareholders.

Xie Li
Chairman

Nanjing, PRC
27 March 2008

Management Discussion and Analysis

Financial review

The audited consolidated turnover of the Group for the year ended 31 December 2007 was approximately RMB305,728,000, representing a decrease of approximately 24.04% over 2006. With the rapid development in technology market, the Group was faced with unprecedented competition which directly affected the market share in which sales was reduced during the year.

During the year, the Group disposed of the whole block of Nandasoft Tower to Nanjing University, a substantial shareholder of the Group, and generated a gain on disposal of approximately RMB15,695,000. In addition, the management implemented a more practical and effective system to tighten the expenditure of the Group in order to facilitate the effectiveness and efficiency of operation system. Having adopting all these measures, the Group's result turned from loss attributable to shareholders to profit attributable to shareholders and the audited profit and earnings per share attributable to equity holders of the Company for the year ended 31 December 2007 were approximately RMB6,445,000 and RMB0.69 cents, respectively.

Financial resources and liquidity

As at 31 December 2007, shareholders' funds of the Group amounted to approximately RMB161,325,000. Current assets amounted to approximately RMB214,143,000, of which approximately RMB30,578,000 were cash and bank deposits. The Group had non-current liabilities of RMB10,000,000 and its current liabilities amounted to approximately RMB90,150,000, comprising mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.173. The Group expresses its gearing ratio as a percentage of net debts over capital plus net debts. As at 31 December 2007, the Group had a gearing ratio of 30% and the Group had short-term loans and long term loans of RMB18,000,000.

Charge on group assets

As at 31 December 2007, none of the Group's assets was pledged as security for liabilities (2006: Nil).

Foreign currency risk

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

Material acquisitions/disposals and significant investments

Throughout the year 2007, the Group entered into an agreement with Nanjing University in which the Group agreed to sell and Nanjing University agreed to acquire the whole block of Nandasoft Tower situated at No. 8 Jinyin Street, Gulou District, Nanjing City, Jiangsu Province, the PRC at a consideration of RMB46,586,562 in cash.

Save as disclosed above, 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 2007, the Group had no material commitments.

Contingent liabilities

As at 31 December 2007, the Group had no material contingent liabilities.

Employees and remuneration policies

The remuneration for the employees of the Group amounted to approximately RMB17,536,000, including the directors' emoluments of approximately RMB356,000 during the year ended 31 December 2007 (2006: approximately RMB27,396,000, including the directors' emoluments of approximately RMB420,000).

The decrease in employee remuneration resulted from the decrease in number of staff during the year. The number of employees for the year had decreased from 592 to 494.

Business Review

Business review

Network security products

In 2007, NandaSoft, as a leading professional supplier of total solutions in the Mainland, maintained its focus on the trend of network security research both within the country and overseas. NandaSoft continued to enhance the abilities in developing network security software products and innovating technologies, with the objectives of leading the healthy development of network security market in Jiangsu province, and leading the continuous improvement of network security research in Jiangsu province and the entire country in advanced, refined and profound directions.

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

- Softwall v3.0, a Soft upgraded software version for firewall product series
- SoftNIDS v3.0, a Soft upgraded software version for intrusion detection system product series
- WatchOnline v3.0, a Soft upgraded software version for intranet information surveillance product series
- SoftZAP v2.0, a Soft upgraded software version for Network Security Integrated Protection System
- High performance firewall series products based on Intel Double Core CPU

Meanwhile, in order to maintain its technology leading position in both domestic and international market, NandaSoft has conducted in-depth research of integrating emerging network and applied technology other than continuing the related technological research on "Network Integration Security Protection Platform System" and "Security Operation System" in the area of core technologies of security products last year.

- Applied security technology for wireless network
- Key technology research on distributed applied system and security protection system
- Research on server security operation system
- Research on embedded security operation system
- Research on IPv6 network security product technology

The Company has further geared up the technology and implementation regulations of Soft security services, providing comprehensive network security products to its clients on this basis. During the period, the Company was elected the CNCERT/CC provincial emergency services supporting unit, which once again testified to the recognition received by NandaSoft from its clients for its service standards and capabilities in respect of internet security.

Product promotion and marketing activities

The sales of products mainly focused on two aspects, namely the sales channels and the promotion of the sector. Regarding the sales channels, the Company integrated its geographical layout of security product sale in the domestic market with its geared-up sales channels, stepping up its efforts in channel building in line with its presence in 7 major regions in the PRC. NandaSoft held the marketing and promotion events in Jilin, Jianxi, Fujian and Henan during the year with distinguished results, paying visits to key industrial leaders and realizing adequate exchange with various local partners. Furthermore, "NandaSoft Network Information Security Products Sales Exhibition and Technical Forum 2007" were successfully held in Nanjing, Zhengzhou of Henan Province, Nanchang of Jiangxi Province and Fuzhou of Fujian Province. These activities have established a solid client base for full roll-out of Soft security products across the nation.

Through implementing the trade-in program of network security equipment for its existing clients in Jiangsu Province, the Company recommended to its existing clients the new intranet surveillance system which complements the existing network security products to provide corporate internal network with stronger security protection. During the year, NandaSoft focused on the education sector and launched the Network Security Construction Solutions for the "Inter-school Internet project" of Jiangsu Province.

During the period, the company was short-listed as a candidate for the Central Government's procurement, 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, Emergency Office of Hangzhou Municipal, Women's Federation of Hangzhou Municipal, Department of Labour of Jiangsu Province, Confidential Affairs Bureau 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, 連雲港遠洋集團, Henan Jiaozuo Rural Credit Cooperatives, 楊成電廠, Bureau of Radio Administration of Jiangsu Province, Jiangxi Telecom, Municipal Government of Hangzhou and so on.

The Company participated in the Third China (Nanjing) International Software Products Expo to promote Soft Network Security Service Expert and launch software service outsourcing, turning the software outsourcing service into another profit growth-point for the Company, apart from the Network Security Total Solutions. On the good cooperation with SCC Corporation (日本SCC株式會社), Koshida Corporation (越田公司) and Fuji Corporation (富士公司), the Company is currently expanding the outsourcing channels and striving for an in-depth cooperation with Japan Mitsubishi Corporation while actively seeking opportunities to start up the outsourcing business in Europe and America. NandaSoft looks forward to capture this opportunity of substantial development of software service in Jiangsu Province to fully integrate NandaSoft's talents and technology advantages to further enhance the Company's profitability.

Management Discussion and Analysis

Security system integration and services

In recent years, the technology content of system integration business has advanced substantially and the client's demand has moved from hardware integration to application integration. Being a leading corporation in the industry, NandaSoft has already surpassed the stage of the simple software-hardware combination of the past and moved onto a systematic function that builds on the hardware and software network. NandaSoft has always endeavoured to provide the clients with an all-round, high-end consultancy, R&D, implementation, maintenance and repair services with an organic combination of business and IT system. In light of this, NandaSoft has set up its service standards and regulations and built a service system and infrastructure to regulate the service procedure with the aim to create valuable and satisfactory service for its clients.

In 2007, NandaSoft won the bid for the Jiangsu Province Industrial and Commerce Administration Information System Platform Construction (江蘇省工商管理信息系統平臺系統建設) Project organized by the Government Procurement Centre of Jiangsu Province, which testified to the client recognition in NandaSoft's technology and service ability and further strengthened the Company's position in the governmental industry. In addition, the Company became one of the network service providers designated by the highway of Jiangsu Province, meanwhile obtaining the contracts for security network service projects from Bureau of Quality Supervision of Jiangsu Province, Department of Labor of Jiangsu Province and so on.

During the year, NandaSoft signed a contract with Shenzhen Municipal Personnel Bureau in relation to Electronic Government Business Software System Development (深圳市人事局電子政務軟件系統開發). The system includes data transformation, personnel organization management platform (人事編制管理平臺), public service platform and application basic supporting platform (應用基礎支撐平臺). This project will become NandaSoft's demonstrative project in the governmental sector in South China region, establishing the platform for entering the South China market in the future.

During the year, the Company created breaking grounds in the post and telecommunications industries and won the bid for "Network Upgrading Project for Jiangsu Province Huaian Municipal Post Bureau (江蘇省淮安郵政局網絡改造)", while at the same time undertook the security system integration projects for various units such as Jiangsu Maritime Bureau, the Financial College of Huaian City (淮安財經學院) and Jiangsu Institute of Education.

Management Discussion and Analysis

Development of the NandaSoft Group and construction of software city

NandaSoft continued to undertake the Network Security System Integration and Software projects with the assistance from its subsidiaries in South China and North China regions.

During the period, Beijing NandaSoft Digital Technology Company Limited undertook a number of projects such as database construction for Beijing Jinrong Road Subdistrict Office, Intelligent Building Project for Qingdao Welfare Lottery Centre (青島福彩中心) and security surveillance project for Qingdao Meihua (青島美華).

The system intelligentization for Suzhou Industrial Zone Science and Technology Park Phase IV, network communications and wireless meeting for Science and Technology Park Phase IV and the system integration projects for Government Offices Administration of Suzhou Municipal, the Intelligent Building Project for Suzhou Technology Park Phase IV, the Intelligent Building Project for Suzhou Exhibition Centre and the Intelligent Building Project for Lakeside Palace finished during the period by Suzhou NandaSoft Technology Company Limited have consolidated Suzhou Company's leading position in the arena of intelligentization constructions in Suzhou region.

Jiangsu Fuyue Technology Company Limited, with specialization in outsourcing software targeted at Japan, completed Phase II, III, IV, V and VI of SCC line maintenance system, the system for Korea Business Department of 越田本社, ICOMSoft tax integrated management system, the digital camera-related system for Fujitsu (BCL) and the implementation of Mitsubishi SAP during the year. Both Jiangsu Fuyue Technology Company Limited and NandaSoft passed CMM3 certification in 2007 and laid a solid foundation for the future substantial development of outsourcing service.

NandaSoft is actively planning for the construction development of NandaSoft Software City, the design proposal and function module of which have been completed during the period, turning NandaSoft Software City into the demonstrative base of software outsourcing and network security products in Suzhou Province.

Future Prospects

In the past five years, the global offshore outsourcing market for software and service has grown by 50%. Major market research institutions such as McKinsey and Cygnus expect the compound growth rate to maintain at above 20% in the next few years at a relatively fast momentum. In 2001, the market share of China was 2.3% of the global offshore outsourcing market and climbed to 2.4% after years of rapid development, and it will merely be 3.7% in 2008 even after further rapid development, representing a large discrepancy given China's position in the global manufacturing specialization system and therefore much room for future development of China's software offshore outsourcing. As the construction works of NandaSoft Software City commences, NandaSoft will strive to substantially develop the business of software outsourcing service and turn it into the Company's new profit growth-point after the Network Security Total Solutions. NandaSoft will continue to stabilize and develop the present outsourcing business to Japan and, while actively developing software outsourcing to Europe and America at the same time.

Meanwhile, in response to the shifting client demand for network security from product-based to service-based, NandaSoft will focus on providing comprehensive network security products and services to its clients. Network Security Total Solutions will concentrate its research efforts on the information security protection of mobile network, whereas the Network Security Expert will provide the clients with multi-layer multi-dimension network security comprehensive services to meet their needs in comprehensive network security protection.

In 2008, other than conducting software upgrading on products such as existing firewalls, intrusion detect, intranet information surveillance and integrated protection system to maintain the competitiveness of products, the Company will also start researching on products such as IPv6 security gateway products, integrated protection products for confidential networks, strengthening software of operation system security and mobile communication facility security software.

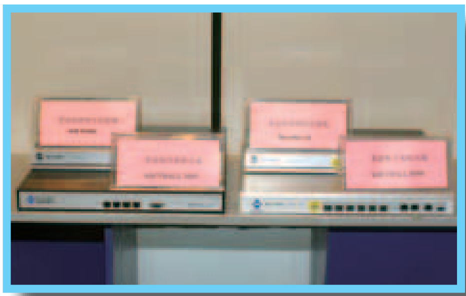
For the firewall and intrusion detect high-end products, the Company will cooperate with the related manufacturers for the development of telecommunication level firewall and intrusion detection products based on the domestic security chips in order to capture a leading position in the high-end security products market.

To further enhance the profitability of the Company, the Company will extend into the mobile communication sector with higher profit margin and to in 2008, and to develop it into stable source of income for the Company. In 2008, NandaSoft will conduct the construction of Software City in full scale.

Report of the Directors

Principal Activities

The principal activity of the Company is development, manufacturing 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 subsidiaries, and associates are set out in notes 16 and 17 to the financial statements, respectively.



Results and Dividends

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 109.

The directors do not recommend the payment of a final dividend in respect of the year.

Summary Financial Information

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 110. This summary does not form part of the audited financial statements.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of the People's Republic of China which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 December 2007, the Company had no reserves available for distribution.

Major Customers and Suppliers

In the year under review, sales to the Group's five largest customers accounted for 17.6% of the total sales for the year and sales to the largest customer included therein amounted to 7.4%. Purchases from the Group's five largest suppliers accounted for 66.7% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

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	(resigned at 4 February 2008)
Mr. Yuan Ren Wei	

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	(resigned at 20 June 2007)
Mr. Zhou Ming Hai	
Mr. Zhou De Fan	(resigned at 20 June 2007)
Mr. Shaw Yong Lei	
Mr. Xu Ke Jian	
Ms. Wu Zhao Yang	(resigned at 20 June 2007)
Mr. Sun Xing Huan	(appointed at 20 June 2007)
Mr. Lv Lei	(appointed at 20 June 2007)

The Company has received annual confirmations of independence from Mr. Xu Huan Liang, Professor Wang Zhi Jian and Mr. Yim Hing Wah, and still considers them to be independent as at the date of this report.

Directors' and Senior Management's Biographies

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 27 to 32 of the annual report.

Directors' and Supervisors' Service Contracts

All directors (including 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' Remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' and Supervisors' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2007, the interests and short positions of the directors in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules, were as follows:

Long Positions in Ordinary Shares of the Company:

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%
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.

The interests of the directors in the share options of the Company are separately disclosed in note 28 to the financial statements.

Save as disclosed above, as at 31 December 2007, none of the directors, chief executive or supervisors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Directors' Rights to Acquire Shares or Debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

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 2007, no option has been granted pursuant to such share option scheme.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

At 31 December 2007, the following interests and short positions of 5% or more of the issued share capital and share options of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Positions:

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	136,340,000	19.48%	—	—	136,340,000	14.60%
Jiangsu Furen Group Company Limited *(Note 2)*	Beneficial Owner	100,000,000	14.29%	—	—	100,000,000	10.71%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") *(Note 3)*	Interest of a controlled corporation	89,750,000	12.82%	—	—	89,750,000	9.61%
Beijing MengHua Investment Co., Ltd	Beneficial Owner	100,000,000	14.29%	—	—	100,000,000	10.71%

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
Guangzhou DingXiang Trade Co., Ltd	Beneficial Owner	100,000,000	14.29%	—	—	100,000,000	10.71%
Niaoning Guotai Housing Development Company Limited *(Note 3 and Note 4)*	Beneficial Owner	75,000,000	10.71%	—	—	75,000,000	8.03%
Jiangsu Provincial IT Industrial Investment Company Limited *(Note 5)*	Beneficial Owner	46,850,000	6.69%	—	—	46,850,000	5.02%
Jiangsu Co-Creation *(Note 6)*	Beneficial Owner	89,750,000	12.82%	—	—	89,750,000	9.61%

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, being 200,000,000 Domestic Shares, to Nanjing University Asset Administration Company Limited at nil consideration on 1 July 2004. On 30 November 2005, upon approval by the "Approval and response by the Ministry of Education about the transfer of the audited net assets of Nanjing University in 26 enterprises operated by the University to Nanjing University Asset Administration Company Limited at nil consideration"（《教育部關於同意南京大學將26家校辦企業經審計的南京大學淨資產無償劃轉到南京大學資產經營有限公司的批覆》）(Jiaojifahan No.200530) issued by the Ministry of Education of the People's Republic of China, 236,340,000 shares in the Company held by Nanjing University were transferred to Nanjing University Asset Administration Company Limited at nil consideration. On 24 December 2007, Nanjing University Asset Administration Company Limited entered into a Share Transfer Agreement with Beijing Menghua Investment Co., Ltd. for the transfer of 10.71% shares (100,000,000 shares) in the Company held by Nanjing University Asset Administration Company Limited to Beijing Menghua Investment Co., Ltd. The transfer is subject to the official approval by the State-owned Assets Supervision and Administration Commission of the State Council (the "State Assets Commission").

(2) On 7 December 2007, Jiangsu Furen Group Company Limited entered into a Share Transfer Agreement with Guangzhou DingXiang Trade Co., Ltd. for the transfer of 10.71% shares (100,000,000 shares) in Jiangsu Nandasoft Company Limited held by Jiangsu Furen Group Company Limited to Guangzhou DingXiang Trade Co., Ltd.

(3) On 26 December 2007, Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School entered into a Share Transfer Agreement with Niaoning Guotai Housing Development Company Limited for the transfer of 6.42% shares (60,000,000 shares) in the Company held by Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School to Niaoning Guotai Housing Development Company Limited. The transfer is subject to the official approval by the State Assets Commission.

(4) On 26 December 2007, Jiangsu Co-Creation entered into a Share Transfer Agreement with Niaoning Guotai Housing Development Company Limited for the transfer of 1.606% shares (15,000,000 shares) in the Company held by Jiangsu Co-Creation to Niaoning Guotai Housing Development Company Limited. The transfer is subject to the official approval by the State Assets Commission.

(5) On 8 August 2007, Mr. Wang Dao Wu, a natural person, entered into a transfer agreement with Jiangsu Provincial IT Industrial Investment Company Limited for the transfer of 1,000,000 shares in the Company held by him to Jiangsu Provincial IT Industrial Investment Company Limited.

(6) Jiangsu Management Centre is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1 July 2001. The interest of Jiangsu Management Centre comprises 89,750,000 domestic shares (100% deemed interests held by Jiangsu Management Centre representing approximately 9.61% of the Company's total issued share capital) held through Jiangsu Co-Creation, which is approximately 51% owned by Jiangsu Management Centre.

Save as disclosed above, as at 31 December 2007, no person, other than the directors, chief executive and supervisors of the Company, whose interests are set out in the section "Directors', chief executive's and supervisors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Connected Transactions and Continuing Connected Transactions

During the year, the Company and the Group had the following connected transactions and continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 20 of the GEM Listing Rules.

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 33 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 described in note 33 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.

Continuing connected transactions

The independent non-executive directors of the Company have reviewed the continuing connected transactions set out above and in note 33 to the financial statements and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Directors' Interests in a Competing Business

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.

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 Cachet Certified Public Accountants Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

Xie Li
Chairman

Nanjiang, the PRC
27 March 2008

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 ("CG 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 build long-term interest for shareholders and to conduct business in a socially responsible and honest manner has earned the Company widespread market recognition.

Board of Directors

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 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 has 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 2007.

The Company confirmed that annual confirmation 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 the independent non-executive directors are considered to be independent.

As at 31 December 2007, the Board comprises eight Directors, including the Chairman of The Board, two of them being Executive Directors, and the remaining six 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 in current year. Details of attendance of the Board are as follows:

Directors	Attendance
Mr. Xie Li	4/4
Mr. Chen Zheng Rong	4/4
Professor Chen Dao Xu	3/4
Ms. Zhang Yun Xia	0/4
Mr. Yuan Ren Wei	4/4
Mr. Xu Huan Laing	4/4
Professor Wang Zhi Jian	3/4
Mr. Yim Hing Wah	4/4

They oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities.

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of the shareholders and the Group's assets.

Appointment, Re-election and Removal of Directors

All directors (including 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. They oversee particular aspects of the Company's affairs and to assist in the execution of its responsibilities.

Chairman and the Chief Executive Officer

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive office should be clearly established and set out in writing

Mr. Xie Li ("Mr. Xie") is the Chairman of the Group and he leads the Board and is responsible for the proceedings and workings of the Board. He ensures that

— the Board acts in the best interest of the Group; and
— the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board

Mr. Pu Liang ("Mr. Pu") is the chief executive officer of the Group and he responses

— for business plans, strategies and policies; and
— ensure the Groups' operations are functioned effectively and efficiency.
— motivate to contribute the growth and profitability of the Group.

Mr. Pu has resigned as chief executive with effect from 13 February 2008 and Mr. Liu Jian Bang has been appointed to replace his position with the same effective date.

Mr. Xie and both Mr. Pu and Mr. Liu has considerable industry experience and they are motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is the best interests of the Group to have a Chairman and chief executive officer so that the Board can have the benefit in knowledge about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

Remuneration Committee

The Remuneration committee is established in 2005 and comprises two Executive Directors and three Independent Non-Executive Directors, namely, Mr. Xie Li, Mr. Chen Zheng Rong, Mr. Xu Huan Laing, Professor Wang Zhi Jian and Mr. Yim Hing Wah.

The role and function of the remuneration committee include:

(1) To stipulate the remuneration policies applicable to all directors and senior management, and formulate the procedure of stipulating such policies;

(2) To prepare the remuneration plan or proposal according to the work scope, responsibilities, importance of the positions of director and senior management with reference the remuneration level for similar positions offered by other employers, including but not limited to: performance assessment criteria and processes, main assessment system, amount and payment method of remuneration, principal rewarding and penalty system, etc.;

(3) To organize the performance assessment to the directors and senior management; to review the duty fulfillment and annual performance of such directors and senior management against the operational target fulfillment of the Company; and

(4) To review the remunerations of the directors and senior management and supervise the implementation of the Company's remuneration system.

The Remuneration committee consults the chairman and chief executive officer about its proposals relating to the remuneration of other executive directors. During the year, a meeting of the Remuneration committee was duly convened and held.

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 one Executive Director, one Non-Executive Director and three Independent Non-Executive Directors, namely Mr. Xie Li, Mr. Yuan Ren Wei, Mr. Xu Huan Liang, Professor Wang Zhi Jian and Mr. Yim Hing Wah.

The role and function of the nomination committee include recommending the candidates, selection criteria and procedures for the appointment of Directors and General Manager of the Company, and recommending and reviewing the candidates for Chief Financial Officer and other senior management nominated by the General Manager, and the candidates for the Secretary to the Board of Directors nominated by the Chairman of the Board.

Audit Committee

The Company established an audit committee on 8 December 2000, it comprises three Independent Non-Executive Directors, Mr. Xu Huan Liang, Mr. Yim Hing Wah and Professor Wang Zhi Jian.

The Audit Committee was established to assist the Board in safeguarding the Company's assets by providing an independent review of the financial statement for the year ended 31 December 2007 and the internal control and risk management systems of the Company. The committee also oversees the audit process and performs other duties as assigned by the Board. Terms of reference of the Audit Committee which have been adopted by the Board and posted on the Company's website. All the members of our Audit Committee are Independent Non-Executive Directors. The committee met four times for the year 2007.

Internal control

The Board is responsible for overseeing the system of internal control of the Group and for reviewing its effectiveness. To facilitate the effectiveness and efficiency of operations and to ensure compliance with relevant laws and regulations, the Group emphasizes on the importance of a sound internal control system which is also indispensable for mitigating the Group's risk exposures. A sound and effective internal control system is designed for (i) safeguarding the interests of shareholders; (ii) safeguarding assets of the Group against misappropriation; (iii) ensuring proper maintenance of accounting records for the provision of reliable financial information; and (iv) ensuring compliance with the relevant laws and regulations. Such system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of the business objectives.

During the year, the Board, through the audit committee, has assessed the effectiveness of the internal control system of the Group including financial, operational and compliance controls and risk management functions. The Board is satisfied that, the present system of internal control is effective. The Group does not have the internal audit function and does not consider that there is a need to have one.

Communications with shareholders

The Board communicates with the shareholders through the annual general meetings and special general meetings. In compliance with the requirements of GEM Listing Rules, the Company issued regular reports, announcements, circulars, notice of general meetings. Shareholders can get the latest information of the Company through these publications of the Company.

To offer accurate information to investors and shareholders on a timely and fair disclosure basis, a series of public events were hosted by directors and senior management right after results announcements. These served as interactive platforms for the management to address questions from investors and the media.

Auditors' remuneration

Cachet Certified Public Accountants Limited ("Cachet") were appointed as the auditors of the Company pursuant to the shareholders' resolution passed in the Annual General Meeting held on 20 June 2007. Audit fees in respect of annual audit service amounted to HK$400,000. Cachet did not provide other non-audit services to the Company except for the agreed-upon-procedure review on the Group's continuing connected transactions as required by Rules 20 of GEM Listing Rules.

Model 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 had confirmed that, for the year ended 31 December 2007, they have complied with the required standard set out in the Model Code.

Accountability and audit

The Board acknowledges its responsibility for preparing the financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis, with supporting assumptions or qualifications as necessary. In preparing the accounts for the year ended 31 December 2007, the directors have selected suitable accounting policies and applied them consistently and made judgements and estimates that are prudent and reasonable.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report.

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 2007, 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 Cachet Certified Public Accountants Limited, 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
SHI JIAN JUN
Chairman of the Supervisory Committee

Nanjing, the PRC
27 March 2008

Directors, Supervisors and Senior Management

Directors

Executive Directors

Professor Xie Li,（謝立）, 66, Chairman 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） 52, 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）, 61, 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）, 44, 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 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. Ms. Yang resigned in February 2008.

Directors, Supervisors and Senior Management

Mr. Yuan Ren Wei, (袁仁偉), 38, 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), 66, 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), 50, Deputy Dean of the Department of Information Technology in Hehai University 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) 43, 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

Professor Shi Jian Jun, **(施建軍)**, 53, 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. Shi was appointed Chairman of Supervisory Committee of the Company in May 2006.

Mr. Zhou Wen Da, **(周文達)**, 45, 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. He was resigned at June 2007.

Mr. Zhou Ming Hai, **(周明海)**, 58, 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. Xu Ke Jian, **(徐克儉)**, 53, graudated from the Faculty of Humanities of Nanjing University of Science and Technology specialized in ideological and political education. Mr. Xu was the duputy 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 unior of Nanjing Radio Company and the member of 12th session of Shi zhang 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 duputy 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.

Ms. Wu Zhao Yang (吳朝陽), 39 , is a member of the Chinese Community Party and a vice professor. She had obtained a master degree in Economics from University of Nanjing. She taught in Jiangyang City Vocation Technological Institute江陽市職業技術學院 during the period from 1989 to August 2001 and acted as a department head of the management faculty. She is the general manager of Jiangyang City Furen Machinery Factory 江陽市富仁機件廠, Jiangyang City Wan He Automatic Device Company Limited 江陽市萬和自動設備有限公司, a subsidiary of Jiangsu Furen Group Company Limited 江蘇富仁集團有限公司, from September 2001. She was resigned at June 2007.

Members of the Independent Supervisory Committee

Mr. Zhou De Fan, (周德藩), 66, 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. He was reigned at June 2007.

Mr. Shaw Yong Lei,〔邵永雷〕aged 64, 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.

Mr. Sun Xing Huan, (孫興煥) aged 50, graduated from university and is the general party branch secretary of Huangshan Village, Chengjiang Town, Jiangyin Municipal, the chairman of Jiangyin Nickel Screen Factory (江陰市鎳網廠有限公司), the chairman of Jiangyin Huangshan Group (江陰市黃山集團) and the chairman of Jiangsu Shuangyu Nickel Industry Hi-Tech Company Limited (江蘇雙宇鎳高科有限公司). He is also the president of Surface Engineering Association of Jiangyin Municipal (江陰市表面工程協會), the vice president of the Chamber of Commerce of Chengjiang Town, Jiangyin Municipal (江陰市澄江鎮商會) and the executive officer of the Nickel Screen Professional Committee of the China Textile Machinery Association (中國紡織械器材工業協會鎳網專業委員會). He served as deputy section chief of the Production Technology Section of Jiangyin Wuyi Cotton Textile Factory (江陰市五一棉紡廠生技科) and deputy factory manager of Jiangying Xijiao Spinning Factory (江陰市西郊纺用廠), and was awarded the model worker of Wuxi Municipal and Jiangsu Province.

Mr. Lv, (呂磊), aged 30, obtained a master degree and is the vice president of the Nandasoft Research Institute (蘇富特研究院). He graduated from the Department of Computer Science and Technology of Nanjing University and has participated in the research and development of various national and provincial key projects. He was awarded the First Prize of technology Progress of Jiangsu Province (江蘇省科技進步一等獎). Mr. Lv jointed the Company in July 1999.

Senior Management

Mr. Pu Liang,（浦良）, 45, graduate of the Department of Computer Science of Nanjing University with a Master's degree. Before joining the Company, he worked in Jiangsu Province Electronic Information Industry Group（江蘇省電子信息產業集團）, Jiangsu Province Computer Technologies Services Company Limited（江蘇省計算機技術服務公司）and Jiangsu Province YiDi Computer Software Co., Ltd.（江蘇省依迪計算機軟件公司）as the Director of General Affairs Office, Deputy General Manager, etc. founded the Nanjing New Integrated Technology Company Limited and Nanjing New Renjia Computer Network System Company Limited. He joint NandaSoft System Integration Co., Ltd. In 1999. Mr. Pu was appointed President of the Company in November 2006. Mr. Pu resigned as Chief Executive Officer of the Company since February 2008.

Mr. Wang Jinqing,（王金慶）, 43, 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. Mr. Wang was resigned since February 2008.

Mr. Qin Junjun,（秦均均）, 36, graduate of the EMBA program of Nanjing University. He had served as the General Manager of Nanjing Ze Tong Technology Company Limited (南京澤通科技有限公司）. He was appointed General Manager of Nanjing Nandasoft Computer Engineering Company Limited (南京南大蘇富特計算機工程有限公司）in 2003. He was appointed Vice President of the Company in November 2006. Mr. Qin was resigned since February 2008.

Mr. Chen Xiaozhong,（陸小忠）, 37, Marketing Director of the Company. He had served as the General Manager of 南京新潤佳計算機網絡技術限公司 and had held positions of Manager of Marketing Department, Assistant to the President, Marketing Director, etc. He jointed the Company in May 2000 and was appointed Vice President of the Company in November 2006.

Ms. Tong Sze Wan,（唐詩韻）, aged 35, 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.

Directors, Supervisors and Senior Management

Mr. Pan Jian Xiang, (潘健翔), aged 45. Mr. Pan graduated from the Electrical Engineering Department of Dalian Maritime College and obtained a master degree in Engineering from the City College of New York in the United States. He has been the executive director of China Mountain, director of Zhengzhou Huaqiao Friendship Real Estate Development Co., Ltd., executive director of 香港協聯投資公司, general manager of Hong Kong Tien Luen Trade Co., Ltd. and director of Guangdong Giovanni Trading Co., Ltd.. He has been engaged in international trading for many years and has participated in the operation of a number of world-famous brands, including Citizen from Japan, Raymond Weil from Germany, Valentino from Italy and Alberto from United States. He possesses extensive experience in international trading and brand marketing in different industries including real estate, funds, cosmetics and retailing. Mr. Pan was appointed as Vice President of the Company since February 2008.

Mr. Liu Jian Bang, (劉建邦) aged 53, he graduated from the Department of Mathematics of Nanjing University and migrated to United States in 1989. He is the honorary chairman of the New York Chinese Businessmen's Association, vice chairman of U.S. Chinese Chamber of Commerce and one of the successful Chinese entrepreneurs in United States. In 1991, Mr. Liu established JBL International Inc which is engaged in international trading, wholesaling and other businesses. In 1996, he established Lotus Pacific Inc as one of its partners. Lotus Pacific Inc was successfully listed on NASDAQ and is engaged in the research and development of manufacturing network equipments and its products mainly includes cable modem, router and set box. After years of effort, Mr. Liu is currently the owner of several investment holdings companies involved in the manufacture and sales of IT products, medical instruments, textile products and ready-to-wear garments, real estates in United States and the PRC, as well as investments in finance and securities. Mr. Liu is an enthusiastic supporter of charity work and a generous donator to different kinds of charity activities. Mr. Liu was appointed as Chief Executive Officer of the Company since February 2008.

CACHET

Cachet Certified Public Accountants Limited

德揚會計師事務所有限公司

To the members of

Jiangsu Nandasoft Company Limited

(Established in the Peoples' Republic of China with limited liability)

We have audited the financial statements of Jiangsu Nandasoft Company Limited set out on pages 35 to 109, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Auditors' responsibility *(continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Cachet Certified Public Accountants Limited
Certified Public Accountants

Chan Yuk Tong
Practising Certificate Number P03723

Hong Kong
27 March 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB	2006 RMB
REVENUE	5	**305,728,452**	402,463,042
Cost of sales		**(274,012,677)**	(365,302,210)
Gross profit		**31,715,775**	37,160,832
Other income and gains	5	**28,190,308**	3,622,089
Selling and distribution costs		**(19,704,573)**	(26,652,269)
Research and development costs	6	**(906,946)**	(2,605,290)
Administrative expenses		**(29,911,347)**	(48,513,919)
Finance costs	7	**(2,596,425)**	(3,119,066)
Share of losses of associates		**(244,581)**	(215,477)
PROFIT/(LOSS) BEFORE TAX	6	**6,542,211**	(40,323,100)
Tax	10	**(351,402)**	(481,193)
PROFIT/(LOSS) FOR THE YEAR		**6,190,809**	(40,804,293)
Attributable to:			
Equity holders of the Company		**6,445,375**	(39,479,448)
Minority interests		**(254,566)**	(1,324,845)
		6,190,809	(40,804,293)
DIVIDENDS		**—**	—
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY	12		
Basic		**0.69 cents**	(4.23 cents)
Diluted		**N/A**	N/A

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB	2006 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,873,055**	22,751,771
Prepaid land lease payments	14	**—**	9,808,105
Intangible assets	15	**19,128,305**	19,683,585
Interests in associates	17	**9,296,430**	9,541,011
Available-for-sale investments	18	**1,546,982**	5,570,541
Construction in progress	19	**24,029,553**	22,752,000
Total non-current assets		**57,874,325**	90,107,013
CURRENT ASSETS			
Inventories	20	**42,394,962**	35,024,985
Trade and other receivables	21	**105,709,855**	131,612,649
Prepaid land lease payments	14	**—**	237,000
Equity investments at fair value through profit or loss	22	**61,000**	305,060
Due from shareholders	33	**35,358,761**	3,180,119
Due from an associate	33	**11,220**	—
Due from a minority shareholder	33	**29,642**	1,145,347
Cash and cash equivalents	23	**30,577,880**	66,371,906
Total current assets		**214,143,320**	237,877,066
CURRENT LIABILITIES			
Trade and other payables	24	**45,447,200**	37,564,096
Receipts in advance, other creditors and accrued expenses		**36,495,043**	44,062,091
Due to a shareholder	33	**115,297**	115,297
Interest-bearing bank and other borrowings	25	**8,000,000**	63,000,000
Tax payable		**92,199**	117,489
Total current liabilities		**90,149,739**	144,858,973
NET CURRENT ASSETS		**123,993,581**	93,018,093
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,867,906**	183,125,106

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB	2006 RMB
TOTAL ASSETS LESS CURRENT LIABILITIES		**181,867,906**	183,125,106
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	*25*	**(10,000,000)**	(10,000,000)
Net assets		**171,867,906**	173,125,106
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	*27*	**93,400,000**	93,400,000
Reserves	*29(a)*	**67,925,492**	61,584,334
		161,325,492	154,984,334
Minority interests		**10,542,414**	18,140,772
Total equity		**171,867,906**	173,125,106

Xie Li
Director

Chen Zheng Rong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the parent								
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Exchange reserve	Retained earnings	Total	Minority interests	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
			(note 29(a))	*(note 29(a))*		*(note 29(a))*			
At 1 January 2006	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
Exchange differences arising on translation of foreign operation recognised directly in equity	—	—	—	—	(28,662)	—	(28,662)	—	(28,662)
Loss for the year	—	—	—	—	—	(39,479,448)	(39,479,448)	(1,324,845)	(40,804,293)
Total recognised income and expenses for the year	—	—	—	—	(28,662)	(39,479,448)	(39,508,110)	(1,324,845)	(40,832,955)
Appropriations	—	—	154,721	77,361	—	(232,082)	—	—	—
Capital contribution by minority shareholders of subsidiaries	—	—	—	—	—	—	—	4,240,838	4,240,838
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(1,117,971)	(1,117,971)
Disposal of subsidiaries	—	—	—	—	—	—	—	(868,924)	(868,924)
At 31 December 2006 and 1 January 2007	93,400,000	48,868,818	4,846,407	2,423,203	(45,195)	5,491,101	154,984,334	18,140,772	173,125,106
Exchange differences arising on translation of foreign operation recognised directly in equity	—	—	—	—	(104,217)	—	(104,217)	—	(104,217)
Profit for the year	—	—	—	—	—	6,445,375	6,445,375	(254,566)	6,190,809

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Attributable to equity holders of the parent								
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Exchange reserve	Retained earnings	Total	Minority interests	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
			(note 29(a))	*(note 29(a))*		*(note 29(a))*			
Total recognised income and expenses for the year	—	—	—	—	(104,217)	6,445,375	6,341,158	(254,566)	6,086,592
Appropriations	—	—	(1,634,518)	(817,259)	—	2,451,777	—	—	—
Dividend paid to minority shareholders	—	—	—	—	—	—	—	(220,080)	(220,080)
Disposal of subsidiaries	—	—	—	—	—	—	—	(7,123,712)	(7,123,712)
At 31 December 2007	93,400,000	48,868,818	3,211,889	1,605,944	(149,412)	14,388,253	161,325,492	10,542,414	171,867,906

Consolidated Cash Flow Statement

31 December 2007

	Notes	2007 RMB	2006 RMB
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**6,542,211**	(40,323,100)
Adjustments for:			
Finance costs	7	**2,349,093**	2,987,427
Share of losses of associates	17	**244,581**	215,477
Interest income	5	**(252,978)**	(520,235)
Gain on disposal of items of property, plant and equipment	6	**(15,695,305)**	(7,393)
Gain on disposal of available-for-sale investments	5	**(1,186,090)**	(509,000)
Loss on disposal of subsidiaries		**482,226**	178,922
Loss on disposal of an associate		**—**	368,319
Loss on disposal of a jointly-controlled equity		**—**	218,811
Loss on disposal of items of property, plant and equipment	6	**313**	—
Depreciation of property, plant and equipment	13	**1,896,729**	3,213,608
Recognition of prepaid land lease payments	14	**59,250**	237,000
Amortisation of intangible assets	15	**4,201,315**	4,332,772
Impairment loss on available-for-sale investments		**—**	1,500,000
		(1,358,655)	(28,107,392)
Increase in inventories		**(7,542,722)**	(1,392,486)
Decrease in trade and other receivables		**16,670,747**	62,188,241
Decrease in equity investments at fair value through profit or loss		**244,060**	657,350
Increase/(decrease) in trade and other payables		**4,402,234**	(29,444,658)
Decrease in receipt in advance, other creditors and accrued expenses		**(7,567,048)**	(8,722,046)
Cash generated from /(used in) operations		**4,848,616**	(4,820,991)
Interest received		**252,978**	520,235
Interest paid		**(2,349,093)**	(2,987,427)
PRC income tax paid		**(350,788)**	(1,505,826)
Net cash inflow/(outflow) from operating activities		**2,401,713**	(8,794,009)

Consolidated Cash Flow Statement

31 December 2007

	Notes	2007 RMB	2006 RMB
Net cash inflow/(outflow) from operating activities		**2,401,713**	(8,794,009)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	13	**(1,178,560)**	(1,225,473)
Proceeds from disposal of items of property, plant and equipment		**46,687,562**	133,824
Proceeds from disposal of available-for-sale investment		**3,186,000**	750,572
Additions to other intangible assets	15	**(4,146,035)**	(3,425,798)
Contribution to a jointly-controlled equity		**—**	(1,246,513)
Proceeds from disposal of jointly-controlled equity		**—**	1,961,379
Proceeds from disposal of an associate		**—**	1,939,029
New cash inflow arising from disposal of subsidiaries	30(a)	**4,907,652**	3,411,492
Increase in pledged time deposits		**—**	6,195,785
Refund for available-for-sale investment		**—**	10,000,000
Decrease in loan receivables		**—**	10,000,000
(Advance to)/repayment from shareholders		**(32,178,642)**	1,099,009
Repayment from/(advance to) minority shareholders		**1,115,705**	(935,347)
Deposit paid for construction in progress	19	**(1,277,553)**	(22,752,000)
Net cash inflow from investing activities		**17,116,129**	5,905,959
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution by minority shareholders of subsidiaries		**—**	4,240,838
Repayment to associates		**(11,220)**	(359,500)
New bank loans		**8,000,000**	73,000,000
Repayment of bank loans		**(63,000,000)**	(35,000,000)
Dividend paid to minority shareholders		**(220,080)**	(1,117,971)
Net cash (outflow)/inflow from financing activities		**(55,231,300)**	40,763,367
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(35,713,458)**	37,875,317
Cash and cash equivalents at beginning of year		**66,371,906**	28,525,251
Effect of foreign exchange rate changes, net		**(80,568)**	(28,662)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**30,577,880**	66,371,906
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**30,577,880**	66,371,906

Balance Sheet

31 December 2007

	Notes	2007 RMB	2006 RMB
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,573,160**	18,066,810
Prepaid land lease payments	14	**—**	9,808,105
Intangible assets	15	**18,568,305**	19,141,918
Investments in subsidiaries	16	**42,331,360**	51,174,041
Investments in associates	17	**8,355,372**	8,358,378
Available-for-sale investments	18	**1,170,053**	3,169,962
Construction in progress	19	**24,029,553**	22,752,000
Total non-current assets		**96,027,803**	132,471,214
CURRENT ASSETS			
Inventories	20	**8,545,825**	6,972,683
Trade and other receivables	21	**60,247,376**	72,796,971
Prepaid land lease payments	14	**—**	237,000
Due from shareholders	33	**35,358,761**	3,180,119
Dividend receivable		**10,248,650**	10,432,265
Cash and cash equivalents	23	**13,343,645**	37,179,458
Total current assets		**127,744,257**	130,798,496
CURRENT LIABILITIES			
Trade and other payables	24	**18,041,005**	11,288,926
Receipts in advance, other creditors and accrued expenses		**29,136,095**	27,049,154
Due to a shareholder	33	**115,297**	115,297
Interest-bearing bank and other borrowings	25	**8,000,000**	63,000,000
Total current liabilities		**55,292,397**	101,453,377
NET CURRENT ASSETS		**72,451,860**	29,345,119
TOTAL ASSETS LESS CURRENT LIABILITIES		**168,479,663**	161,816,333
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	25	**(10,000,000)**	(10,000,000)
Net assets		**158,479,663**	151,816,333
EQUITY			
Issued capital	27	**93,400,000**	93,400,000
Reserves	29(b)	**65,079,662**	58,416,333
Total equity		**158,479,663**	151,816,333

Xie Li
Director

Chen Zheng Rong
Director

1. Corporate Information

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 Company's registered office and the places of business in the People's Republic of China (the "PRC") is Nandasoft Tower, 8 Jinyin Street, Shanghai Road, Nanjing, the PRC. The Company's registered office and the place of business in Hong Kong is Room 1006-07, 10/F., New Victory House, 93-103 Wing Lok Street, Sheung Wan, Hong Kong.

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.

2.1 Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for equity investments, which have been measured at fair value. These financial statements are presented in Renminbi ("RMB").

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.1 Basis of Preparation *(Continued)*

Basis of consolidation *(Continued)*

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the acquisition to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisitions of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 *Presentation of Financial Statements — Capital disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

2.2 Impact of New and Revised Hong Kong Financial Reporting Standards

(Continued)

(c) HK(IFRIC)-Int 8 *Scope of HKFRS 2*

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has not issued equity instruments to its employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has no embedded derivative requiring separation from the host contract, the interpretation has had no effect on these financial statements.

(e) HK(IFRIC)-Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 8	Operating Segments[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[4]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 March 2007
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2008

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group. In accordance with the transitional provisions in the revised standard, the Group shall apply the revised standard on a prospective basis to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009.

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

2.3 Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards *(Continued)*

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of HKFRS 8 may result in new or amended disclosures and the adoption of HKAS 23 (Revised) may result in a change in accounting policy, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of non-financial assets other than goodwill *(Continued)*

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

2.4 Summary of Significant Accounting Policies *(Continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

2.4 Summary of Significant Accounting Policies *(Continued)*

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding ten years, commencing from the date when the products are put into commercial production.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading or these financial assets are recognised in the income statement. The net fair value gain or loss recognised in the income statement does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

2.4 Summary of Significant Accounting Policies *(Continued)*

Investments and other financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing model

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 Summary of Significant Accounting Policies *(Continued)*

Impairment of financial assets *(Continued)*

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgments. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

2.4 Summary of Significant Accounting Policies *(Continued)*

Financial liabilities at amortised cost (including interest-bearing bank and other borrowings)

Financial liabilities including trade and other payables and interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expenses is recognized within “financial costs” in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Cost of inventories includes the transfer from equity of gains and losses on qualifying cash flow hedges in respect of the purchases of raw materials. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group’s cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 Summary of Significant Accounting Policies *(Continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 Summary of Significant Accounting Policies *(Continued)*

Income tax *(Continued)*

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

2.4 Summary of Significant Accounting Policies *(Continued)*

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the rendering of services, when the services are rendered; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Pension scheme

The employees of the Group which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This Group is required to contribute certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 Summary of Significant Accounting Policies *(Continued)*

Foreign currencies *(Continued)*

The functional currencies of certain overseas subsidiaries are currencies other than Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date, and their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in the translation reserve, a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. Significant Accounting Judgements and Estimates

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment on trade and other receivables

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 counter-party. If the financial conditions of the counter-party were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

3. Significant Accounting Judgements and Estimates *(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.

Useful lives of property, plant & equipment and intangible assets

The management determines the estimated useful lives and related depreciation/amortization charges for its property, plant and equipment and intangible assets. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment and intangible assets of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation/amortization charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangible assets are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimated fair value of financial assets

The estimation of fair value of financial assets required the management to estimate the future market value expected to be received from the disposal of the financial assets and a suitable discount rate in order to calculate the present value.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits.

4. Segment Information

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as over 90% of the Group's revenue is derived from customers based in Mainland China, and over 90% of the Group's assets are located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other 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.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

4. Segment Information *(Continued)*

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2007 and 2006.

	Sales of computer software products		System integration service		Import and export IT related products and equipment		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
REVENUE	**39,197,726**	38,741,430	**248,091,818**	273,542,719	**18,438,908**	90,178,893	**305,728,452**	402,463,042
RESULTS	**(13,330,161)**	(21,451,560)	**(41,890)**	(7,606,851)	**359,710**	(8,468,563)	**(13,012,341)**	(37,526,974)
Other income and gains							**24,303,368**	2,892,992
Unallocated corporate expenses							**(1,907,810)**	(2,354,575)
Share of results of associates							**(244,581)**	(215,477)
Finance costs							**(2,596,425)**	(3,119,066)
Profit/(loss) before tax							**6,542,211**	(40,323,100)
Income tax expenses							**(351,402)**	(481,193)
Profit/(loss) for the year							**6,190,809**	(40,804,293)

4. Segment Information *(Continued)*

	Sales of computer software products		System integration service		Import and export IT related products and equipment		Total	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*	***RMB***	*RMB*
BALANCE SHEET								
ASSETS								
Segment assets	**28,548,130**	47,563,159	**144,536,727**	97,540,725	**10,792,576**	44,808,959	**183,877,433**	189,912,843
Interests in associates							**9,296,430**	9,541,011
Unallocated assets							**78,843,782**	128,530,225
Consolidated total assets							**272,017,645**	327,984,079
LIABILITIES								
Segment liabilities	**9,758,439**	14,411,807	**49,406,136**	59,702,974	**3,689,162**	17,511,406	**62,853,737**	91,626,187
Unallocated liabilities							**37,296,002**	63,232,786
Consolidated total liabilities							**100,149,739**	154,858,973
OTHER INFORMATION								
Additions of property, plant and equipment	**704,981**	374,059	**455,577**	753,238	**18,002**	98,176	**1,178,560**	1,225,473
Additions of intangible assets	**4,146,035**	3,425,798	**—**	—	**—**	—	**4,146,035**	3,425,798
Allowance for doubtful debts	**—**	—	**10,745,758**	18,944,264	**—**	—	**10,745,758**	18,944,264
Allowance for inventories	**—**	—	**—**	1,771,619	**—**	—	**—**	1,771,619
Amortisation of intangible assets	**4,201,315**	4,332,772	**—**	—	**—**	—	**4,201,315**	4,332,772
Depreciation of property, plant, and equipment	**705,342**	1,052,792	**969,924**	1,752,773	**221,463**	408,043	**1,896,729**	3,213,608
Impairment losses of available-for-sale Investment — unallocated	**—**	—	**—**	—	**—**	—	**—**	1,500,000

5. Revenue, other Income and Gains

Revenue, which is also the Group's revenue, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and the value of services rendered during the year.

An analysis of revenue, other income and gains is as follows:

	2007 *RMB*	2006 *RMB*
Revenue		
Sale of goods:		
Computer software products	**39,197,726**	38,741,430
Import and export of IT related products and equipment	**18,438,908**	90,178,893
Rendering of system integration services	**248,091,818**	273,542,719
	305,728,452	402,463,042
Other income and gains		
Bank interest income	**252,978**	520,235
PRC value added tax refunded	**886,940**	729,097
Investment income from available-for-sale investments	**—**	678,800
Gain on disposal of items of property, plant and equipment	**15,695,305**	7,393
Gain on disposal of available-for-sale investments	**1,186,090**	509,000
Gain on disposal of equity investments at fair value through profit or loss	**4,201,649**	816,988
Government grants received	**3,000,000**	—
Others	**2,967,346**	360,576
	28,190,308	3,622,089
	333,918,760	406,085,131

6. Profit/(Loss) Before Tax

The Group's profit/(loss) before tax is arrived at after charging/(crediting):

	Notes	**2007**	2006
		RMB	*RMB*
Cost of inventories sold		**49,078,624**	120,672,184
Cost of services provided		**224,934,053**	244,630,026
Depreciation of property, plant and equipment	*13*	**1,896,729**	3,213,608
Amortisation of intangible assets	*15*	**4,201,315**	4,332,772
Research and development costs:			
Deferred expenditure amortised	*15*	**3,225,653**	3,106,010
Current year expenditure		**944,593**	2,609,280
Less: Government grants released		**(3,263,300)**	(3,110,000)
		906,946	2,605,290
Minimum lease payments under operating leases on office premises		**1,043,343**	903,778
Auditors' remuneration		**400,000**	380,000
Loss on disposal of subsidiaries		**482,226**	178,922
Loss on disposal of an associate		**—**	368,319
Loss on disposal of jointly controlled entity		**—**	218,811
Loss on disposal of items of property, plant and equipment		**313**	—
Employee benefits expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries and pension scheme contributions		**17,179,944**	26,975,895
Foreign exchange differences, net		**(187,126)**	(449,997)
Impairment of trade receivables		**10,745,758**	18,944,264
Write-down of inventories to net realisable value		**—**	1,771,619
Impairment of available-for-sale investment		**—**	1,500,000
Bank interest income		**(252,978)**	(520,235)
Gain on disposal of items of property, plant and equipment		**(15,695,305)**	(7,393)

7. Finance Costs

	2007	2006
	RMB	*RMB*
Interest on bank loans wholly repayable within five years	**2,349,093**	2,987,427
Bank charges	**247,332**	131,639
	2,596,425	3,119,066

8. Directors' and Supervisors' Remuneration

Directors' and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2007	2006
	RMB	*RMB*
Directors' fees:		
Independent non-executive directors	**24,000**	24,000
Directors' emoluments:		
Salaries, allowances and other benefits:		
Executive directors	**303,860**	367,890
Non-executive directors	**28,000**	28,000
	331,860	395,890
	355,860	419,890
Supervisors' emoluments:		
Salaries, allowances and other benefits	**39,000**	90,732

8. Directors' and Supervisors' Remuneration *(Continued)*

(a) Independent non-executive directors

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

	2007	2006
	RMB	*RMB*
Mr. Xu Huan Liang	**8,000**	8,000
Professor Wang Zhi Jian	**8,000**	8,000
Mr. Yim Hing Wah	**8,000**	8,000
	24,000	24,000

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. Directors' and Supervisors' Remuneration *(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*
2007						
Executive directors:						
Professor Xie Li	**—**	**191,860**	**—**	**—**	**—**	**191,860**
Mr. Chen Zheng Rong	**—**	**112,000**	**—**	**—**	**—**	**112,000**
	—	**303,860**	**—**	**—**	**—**	**303,860**
Non-executive director:						
Professor Chen Dao Xu	**—**	**8,000**	**—**	**—**	**—**	**8,000**
Ms. Zhang Yun Xia	**—**	**8,000**	**—**	**—**	**—**	**8,000**
Mr. Yuan Ren Wei	**—**	**12,000**	**—**	**—**	**—**	**12,000**
	—	**28,000**	**—**	**—**	**—**	**28,000**
	—	**331,860**	**—**	**—**	**—**	**331,860**
2006						
Executive directors:						
Professor Xie Li	—	255,890	—	—	—	255,890
Mr. Chen Zheng Rong	—	112,000	—	—	—	112,000
	—	367,890	—	—	—	367,890
Non-executive director:						
Professor Chen Dao Xu	—	8,000	—	—	—	8,000
Ms. Zhang Yun Xia	—	8,000	—	—	—	8,000
Mr. Yuan Ren Wei	—	12,000	—	—	—	12,000
	—	28,000	—	—	—	28,000
	—	395,890	—	—	—	395,890

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year (2006: Nil).

9. Five Highest Paid Employees

The five highest paid employees during the year included two (2006: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2006: three) non-directors, highest paid employees for the year are as follows:

	Group	
	2007	2006
	RMB	*RMB*
Salaries, allowances and other benefits	**745,202**	761,875
Pension scheme contributions	**—**	—
	745,202	761,875

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**3**	3

10. Tax

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%.

Under the relevant PRC Income Tax Law and the respective regulations, the corporate income tax for subsidiaries was calculated at rates ranging from 15% to 33%, on their estimated assessable profits for the year based on existing legislation, interpretations and practices in respect thereof. As certain of the Company's subsidiaries are foreign investment enterprises, after obtaining authorisation from respective tax authorities, these subsidiaries are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

10. Tax *(Continued)*

	2007	2006
	RMB	*RMB*
Current — the PRC:		
Charge for the year	**359,674**	—
Overprovision in prior years	**(8,272)**	(306,316)
	351,402	(306,316)
Deferred tax *(note 26)*	**—**	787,509
Total tax charge for the year	**351,402**	481,193

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate of 33% for the PRC to the tax expense at the effective tax rate is as follows:

	2007		2006	
	RMB	**%**	*RMB*	*%*
Profit/(loss) before tax	**6,542,211**		(40,323,100)	
Tax at the income tax rate at 33% (2006: 33%)	**2,158,930**	**33.0**	(13,306,622)	33.0
Tax effect of share of results of associates	**63,383**	**1.0**	71,108	(0.2)
Tax effect of expenses not deductible	**694,673**	**10.6**	3,471,117	(8.6)
Tax effect of income not taxable	**(7,983,539)**	**(122.0)**	(2,369,062)	5.9
Overprovision in the prior year	**(8,272)**	**(0.1)**	(306,316)	0.8
Tax effect of tax losses not recognised	**609,347**	**9.3**	6,639,861	(16.5)
Tax losses utilized from previous years	**(1,268,235)**	**(19.4)**	—	—
Effect of concessionary tax rate	**4,620,946**	**70.6**	5,391,511	(13.4)
Others	**1,464,169**	**22.4**	889,596	(2.2)
	351,402	**5.4**	481,193	(1.2)

10. Tax *(Continued)*

The share of tax attributable to associates to RMB Nil (2006: RMB250) is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

On 16 March 2007, the National People's Congress approved he Corporate Income Tax Law of the People's Republic of China (the "New CIT Law"), which is effective from 1 January 2008. Under the New CIT Law, the corporate income tax rate applicable to domestic companies from 1 January 2008 will decrease from 33% to 25% on 1 January 2008 and thereafter. This reduction in the income tax rate will directly reduce the Group effective tax rate prospectively from 2008.

According to HKAS 12, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled. As a result, the change in the corporate income tax rate has increased the benefits arising from unrecognised tax losses of the current year.

11. Profit/(Loss) Attributable to Equity Holders of the Company

The consolidated profit/(loss) attributable to equity holders of the Company for the year ended 31 December 2007 includes a profit of RMB6,663,330 (note 29(b)) (2006: loss of RMB26,974,065) which has been dealt with in the financial statements of the Company.

12. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Company

The calculation of basic earnings/(loss) per share amounts is based on the profit attributable to equity holders of the Company of RMB6,445,375 (2006: loss of RMB39,479,448) and on 934,000,000 (2006: 934,000,000) shares in issue during the year.

Diluted profit/(loss) per share is not presented for the two years ended 31 December 2007 and 2006 as there were no potential ordinary shares outstanding for both year.

13. Property, Plant and Equipment

Group

	Buildings *RMB*	Leasehold improvements *RMB*	Furniture, fixtures and equipment *RMB*	Motor vehicles *RMB*	Total *RMB*
31 December 2007					
At 1 January 2007:					
Cost	**20,912,783**	**461,517**	**10,302,046**	**4,911,335**	**36,587,681**
Accumulated depreciation	**(4,287,004)**	**(461,517)**	**(6,296,708)**	**(2,790,681)**	**(13,835,910)**
Net carrying amount	**16,625,779**	**—**	**4,005,338**	**2,120,654**	**22,751,771**
At 1 January 2007, net of accumulated depreciation	**16,625,779**	**—**	**4,005,338**	**2,120,654**	**22,751,771**
Additions	**—**	**—**	**442,856**	**735,704**	**1,178,560**
Disposals	**(16,456,385)**	**—**	**(101,314)**	**—**	**(16,557,699)**
Disposal of a subsidiary	**—**	**—**	**(889,255)**	**(713,593)**	**(1,602,848)**
Depreciation provided during the year	**(169,394)**	**—**	**(1,315,630)**	**(411,705)**	**(1,896,729)**
At 31 December 2007, net of accumulated depreciation	**—**	**—**	**2,141,995**	**1,731,060**	**3,873,055**
At 31 December 2007:					
Cost	**—**	**461,517**	**8,553,551**	**4,769,768**	**13,784,836**
Accumulated depreciation	**—**	**(461,517)**	**(6,411,556)**	**(3,038,708)**	**(9.911,781)**
Net carrying amount	**—**	**—**	**2,141,995**	**1,731,060**	**3,873,055**
31 December 2006					
At 1 January 2006:					
Cost	20,912,783	461,517	11,801,526	4,954,851	38,130,677
Accumulated depreciation	(3,609,430)	(346,110)	(6,263,940)	(2,243,344)	(12,462,824)
Net carrying amount	17,303,353	115,407	5,537,586	2,711,507	25,667,853
At 1 January 2006, net of accumulated depreciation	17,303,353	115,407	5,537,586	2,711,507	25,667,853
Additions	—	—	985,278	240,195	1,225,473
Disposals	—	—	(126,431)	—	(126,431)
Disposal of a subsidiary	—	—	(630,947)	(170,569)	(801,516)
Depreciation provided during the year	(677,574)	(115,407)	(1,760,148)	(660,479)	(3,213,608)
At 31 December 2006, net of accumulated depreciation	16,625,779	—	4,005,338	2,120,654	22,751,771
At 31 December 2006:					
Cost	20,912,783	461,517	10,302,046	4,911,335	36,587,681
Accumulated depreciation	(4,287,004)	(461,517)	(6,296,708)	(2,790,681)	(13,835,910)
Net carrying amount	16,625,779	—	4,005,338	2,120,654	22,751,771

13. Property, Plant and Equipment *(Continued)*

Company

	Buildings *RMB*	Furniture, fixtures and equipment *RMB*	Motor vehicles *RMB*	Total *RMB*
31 December 2007				
At 1 January 2007:				
Cost	**20,912,783**	**4,198,200**	**1,485,453**	**26,596,436**
Accumulated depreciation	**(4,287,004)**	**(2,980,414)**	**(1,262,208)**	**(8,529,626)**
Net carrying amount	**16,625,779**	**1,217,786**	**223,245**	**18,066,810**
At 1 January 2007, net of accumulated depreciation	**16,625,779**	**1,217,786**	**223,245**	**18,066,810**
Additions	**—**	**112,771**	**575,704**	**688,475**
Disposals	**(16,456,385)**	**—**	**—**	**(16,456,385)**
Depreciation provided during the year	**(169,394)**	**(433,884)**	**(122,462)**	**(725,740)**
At 31 December 2007, net of accumulated depreciation	**—**	**896,673**	**676,487**	**1,573,160**
At 31 December 2007:				
Cost	**—**	**4,310,971**	**2,061,157**	**6,372,128**
Accumulated depreciation	**—**	**(3,414,298)**	**(1,384,670)**	**(4,798,968)**
Net carrying amount	**—**	**896,673**	**676,487**	**1,573,160**
31 December 2006				
At 1 January 2006:				
Cost	20,912,783	5,495,271	1,485,453	27,893,507
Accumulated depreciation	(3,609,430)	(3,841,426)	(1,103,045)	(8,553,901)
Net carrying amount	17,303,353	1,653,845	382,408	19,339,606
At 1 January 2006, net of accumulated depreciation	17,303,353	1,653,845	382,408	19,339,606
Additions	—	317,556	—	317,556
Disposals	—	(126,431)	—	(126,431)
Depreciation provided during the year	(677,574)	(627,184)	(159,163)	(1,463,921)
At 31 December 2006, net of accumulated depreciation	16,625,779	1,217,786	223,245	18,066,810
At 31 December 2006:				
Cost	20,912,783	4,198,200	1,485,453	26,596,436
Accumulated depreciation	(4,287,004)	(2,980,414)	(1,262,208)	(8,529,626)
Net carrying amount	16,625,779	1,217,786	223,245	18,066,810

The buildings were situated in the PRC.

14. Prepaid Land Lease Payments

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Carrying amount at 1 January	**10,045,105**	10,282,105	**10,045,105**	10,282,105
Recognised during the year	**(59,250)**	(237,000)	**(59,250)**	(237,000)
Disposal during the year	**(9,985,855)**	—	**(9,985,855)**	—
Carrying amount at 31 December	**—**	10,045,105	**—**	10,045,105
Current portion	**—**	(237,000)	**—**	(237,000)
Non-current portion	**—**	9,808,105	**—**	9,808,105

The leasehold land was held under a medium term lease and was situated in the PRC.

15. Intangible Assets

Group	**Development costs**	**Copy right**	**Intellectual property**	**Total**
	RMB	*RMB*	*RMB*	*RMB*
31 December 2007				
At 1 January 2007:				
Cost	**28,913,690**	**6,039,022**	**1,000,000**	**35,952,712**
Accumulated amortisation	**(10,865,767)**	**(4,945,027)**	**(458,333)**	**(16,269,127)**
Net carrying value	**18,047,923**	**1,093,995**	**541,667**	**19,683,585**
Cost at 1 January 2007, net of accumulated amortisation	**18,047,923**	**1,093,995**	**541,667**	**19,683,585**
Additions	**3,546,035**	**—**	**600,000**	**4,146,035**
Disposal of a subsidiary	**—**	**—**	**(500,000)**	**(500,000)**
Amortisation during the year	**(3,225,653)**	**(893,995)**	**(81,667)**	**(4,201,315)**
At 31 December 2007, net of accumulated amortisation	**18,368,305**	**200,000**	**560,000**	**19,128,305**
At 31 December 2007:				
Cost	**32,459,725**	**6,039,022**	**600,000**	**39,098,747**
Accumulated amortisation	**(14,091,420)**	**(5,839,022)**	**(40,000)**	**(19,970,442)**
Net carrying value	**18,368,305**	**200,000**	**560,000**	**19,128,305**

15. Intangible Assets *(Continued)*

Group	Development costs	Copy right	Intellectual property	Total
	RMB	*RMB*	*RMB*	*RMB*
31 December 2006				
At 1 January 2006:				
Cost	25,487,892	6,039,022	1,000,000	32,526,914
Accumulated amortisation	(7,759,757)	(3,818,264)	(358,334)	(11,936,355)
Net carrying value	17,728,135	2,220,758	641,666	20,590,559
Cost at 1 January 2006, net of accumulated amortisation	17,728,135	2,220,758	641,666	20,590,559
Additions	3,425,798	—	—	3,425,798
Amortisation during the year	(3,106,010)	(1,126,763)	(99,999)	(4,332,772)
At 31 December 2006, net of accumulated amortisation	18,047,923	1,093,995	541,667	19,683,585
At 31 December 2006:				
Cost	28,913,690	6,039,022	1,000,000	35,952,712
Accumulated amortisation	(10,865,767)	(4,945,027)	(458,333)	(16,269,127)
Net carrying value	18,047,923	1,093,995	541,667	19,683,585

15. Intangible Assets *(Continued)*

Company	Development costs	Copy right	Total
	RMB	*RMB*	*RMB*
31 December 2007			
At 1 January 2007:			
Cost	**28,913,690**	**5,055,994**	**33,969,684**
Accumulated amortisation	**(10,865,767)**	**(3,961,999)**	**(14,827,766)**
Net carrying value	**18,047,923**	**1,093,995**	**19,141,918**
Cost at 1 January 2007, net of accumulated amortisation	**18,047,923**	**1,093,995**	**19,141,918**
Additions	**3,546,035**	**—**	**3,546,035**
Amortisation during the year	**(3,225,653)**	**(893,995)**	**(4,119,648)**
At 31 December 2007, net of accumulated amortisation	**18,368,305**	**200,000**	**18,568,305**
At 31 December 2007:			
Cost	**32,459,725**	**5,055,994**	**37,515,719**
Accumulated amortisation	**(14,091,420)**	**(4,855,994)**	**(18,947,414)**
Net carrying value	**18,368,305**	**200,000**	**18,568,305**
31 December 2006			
At 1 January 2006:			
Cost	25,487,892	5,055,994	30,543,886
Accumulated amortisation	(7,759,757)	(2,952,403)	(10,712,160)
Net carrying value	17,728,135	2,103,591	19,831,726
Cost at 1 January 2006, net of accumulated amortisation	17,728,135	2,103,591	19,831,726
Additions	3,425,798	—	3,425,798
Amortisation during the year	(3,106,010)	(1,009,596)	(4,115,606)
At 31 December 2006, net of accumulated amortisation	18,047,923	1,093,995	19,141,918
At 31 December 2006:			
Cost	28,913,690	5,055,994	33,969,684
Accumulated amortisation	(10,865,767)	(3,961,999)	(14,827,766)
Net carrying value	18,047,923	1,093,995	19,141,918

16. Investments in Subsidiaries

	Company	
	2007	2006
	RMB	*RMB*
Unlisted shares, at cost	**42,331,360**	51,174,041

Particulars of the subsidiaries at 31 December 2007 were as follows:

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%	—	Sale of computer hardware products and equipment
Changzhou NandaSoft Technology and Software Co., Ltd.* (limited liability company)	PRC	RMB2,000,000	60%	—	Sale of computer hardware products and equipment
Jiangsu NandaSoft (Hong Kong) Company Limited (limited company)	HK	HK$1,000,000	100%	—	Import and export of equipment
Jiangsu NandaSoft Xin Yi Software Company Limited* (limited liability company)	PRC	RMB5,000,000	—	82.4%	Sale of computer hardware products and equipment
Jiangsu Fuyue Technology Co., Ltd.* (limited liability company)	PRC	RMB5,000,000	60%	—	Sale of computer hardware products and equipment
Jiangsu Sheng Feng Investment Company Limited* (limited liability company)	PRC	RMB10,000,000	95%	4.75%	Investment holding

16. Investments in Subsidiaries *(Continued)*

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*	
Nanjing Fan Bang Import and Export Company Limited * (limited liability company)	PRC	RMB1,000,000	—	61.8%	Import and export activities
Nanjing NandaSoft Computer Engineering Company Limited* (limited liability company)	PRC	RMB3,000,000	51%	—	Sale of computer hardware products and equipment
Nanjing NandaSoft System Integration Company Limited* (limited liability company)	PRC	RMB20,000,000	95%	—	System Integration
Nanjing Nanpu Culture and Media Company Limited* (limited liability company)	PRC	RMB500,000	—	49.4%	Design and making of advertisement
Shenzhen NandaSoft Network Technology Company Limited* (limited liability company)	PRC	RMB5,000,000	—	90.3%	Sale of computer hardware products and equipment
Suzhou NandaSoft Technology Company Limited* (limited liability company)	PRC	RMB11,500,000	—	81%	Sale of computer hardware products and equipment

* Cachet Certified Public Accountants Limited was not the statutory auditors of these companies.

17. Investments in Associates

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Unlisted equity investments, at cost	**—**	—	**8,355,372**	8,358,378
Share of net assets	**9,296,430**	9,541,011	**—**	—
	9,296,430	9,541,011	**8,355,372**	8,358,378

The Group's balances with the associates are disclosed in note 33 to the financial statements.

Particulars of the principal associates are as follows:

Name of associate	**Place of registration and operation**	**Fully paid registered capital**	**Percentage of registered capital held by the Company**		**Principal activity**
			Directly	*Indirectly*	
Beijing Nandasoft Network Technology Company Limited	PRC	RMB1,000,000	—	43.7%	Sale of computer hardware products and equipment
Nanjing Qitong Electronics Co., Ltd. ("Nanjing Qitong")	PRC	RMB1,000,000	—	33%	Sale of computer hardware products and equipment
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 ("杭州蘇富特")	PRC	RMB2,000,000	20%	—	Development and distribution of software and hardware

The above associates were not audited by Cachet Certified Public Accountants Limited.

17. Investments in Associates *(Continued)*

The following table illustrates the summarised financial information of the Group's associates extracted from their financial statements:

	2007	2006
	RMB	*RMB*
Total assets	**41,538,652**	36,325,049
Total liabilities	**(8,164,982)**	(3,027,048)
Net assets	**33,373,670**	33,298,001
Group's share of net assets of associates	**9,296,430**	9,541,011
Revenue	**460,554**	2,763,860
Loss for the year	**(503,054)**	(549,882)
Group's share of loss of associates for the year	**(244,581)**	(215,477)

18. Available-for-sale Investments

		Group		**Company**	
		2007	2006	**2007**	2006
	Notes	***RMB***	*RMB*	***RMB***	*RMB*
Investments at fair value in:					
南京水木年華餐飲有限公司	*(a)*	**—**	2,000,000	**—**	—
Other unlisted equity investments	*(b)*	**1,546,982**	3,570,541	**1,170,053**	3,169,962
		1,546,982	5,570,541	**1,170,053**	3,169,962

18. Available-for-sale Investments *(Continued)*

Notes:

(a) On 20 October 2004, Jiangsu Sheng Feng Investment Company Limited (the "Sheng Feng"), one of the subsidiary of 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. 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 Company, the Group did not have control nor significant influence over the project and was denied access to the books and records of the project. Consequently, the Directors of the Company were unable to determine reliably the fair value of this investment at 31 December 2005. Therefore, the investment was stated at its cost at 31 December 2005.

In view of the unsatisfactory performance of the project, the Group entered into an agreement in February 2007 with one of the venture partners of the project to dispose of the Group's interests in the project for a consideration of RMB2,000,000. The consideration is settled by instalments, as to RMB100,000 on or before 30 June 2007, as to RMB400,000 on or before 31 December 2007, as to RMB250,000 on or before 30 June 2008, as to RMB250,000 on or before 31 December 2008 and with the remaining balance of RMB1,000,000 on or before 31 December 2010. In view of the above, the Directors of the Company have made an impairment provision of RMB1,500,000 as at 31 December 2006. The Group did not record any other income or expense from the investment during that year. The outstanding receivable balance of RMB2,000,000 has been reclassified as trade and other receivables during the year.

(b) 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 Company 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 RMB1,999,910 (2006: RMB550,000), which had been carried at cost less impairment before the disposal. A gain on disposal of RMB1,186,090 (2006: RMB509,000) has been recognised in the income statement for the current year.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

19. Construction in Progress – Group and Company

On 31 October 2006 and 1 November 2006, the Company entered into a framework agreement with Nanjing Gulou District Government and an implementation agreement with Gulou Limited, an independent party, (the "Acquitision Agreements") in relation to the acquisition of the right to use a piece of land in Nanjing at a consideration of RMB22,752,000 (2006: RMB22,752,000), which had been paid during the year. The vendors are responsible for "Seven connections and one levelling" (七通一平) on the land before delivering to the Company. Details of the Acquisition Agreements are set out in the Company's circular dated 22 November 2006.

During the year, the Company incurred surveying and other costs of RMB1,277,553 in relation to the land.

20. Inventories

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Computer hardware products, equipment and software products	**42,394,962**	35,024,985	**8,545,825**	6,972,683

At the balance sheet date, none (2006: Nil) of the inventories of the Group and the Company were carried at net realisable value.

21. Trade and other Receivables

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***RMB***	*RMB*	***RMB***	*RMB*
Trade receivables	*(a)*	**87,340,283**	94,281,994	**61,551,252**	58,596,601
Less: impairment		**(45,533,726)**	(34,787,968)	**(43,330,956)**	(30,571,875)
Net carrying amount		**41,806,557**	59,494,026	**18,220,296**	28,024,726
Notes receivable		**330,000**	426,932	**—**	426,932
Advances to suppliers	*(b)*	**31,243,150**	32,661,552	**13,821,283**	10,589,035
Other receivables		**28,840,030**	25,034,380	**28,205,797**	33,756,278
Other receivable from 中國石油天然氣股份有限公司	*(c)*	**3,215,000**	6,590,000	**—**	—
Deposit paid		**275,118**	—	**—**	—
Advance to Yahu		**—**	7,405,759	**—**	—
Total trade and other receivables		**105,709,855**	131,612,649	**60,247,376**	72,796,971

21. Trade and other Receivables *(Continued)*

Notes:

(a) 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, based on the invoice date and net of provisions, is stated as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Aged:				
0 — 90 days	**22,055,483**	21,983,226	**9,328,299**	4,571,638
91 — 180 days	**2,785,354**	3,537,544	**1,484,371**	1,697,134
181 — 365 days	**7,185,412**	6,645,108	**5,997,591**	3,677,320
Over 365 days	**9,780,308**	27,328,148	**1,410,035**	18,078,634
	41,806,557	59,494,026	**18,220,296**	28,024,726

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

The movements in provision for impairment of trade receivables are as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
At 1 January	**34,787,968**	15,843,704	**30,571,875**	13,882,102
Impairment losses recognized *(note 6)*	**10,745,758**	18,944,264	**12,759,081**	16,689,773
	45,533,726	34,787,968	**43,330,956**	30,571,875

21. Trade and other Receivables *(Continued)*

Notes:

(a) Included in the balance is trade receivable of the Company from subsidiaries amounted to RMB4,698,391 (2006: RMB1,722,321).

The aged analysis of the trade receivables that are not or neither individually nor collectively considered to be impaired is as follows:

	Group		**Company**	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Neither past due nor impaired	**22,055,483**	21,983,226	**9,328,299**	4,571,638
Less than 1 month past due	**2,785,354**	3,537,544	**1,484,371**	1,697,134
1 to 3 months past due	**16,965,720**	33,973,256	**7,407,626**	21,755,954
	41,806,557	59,494,026	**18,220,296**	28,024,726

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

21. Trade and other Receivables *(Continued)*

Notes: (Continued)

(b) Included in the advances to suppliers is an aggregate amount of RMB4,877,699 (2006: 4,877,699). During the year, the Company entered into a series of export transactions with an independent third party under which the Company acted as the export agent for the independent third party. For this purpose, the Company received letters of credits from the overseas customers and in turn arranged the Company's bank to issue certain bills of acceptance (承兑匯票) in favour of the independent third party. The clearance of the letters of credits and the letters of acceptance is conditional upon the shipment of goods. However, during the year, the independent third party through illegal endorsement drew down the letters of acceptance without making the shipment of goods. The Company has applied to court demanding the refund of the drawdown amounts and for damages from the independent third parties. In the first hearing, the court has ruled against the Company and the Company has made an appeal. The Nanjing Intermediate People's Court (南京市中級人民法院) has ruled in favour of the Company, thereafter, accordingly, have not provided for any provision for the advance deposits, other than the related legal and other costs.

(c) 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 RMB6,590,000 in 2006 to purchase land use right for China Petroleum and for the construction of the whole project. On 2 March 2006, China Petroleum entered into an agreement to guarantee that it would 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. No agreement has been reached between the parties on or before 1 October 2006 and a partial repayment of RMB3,375,000 has been made to the Group.

22. Equity Investments at Fair Value through Profit or Loss

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Listed equity investments in the PRC, at market value	**61,000**	305,060	**—**	—

The above equity investments at 31 December 2006 and 2007 were classified as held for trading.

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

23. Cash and Cash Equivalents

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Cash and cash equivalents	**30,577,880**	66,371,906	**13,343,645**	37,179,458

The carrying amount of the cash and bank balances approximates its fair value.

At the balance sheet date, the cash and bank balances was mainly denominated in RMB, which is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

24. Trade and other Payables

An aged analysis of the trade and other payables as at the balance sheet date, based on the invoice date, is as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Trade payables aged:				
0 — 90 days	**21,671,540**	22,950,747	**7,596,132**	3,968,430
91 — 180 days	**7,512,711**	2,497,889	**3,500,237**	103,265
181 — 365 days	**6,985,446**	4,107,537	**1,915,135**	3,209,160
Over 365 days	**9,059,997**	7,862,021	**4,811,995**	3,862,169
	45,229,694	37,418,194	**17,823,499**	11,143,024
Notes payable	**217,506**	145,902	**217,506**	145,902
	45,447,200	37,564,096	**18,041,005**	11,288,926

Included in the balance is trade payable of the Company to subsidiaries amounted to RMB3,096,163 (2006: RMB728,177).

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

25. Interest-bearing Bank and Other Borrowings

Group and Company	2007 Effective interest rate (%)	2007 Maturity	2007 RMB	2006 Effective interest rate (%)	2006 Maturity	2006 RMB
Bank loan — unsecured	—	—	—	4.65 - 5.58	2007	63,000,000
Bank loan — unsecured	6.39	2008	8,000,000	—	—	—
Other loan — unsecured	1.00	2009	10,000,000	1.00	2009	10,000,000
			18,000,000			73,000,000
Current portion			(8,000,000)			(63,000,000)
Long term portion			10,000,000			10,000,000

All borrowings of the Company and the Group are in RMB and bear interest at floating interest rates. The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values.

26. Deferred Tax

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

	Development costs	Allowance for doubtful debts and inventories	Receipt in advance	Others	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
Group					
At 1 January 2006	2,659,220	(3,077,905)	—	(368,824)	(787,509)
Charge/(credit) to income statement during the year *(note 10)*	(2,659,220)	3,077,905	—	368,824	787,509
At 1 January 2007 and At 31 December 2007	—	—	—	—	—
Company					
At 1 January 2006	2,659,220	(2,707,110)	—	—	(47,890)
Charge/(credit) to income statement during the year	(2,659,220)	2,707,110	—	—	47,890
At 1 January 2007 and At 31 December 2007	—	—	—	—	—

26. Deferred Tax *(Continued)*

Deferred tax assets have not been recognised in respect of the following items:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Tax losses	**5,980,973**	6,639,861	**4,144,266**	2,846,110
Deductible temporary differences	**5,098,751**	3,708,512	**5,076,260**	2,919,131
	11,079,724	10,348,373	**9,220,526**	5,765,241

The above tax losses are available for a period of five years for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. Share Capital

	2007	2006
	RMB	*RMB*
Registered, issued and fully paid:		
700,000,000 domestic shares ("Domestic Shares") of RMB0.10 each	**70,000,000**	70,000,000
234,000,000 overseas listed foreign invested shares ("H Shares") of RMB0.10 each	**23,400,000**	23,400,000
	93,400,000	93,400,000

27. Share Capital *(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 RMB. 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.

28. Share Option Scheme

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

(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.

29. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

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.

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.

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.

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 accumulated losses of RMB475,502 (2006: RMB230,921) retained by the associates of the Group.

In the opinion of the directors, there were no reserves available for distribution to the shareholders at 31 December 2007 (2006: Nil).

29. Reserves *(Continued)*

(b) Company

	Share premium account	Statutory surplus fund	Statutory public welfare fund	Retained profits	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
At 1 January 2006	48,868,818	3,932,454	1,966,227	30,622,899	85,390,398
Loss for the year	—	—	—	(26,974,065)	(26,974,065)
At 31 December 2006 and 1 January 2007	48,868,818	3,932,454	1,966,227	3,648,834	58,416,333
Profit for the year	—	—	—	6,663,330	6,663,330
At 31 December 2007	48,868,818	3,932,454	1,966,227	10,312,164	65,079,663

30. Notes to the Consolidated Cash Flow Statement

(a) Disposal of a subsidiary

	Notes	Group 2007 RMB	2006 RMB
Net assets disposed of:			
Property, plant and equipment		**2,102,848**	801,516
Cash and bank balances		**3,957,943**	1,039,934
Trade and other receivables		**11,232,047**	7,352,925
Inventories		**172,745**	2,552,952
Trade and other payables		**(968,146)**	(4,882,288)
Tax payable		**(25,904)**	70,233
Minority interests		**(7,123,712)**	(868,924)
		9,347,821	6,066,348
Loss on disposal of subsidiaries	6	**(482,226)**	(178,922)
		8,865,595	5,887,426
Satisfied by:			
Cash		**8,865,595**	4,451,426
Interest in an associate		**—**	490,000
Available-for-sale investments		**—**	946,000
		8,865,595	5,887,426

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2007 RMB	2006 RMB
Cash consideration received	**8,865,595**	4,451,426
Cash and bank balances disposed of	**(3,957,943)**	(1,039,934)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	**4,907,652**	3,411,492

31. Operating Lease Arrangements

As lessee

The Group leases certain of its office premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to two years (2006: one to two years).

At 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Within one year	**583,229**	2,016,184	**—**	—
In the second to fifth years, inclusive	**629,590**	—	**—**	—
	1,212,819	2,016,184	**—**	—

32. Commitments

In addition to the operating commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the balance sheet date:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Contracted, but not provided for, capital contributions payable to:				
Subsidiaries	**—**	—	**—**	4,800,000

33. Related Party Transactions

(a) During the year the Company disposed its building and the related prepaid land lease payments to its controlling shareholder, Nanjing University, at a consideration of RMB46,586,562. Details are set out in the Company's circular dated 4 May 2007. The disposal was approved by independent shareholders in a special general meeting held on 20 June 2007. In addition to the transactions detailed above and elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

Name of related party	**Nature of transactions**	**Relationship**	**Group**	
			2007	2006
			RMB	*RMB*
Nanjing University	Development cost *(note i)*	Shareholder of the Company	—	(770,000)
Nanjing University	Revenue sharing *(note ii)*	Shareholder of the Company	—	(230,000)

Notes:

(i) For the year ended 31 December 2007, the Group paid development cost in an aggregate of Nil (2006: RMB770,000) 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.

(ii) For the year ended 31 December 2007, the Group paid a revenue sharing fee of Nil (2006: RMB230,000) to Nanjing University in accordance with various agreements entered into between the Company and Nanjing University for joint development of software products.

(iii) The related party transactions are conducted on an arm's length basis and on commercial terms that are no less favourable to the Group than terms available to or from independent third parties. The related party transactions with Nanjing University also constitute continuing connected transactions as defined in the GEM Listing Rules.

33. Related Party Transactions *(Continued)*

(b) Outstanding balances with related parties:

	Group		Company	
	2007	2006	**2007**	2006
	RMB	*RMB*	***RMB***	*RMB*
Due from shareholders				
Nanjing University	**32,586,562**	—	**32,586,562**	—
Jiangsu Co-Creation	**2,331,887**	2,361,887	**2,331,887**	2,361,887
Jiangsu Provincial Management Centre for Education Equipment and Self Supporting School	**440,312**	818,232	**440,312**	818,232
	35,358,761	3,180,119	**35,358,761**	3,180,119
Due from a minority shareholder				
Koshida Corporation	**29,642**	1,145,347	**—**	—
Due from an associate				
Nanjing Qitong	**11,220**	—	**—**	—
Due to a shareholder				
Jiangsu Co-Creation	**115,297**	115,297	**115,297**	115,297

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

The amounts due from an associate/a minority shareholder of the Group are unsecured, interest-free and have repayable on demand.

The fair values of the Group's amounts with the shareholders/minority shareholder/associates at 31 December 2007 approximate to the corresponding carrying amounts.

33. Related Party Transactions *(Continued)*

(c) Compensation of key management personnel of the Group:

	Group	
	2007	2006
	RMB	*RMB*
Short term employee benefits	**394,860**	510,622
Post-employment benefits	**—**	—
Share-based payments	**—**	—
Total compensation paid to key management personnel	**394,860**	510,622

Further details of directors' emoluments are included in note 8 to the financial statements.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Group

31 December 2007

Financial assets

	Financial assets at fair value through profit and loss — designated as such upon initial recognition RMB	— held for trading RMB	Held to maturity investments RMB	Loans and receivables RMB	Available for-sale financial assets RMB	Total RMB
Trade receivables and other receivables *(note 21)*	—	—	—	105,709,855	—	105,709,855
Available-for-sale investments *(note 18)*	—	—	—	—	1,546,982	1,546,982
Equity investments at fair value through profit or loss *(note 22)*	—	61,000	—	—	—	61,000
Interest in associates *(note 17)*	—	—	—	9,296,430	—	9,296,430
Due from associates *(note 33b)*	—	—	—	11,220	—	11,220
Cash and cash equivalents *(note 23)*	—	—	—	30,577,880	—	30,577,880
	—	61,000	—	145,595,385	1,546,982	147,203,367

Financial liabilities

	Financial liabilities at fair value through profit and loss — designated as such upon initial recognition RMB	— held for trading RMB	Financial liabilities at amortised cost RMB	Total RMB
Trade and other payables *(note 24)*	—	—	45,447,200	45,447,200
Financial liabilities included in receipt in advance, other creditors and accrued expenses	—	—	36,495,043	36,495,043
Interest-bearing bank and other borrowings included in				
— current portion *(note 25)*	—	—	8,000,000	8,000,000
— non-current portion *(note 25)*	—	—	10,000,000	10,000,000
	—	—	99,942,243	99,942,243

34. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

Group

31 December 2006

Financial assets

	Financial assets at fair value through profit and loss — designated as such upon initial recognition *RMB*	— held for trading *RMB*	Held to maturity investments *RMB*	Loans and receivables *RMB*	Available for-sale financial assets *RMB*	Total *RMB*
Trade receivables and other receivables *(note 21)*	—	—	—	131,612,649	—	131,612,649
Available-for-sale investments *(note 18)*	—	—	—	—	5,570,541	5,570,541
Equity investments at fair value through profit or loss *(note 22)*	—	305,060	—	—	—	305,060
Interest in associates *(note 17)*	—	—	—	9,541,011	—	9,541,011
Cash and cash equivalents *(note 23)*	—	—	—	66,371,906	—	66,371,906
	—	305,060	—	207,525,566	5,570,541	213,401,167

Financial liabilities

	Financial liabilities at fair value through profit and loss — designated as such upon initial recognition *RMB*	— held for trading *RMB*	Financial liabilities at amortised cost *RMB*	Total *RMB*
Trade and other payables *(note 24)*	—	—	37,564,096	37,564,096
Financial liabilities included in receipt in advance, other creditors and accrued expenses	—	—	44,062,091	44,062,091
Interest-bearing bank and other borrowings included in				
— current portion *(note 25)*	—	—	63,000,000	63,000,000
— non-current portion *(note 25)*	—	—	10,000,000	10,000,000
	—	—	154,626,187	154,626,187

34. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

Company

31 December 2007

Financial assets

	Financial assets at fair value through profit and loss — designated as such upon initial recognition RMB	— held for trading RMB	Held to maturity investments RMB	Loans and receivables RMB	Available for-sale financial assets RMB	Total RMB
Trade receivables and other receivables *(note 21)*	—	—	—	60,247,376	—	60,247,376
Available-for-sale investments *(note 18)*	—	—	—	—	1,170,053	1,170,053
Interest in associates *(note 17)*	—	—	—	8,355,372	—	8,355,372
Interest in subsidiaries *(note 16)*	—	—	—	42,331,360	—	42,331,360
Cash and cash equivalents *(note 23)*	—	—	—	13,343,645	—	13,343,645
	—	—	—	124,277,753	1,170,053	125,447,806

Financial liabilities

	Financial liabilities at fair value through profit and loss — designated as such upon initial recognition RMB	— held for trading RMB	Financial liabilities at amortised cost RMB	Total RMB
Trade and other payables *(note 24)*	—	—	18,041,005	18,041,005
Financial liabilities included in receipt in advance, other creditors and accrued expenses	—	—	29,136,095	29,136,095
Interest-bearing bank and other borrowings included in				
— current portion *(note 25)*	—	—	8,000,000	8,000,000
— non-current portion *(note 25)*	—	—	10,000,000	10,000,000
	—	—	65,177,100	65,177,100

34. FINANCIAL INSTRUMENTS BY CATEGORY *(Continued)*

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: *(Continued)*

Company

31 December 2006

Financial assets

	Financial assets at fair value through profit and loss — designated as such upon initial recognition *RMB*	— held for trading *RMB*	Held to maturity investments *RMB*	Loans and receivables *RMB*	Available for-sale financial assets *RMB*	Total *RMB*
Trade receivables and other receivables *(note 21)*	—	—	—	72,796,971	—	72,796,971
Available-for-sale investments *(note 18)*	—	—	—	—	3,169,962	3,169,962
Interest in associates *(note 17)*	—	—	—	8,358,378	—	8,358,378
Interest in subsidiaries *(note 16)*	—	—	—	51,174,041	—	51,174,041
Cash and cash equivalents *(note 23)*	—	—	—	37,179,458	—	37,179,458
	—	—	—	169,508,848	3,169,962	172,678,810

Financial liabilities

	Financial liabilities at fair value through profit and loss — designated as such upon initial recognition *RMB*	— held for trading *RMB*	Financial liabilities at amortised cost *RMB*	Total *RMB*
Trade and other payables *(note 24)*	—	—	11,288,926	11,288,926
Financial liabilities included in receipt in advance, other creditors and accrued expenses	—	—	27,049,154	27,049,154
Interest-bearing bank and other borrowings included in				
— current portion *(note 25)*	—	—	63,000,000	63,000,000
— non-current portion *(note 25)*	—	—	10,000,000	10,000,000
	—	—	111,338,080	111,338,080

35. Financial Risk Management Objectives and Policies

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

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.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Hong Kong dollars ("HKD"), Japanese Yen ("JPY") and United States dollars ("USD"). Approximately 6% (2006: 25%) of the Group's sales are denominated in currencies other than the functional currency of the operating units making the sale, and almost 5% (2006: 24%) of costs are denominated in currencies other than the units' functional currency.

35. Financial Risk Management Objectives and Policies *(Continued)*

Foreign currency risk *(Continued)*

The exchange rate of HKD, JPY and USD were comparatively volatile, though the functional currency of the Group were strengthens against these transactional currency during the year.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the exchange rate of HKD, JPY and USD, with all other variable held constant, of the Group's profit before tax:

	Increase/ (decrease) in Exchange rate	**Increase/ (decrease) in profit before tax**	**Increase/ (decrease) in equity**
	%	*RMB*	*RMB*
31 December 2007			
If RMB weakens against HKD	5	119,982	119,982
If RMB strengthens against HKD	(5)	(119,982)	(119,982)
If RMB weakens against USD	5	4,037	4,037
If RMB strengthens against USD	(5)	(4,037)	(4,037)
If RMB weakens against JPY	5	6,406	6,406
If RMB strengthens against JPY	(5)	(6,406)	(6,406)
31 December 2006			
If RMB weakens against HKD	5	155,370	155,370
If RMB strengthens against HKD	(5)	(155,370)	(155,370)
If RMB weakens against USD	5	840	840
If RMB strengthens against USD	(5)	(840)	(840)
If RMB weakens against JPY	5	869	869
If RMB strengthens against JPY	(5)	(869)	(869)

35. 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 2007 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.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and interest-bearing bank and other borrowings. 44% of borrowings would mature in less than one year as at 31 December 2007 (2006: 86%) based on the carrying value of borrowings reflected in the financial statements.

35. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

31 December 2007

	On demand or was no fixed terms of repayment	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings *(note 25)*	—	—	8,000,000	10,000,000	—	18,000,000
Trade and other payables *(note 24)*	45,447,200	—	—	—	—	45,447,200
Receipts in advance, other creditors and accrued expenses	36,495,043	—	—	—	—	36,495,043
Due to a shareholder *(note 33)*	115,297	—	—	—	—	115,297
	82,057,540	—	8,000,000	10,000,000	—	100,057,540

31 December 2006

	On demand or was no fixed terms of repayment	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
Interest-bearing bank and other borrowings *(note 25)*	—	—	63,000,000	10,000,000	—	73,000,000
Trade and other payables *(note 24)*	37,564,096	—	—	—	—	37,564,096
Receipts in advance, other creditors and accrued expenses	44,062,091	—	—	—	—	44,062,091
Due to a shareholder *(note 33)*	115,297	—	—	—	—	115,297
	81,741,484	—	63,000,000	10,000,000	—	154,741,484

35. Financial Risk Management Objectives and Policies *(Continued)*

Liquidity risk *(Continued)*

Company

31 December 2007

	On demand *RMB*	Less than 3 months *RMB*	3 to less than 12 months *RMB*	1 to 5 years *RMB*	Over 5 years *RMB*	Total *RMB*
Interest-bearing bank and other borrowings *(note 25)*	—	—	8,000,000	10,000,000	—	18,000,000
Trade and other payables *(note 24)*	18,041,005	—	—	—	—	18,041,005
Receipts in advance, other creditors and accrued expenses	29,136,095	—	—	—	—	29,136,095
Due to a shareholder *(note 33)*	115,297	—	—	—	—	115,297
	47,292,397	—	8,000,000	10,000,000	—	65,292,397

31 December 2006

	On demand *RMB*	Less than 3 months *RMB*	3 to less than 12 months *RMB*	1 to 5 years *RMB*	Over 5 years *RMB*	Total *RMB*
Interest-bearing bank and other borrowings *(note 25)*	—	—	63,000,000	10,000,000	—	73,000,000
Trade and other payables *(note 24)*	11,288,926	—	—	—	—	11,288,926
Receipts in advance, other creditors and accrued expenses	27,049,153	—	—	—	—	27,049,153
Due to a shareholder *(note 33)*	115,297	—	—	—	—	115,297
	38,453,376	—	63,000,000	10,000,000	—	111,453,376

Price risk

The Group's available-for-sale investments and financial assets/liabilities at fair value through profit or loss are measured at fair value at each balance sheet date. The Group is exposed to equity price risk through it's held for trading and available-for-sale investments. The management manages this exposure by maintaining a portfolio of held for trading investments with different risk profiles. The management also monitors the price movement of the investments and take appropriate action when it is required.

35. Financial Risk Management Objectives and Policies *(Continued)*

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade, bills and other payables, accruals, less cash and cash equivalents. Capital includes equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
	RMB	*RMB*
Interest-bearing bank and other borrowings	**18,000,000**	73,000,000
Trade and other payables *(note 24)*	**45,447,200**	37,564,096
Receipts in advance, other creditors and accrued expenses	**36,495,043**	44,062,091
Due to a shareholder *(note 33)*	**115,297**	115,297
Less: Cash and cash equivalents *(note 23)*	**(30,577,880)**	(66,371,906)
Net debt	**69,479,660**	88,369,578
Equity attributable to equity holders	**161,325,492**	154,984,334
Total Adjusted capital	**161,325,492**	154,984,334
Capital and net debt	**230,805,152**	243,353,912
Gearing ratio	**30%**	36%

36. Comparative Amounts

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

37. Approval of the Statements

The financial statements were approved and authorised for issue by the board of directors on 27 March 2008.

Five Year Financial Summary

31 December 2007

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	2007	2006	2005	2004	2003
	RMB	*RMB*	*RMB*	*RMB*	*RMB*
RESULTS					
REVENUE	**305,728,452**	402,463,042	440,742,213	384,496,927	376,606,707
Cost of sales	**(274,012,677)**	(365,302,210)	(383,385,350)	(321,770,383)	(319,208,908)
Gross profit	**31,715,775**	37,160,832	57,356,863	62,726,544	57,397,799
Other income and gains	**28,190,308**	3,622,089	4,627,115	3,837,193	2,810,679
Selling and distribution costs	**(19,704,573)**	(26,652,269)	(23,944,896)	(26,757,142)	(23,294,614)
Research and development costs	**(906,946)**	(2,605,290)	(5,001,220)	(4,237,612)	(2,629,153)
Administrative expenses	**(29,911,347)**	(48,513,919)	(28,543,866)	(20,372,587)	(20,476,572)
Finance costs	**(2,596,425)**	(3,119,066)	(1,748,149)	(498,617)	(135,061)
Share of profits/(losses) of:					
A jointly-controlled entity	**—**	—	(319,810)	—	—
Associates	**(244,581)**	(215,477)	57,212	134,074	632,550
PROFIT/(LOSS) BEFORE TAX	**6,542,211**	(40,323,100)	2,483,249	14,831,853	14,305,628
Tax	**(351,402)**	(481,193)	(1,355,154)	(1,853,975)	(1,889,833)
PROFIT/(LOSS) FOR THE YEAR	**6,190,809**	(40,804,293)	1,128,095	12,977,878	12,415,795
Attributable to:					
Equity holders of the parent	**6,445,375**	(39,479,448)	(246,721)	12,039,403	11,741,869
Minority interests	**(254,566)**	(1,324,845)	1,374,816	938,475	673,926
	6,190,809	(40,804,293)	1,128,095	12,977,878	12,415,795
ASSETS, LIABILITIES AND MINORITY INTERESTS					
TOTAL ASSETS	**272,017,645**	327,984,079	373,713,492	348,823,697	274,818,966
TOTAL LIABILITIES	**(100,149,739)**	(154,858,973)	(162,009,374)	(138,193,232)	(83,755,534)
MINORITY INTERESTS	**(10,542,414)**	(18,140,772)	(17,211,674)	(15,874,767)	(8,347,137)
	161,325,492	154,984,334	194,492,444	194,755,698	182,716,295