

First Quarterly Report 2005



JIANGSU NANDASOFT COMPANY LIMITED
江蘇南大蘇富特軟件股份有限公司
(a joint stock limited company incorporated in the People's Republic of China)

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This report, for which the directors of Jiangsu NandaSoft Company Limited 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.

**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)****HIGHLIGHTS**

- Achieved a turnover of approximately RMB54,439,000 for the three months ended 31st March, 2005, representing an approximately 44.1% decrease as compared with that of corresponding period in 2004.
- Accomplished a net profit of approximately RMB2,991,000 for the three months ended 31st March, 2005, representing an approximately 0.4% increase as compared with that of the corresponding period in 2004.
- The Board does not recommend the payment of dividend for the three months ended 31st March, 2005.

FIRST QUARTER RESULTS

The board of directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31st March, 2005.

For the three months ended 31st March, 2005, the unaudited turnover is approximately RMB54,439,000, representing a drop of approximately RMB42,923,000, or approximately 44.1% in turnover as compared with that of the same period in 2004.

The unaudited net profit of the Group for three months ended 31st March, 2005 is approximately RMB2,991,000, representing a growth in the results of approximately 0.4% as compared with the corresponding figures in 2004.

* For identification purpose only

The unaudited results of the Group for the three months ended 31st March, 2005 together with the unaudited comparative figures for the corresponding period in 2004 are as follows:

		For the three months ended 31st March,	
		2005	2004
	<i>Notes</i>	RMB	<i>RMB</i>
Turnover	2	54,438,767	97,362,016
Cost of sales		(37,324,215)	(79,244,524)
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Gross profit		17,114,552	18,117,492
Other revenue		1,080,133	204,419
Distribution costs		(4,860,130)	(6,685,444)
Research and development costs		(1,148,141)	(1,890,765)
Administrative expenses		(7,628,192)	(6,033,866)
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Profit from operations		4,558,222	3,711,836
Finance costs		(348,833)	(80,300)
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Profit before taxation		4,209,389	3,631,536
Taxation	3	(459,866)	(193,336)
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Net profit before minority interests		3,749,523	3,438,200
Minority interests		(758,477)	(458,880)
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Net profit attributable to shareholders		2,991,046	2,979,320
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Earnings per share — basic	4	0.0032	0.0032
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Notes:

1. BASIS OF PRESENTATION

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

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

2. TURNOVER

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

	For the three months ended 31st March,	
	2005	2004
	RMB	RMB
Sales of computer software products	11,758,735	7,194,598
System integration	40,309,188	90,167,418
Import and export of IT related products	2,370,844	—
	54,438,767	97,362,016

3. TAXATION

	For the three months ended 31st March,	
	2005	2004
	RMB	RMB
The charge comprises:		
PRC income tax	459,866	193,336

Pursuant to an approval document issued by the Science and Technology Committee of Nanjing Municipality, the Company has been designated as a new and high technology entity and is subject to a 50% tax concession granted by relevant tax authority and entitled to a 50% reduction in income tax rate. Therefore a concessionary tax rate of 15% is used.

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

4. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to shareholders of RMB2,991,000 (2004: RMB2,979,000) and on 934,000,000 (2004: 934,000,000) shares in issue during the period.

Diluted earnings per share is not presented for the three months ended 31st March, 2005 and 2004 as there were no potential dilutive securities in existence during the relevant periods.

5. RESERVES

Other than as disclosed below, there were no movements in reserves of the Group for the relevant periods in 2005 and 2004.

	Retained profits	
	2005	2004
	RMB	<i>RMB</i>
As at 1st January,	46,375,938	35,975,718
Net profit for the period	2,991,046	2,979,320
As at 31st March,	49,366,984	38,955,038

DIVIDEND

The Board does not recommend the payment of dividend for the period. (2004: Nil)

FINANCIAL REVIEW

The Group has achieved a steady development in the operational results of the first quarter of year 2005. For the three months ended 31st March, 2005, the Group has accomplished a revenue of approximately RMB54,439,000 and a net profit of approximately RMB2,991,000. This represented a drop of approximately 44.1% in revenue as compared to the same period in the previous year. During the year, the Group concentrate on development of self-owned software product and import and export of IT related products which can generate higher profit margin and thus even the turnover of the Group drop for 44.1% when compare with the same period of 2004 but the profit can still have 0.4% increase when compare with the same period of 2004.

BUSINESS DEVELOPMENT REVIEW

Product Development

Network Security Total Solutions

Based on its past experience in security product development, changes in the demand from domestic customers and research on the trend of international technology development, the Company devised an overall development plan on Soft security product and service market for the next three years during the period. The plan formulated the phasic development objectives in respect of the Company's security product and security service for the marketing, R&D and sales divisions, and put forward a series of detailed implementation plans for maintaining the Company's leading position and continuously increasing its market share in the area of information security in the PRC in the next three years.

During the period, the Company strengthened its R&D and marketing efforts for its security products in accordance with its medium-long term development plan. Building on its existing security products, the Company launched SoftWall V2.4, an upgraded software version for firewall product series, and SoftNIDS V2.2, an upgraded software version for intrusion detect system product series during the period, with the objectives of meeting market demand and the Company's marketing strategies in mind. Among the new products, WatchOnline 1.0, an intranet surveillance product, was launched during the period. With further R&D efforts made during the period, the development of security management platform product was approaching the end. It is expected that the product will be launched in mid-May. The R&D of 1,000Hz firewall, IDS and VPN products has fully commenced, and was implemented as scheduled. It is expected that SoftWall 9000, the 1,000Hz firewall product series, will be launched in late-July.

In order to maintain its technologies at the leading domestic and advanced international levels, the Company has conducted in-depth research on the core technologies of security products. During the period, the R&D of two projects (NSS-2, the integrated security protection system with high-performance network environment, and built-in Linux operation system) has commenced, with planning and initial design completed as at the end of the quarter.

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

1. Security of built-in operation system
2. Synchronizing mechanism for security products with different structures
3. Investigation, statistics and correlation analysis of substantial security audit records
4. Auto-security protection of high-performance security systems
5. IPv6 network environment security protection technology

In addition, the Company has formulated relevant documents such as the outline and implementation standard of Soft security services in respect of security services, and has applied for security service qualification from relevant authorities in the PRC.

Marketing and Business Development

The Company continued to implement its development strategy of “sector-oriented in Jiangsu, channel-oriented outside Jiangsu (省內走行業·省外走渠道)” during the period. Increase in the brand awareness of Soft was driven by marketing promotions and customer interaction campaigns, thereby further inducing customer demand.

During the first quarter of 2005, the Company continued to open up the government market, and successfully obtained a number of large-scale projects, including electronic government businesses security design of Provincial Software Park, Provincial Administration of Quality and Technology Supervision and whole province, as well as Wenzhou municipal electronic government business. The Company also secured important projects from customers such as Xuzhou Everbright Group, further expanding the Company’s market in the area of corporate informatization.

Following its marketing and expansion plan, the Company launched all-round systematic comprehensive in-depth marketing campaigns during the period. The Company has successively organized a number of marketing campaigns, including “Seminar for Network Security Professional and New Product Launch Event, Fujian Province (福建省網絡安全精英懇談會暨新產品發佈會)”, “Seminar on Digital Industrial and Commercial and Electronic Government Business Security, Henan Province (河南省數字工商及電子政務安全研討會)”,

“Exchange Meeting of Senior Government Officers on Information Security, Jiangsu Province (江蘇省信息安全高級政府主管交流會)”, “Seminar on Highway Transportation System Safety, Jiangsu Province (江蘇省公路交通系統安全研討會)” and “Seminar on Political and Legal System Security, Jiangsu Province (江蘇省政法系統安全研討會)”.

This series of campaigns has reinforced the marketing efforts of the Company, expedited the establishment of its sales channels and the development of its agents, facilitating new breakthroughs in the market share of NandaSoft security products in the regional markets. The brand share of NandaSoft was increased with the promotion and application inside and outside provinces and in key sectors.

Electronic Government Businesses

NandaSoft has been actively participating in the construction of electronic government businesses, and became one of the most valued partners in the electronic government businesses construction in Jiangsu Province and the State. NandaSoft electronic government business total solutions emphasize the major technological characteristics of synchronizing technology and exchange platform.

In view of increasing demand for governmental synchronizing office, Jiangsu Provincial Government pioneered governmental synchronizing office construction in the PRC, and assigned it as a major engineering project for governmental informatization in 2005. Synchronizing office system is the foundation of electronic government business construction. A number of optimized upgraded functions of electronic government businesses must be established on the foundation of “departmental synchronization”. Therefore, the Company has fully commenced the early research on the project in accordance with the requirements of Jiangsu Provincial Government and leveraging on the technological advantages of Nanjing University. With the implementation of the project, Soft can continue to enhance its own technological R&D capability and become one of the regional standard setters of electronic government businesses software, thereby providing significant advantages for the future rapid development and increase in market share of the area.

With the successful implementation of projects in Jiangsu Provincial Government, Wuxi Provincial Government, Jiangsu Provincial Water Resources Department and Communications Department, the Company has developed total solutions for electronic government business data exchange platform at provincial, municipal, departmental and bureau levels. On this basis, the Company has modularized its data exchange platform products, allowing prompt installation of required software components according to different user requirements in future projects, thereby lowering development costs and increasing the Company’s earnings. The “modularized” software development and mode of production attracted wide interests and received favourable reception from the governmental customers.

In “2004 Survey on Excellent Governmental Portal Websites of the PRC (2004 中國政府優秀門戶網站調查)”, the website “Electronic Government Business Portal of Jiangsu, the PRC (中國江蘇電子政務門戶)” developed and implemented by the Company came third among the governmental portal websites of all provinces, autonomous regions and municipalities in such selection. During the period, the Company also won the bid for the data exchange platform project of Jiangsu Provincial Communications Department, while the procurement management system of Jiangsu Provincial Government was successfully implemented. Both of these have further increased the Group’s competitiveness in the area of electronic government businesses.

Internet Application Software

On the established basis of the Company’s primary business direction of “security-based electronic government businesses comprehensive solutions”, the Company accomplished integration of its existing technologies and self-own products in response to the diversified needs of the customers. Such integration represented the extension of its primary business in the form of “Internet application software” , and achieved significant benefits.

The Company further improved Soft office automation system during the period. The development and pilot work of educational materials publishing system, targeting at the entire province, was completed, and its promotion has commenced in full power. The promotion of technology plan application and report platform solutions with electronic government business functions in Suzhou and Changzhou was completed.

During the period, the Company successfully undertook a cartoon project of Science and Technology Park of Suzhou Industrial Park.

In respect of digital filing construction, the Company has improved the proposals on digital archive construction and electronic document centre, and undertaken digitalized processing work of files of Jiangsu Provincial Public Security Department.

The Company has fully launched the business of exporting and subcontracting software, with steady growth in the business and technological team of exporting and subcontracting software to Japan. Apart from receiving orders from existing customers, the Company also secured new overseas customers during the period, creating a new growth point for profits. Through co-operation with overseas companies, the Company has also further enhanced the standard and quality of its own software development, providing Soft with the essential foundation in gearing up with international software companies.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st March, 2005, the interests and short positions of the Directors, Chief Executives and Supervisors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares

Name	Type of interests	Number of shares	Capacity	Percentage of deemed beneficial interest in the Company's share capital
Directors				
Xie Li	Other (Note 1)	11,900,000	Interest of a controlled corporations	1.27%
Zhang Yun Xia	Personal (Note 2)	9,000,000	Beneficial Owner	0.96%
Chen Dao Xu	Other (Note 1)	500,000	Interest of a controlled corporations	0.05%
Supervisors				
Zhou Ming Hai	Other (Note 1)	5,000,000	Interest of a controlled corporations	0.54%
Wang Dao Wu	Other (Note 1)	1,000,000	Interest of a controlled corporations	0.11%
Zhou Wen Da	Other (Note 1)	780,000	Interest of a controlled corporations	0.08%
Shi Jian Jun	Other (Note 1)	500,000	Interest of a controlled corporations	0.05%

Notes:

- (1) These shares are held through the Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"). The Union, being a social organisation legal person established under the laws of the PRC by changing the name from Worker Union of Jiangsu Educational Instrument Corporation on 1st July, 2001, holds 110,000,000 shares, or approximately 11.78% shareholding in the Company for and on behalf of the staffs of the Company including directors and supervisors and owns 15% equity interest in Jiangsu Co-Creation Education Development Company Limited ("Jiangsu Co-Creation").

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

Save as disclosed in this paragraph, as at 31st March, 2005, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2005, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the share capital of the Company:

Long positions in Shares

Shareholder	Capacity	Number of Shares capital	Percentage of registered share
Nanjing University	Beneficial Owner	200,000,000	21.41%
Jiangsu Zongyi Company Limited ("Zongyi") (Note 1)	Beneficial Owner Interest of a controlled corporations	160,000,000 21,540,000	17.13% 2.31%
			19.44%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 2)	Beneficial Owner Interest of a controlled corporations	60,000,000 90,000,000	6.42% 9.64%
			16.06%
The Union (Note 3)	Beneficial Owner	110,000,000	11.78%
Jiangsu Co-Creation Education Development Company Limited	Beneficial Owner	90,000,000	9.64%
Golden 21 Investment Holdings Limited (Note 4)	Beneficial Owner	25,842,000	2.77%

Notes:

- (1) The interest of Zongyi comprises:
 - (a) 160,000,000 domestic shares (representing approximately 17.13% of the Company's issued share capital) held by Zongyi; and
 - (b) 21,540,000 domestic shares (representing approximately 2.31% of the Company's issued share capital) held through Jiangsu High-tech Industry Investment Company Limited (Formerly known as Jiangsu Property Business Company Limited and adopted the present name on 26th April, 2001, which is approximately 53.85% owned by Zongyi).
- (2) Jiangsu Management Center is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1st July, 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's issued share capital) held by Jiangsu Management Center; and
 - (b) 76,500,000 domestic shares (representing approximately 8.19% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Center.
- (3) The interest of the Union comprises:
 - (a) 110,000,000 domestic shares (representing approximately 11.78% of the Company's issued share capital) held by the Union; and
 - (b) 13,500,000 domestic shares (representing approximately 1.44% of the Company's issued share capital) held through Jiangsu Co-Creation, which is approximately 15% owned by the Union. Jiangsu Co. Creation is not a controlled corporation of the Union.
- (4) The interest of Golden 21 Investment Holdings Limited represents approximately 11.04% of total H shares and representing approximately 2.77% of the total domestic and H shares.

Save as disclosed above, as at 31st March, 2005, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

During the period ended 31st March, 2005, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31st March, 2005, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any rights to acquire H shares in the Company or had executed any such right during the year.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE UNDERLYING SHARES PURSUANT TO EQUITY DERIVATIVES

During the period ended 31st March, 2005, none of the Directors or Supervisors was granted options to subscribe for H shares of the Company. As at 31st March, 2005, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SHARE OPTION SCHEME

The Company has adopted a share option scheme. A summary of the principle terms and conditions of the share option scheme is set out in the section headed "Summary of the Terms of the Share Option Scheme" in Appendix VI of the Prospectus. Up to 31st March, 2005, no option has been granted pursuant to such share option scheme.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company and their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

CORPORATE GOVERNANCE AND AUDIT COMMITTEE

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

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

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period ended 31st March, 2005.

The Company confirmed that annual confirmations of independence were received from each of the Company's independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and all independent non-executive directors are considered to be independent.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the three months ended 31st March, 2005.

On behalf of the Board

Xie Li

Chairman

26th April, 2004, Nanjing, the PRC