



JIANGSU NANDASOFT COMPANY LIMITED

江蘇南大蘇富特軟件股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 8045)

**First
Quarterly Report
2007**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONGKONG 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.

Highlights

- Achieved a turnover of approximately RMB70,044,000 for the three months ended 31 March, 2007, representing an approximately 42.7% decrease as compared with that of corresponding period in 2006.
- Accomplished an attributable net profit of approximately RMB222,000 for the three months ended 31 March, 2007.
- The Board does not recommend the payment of dividend for the three months ended 31 March, 2007.

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 31 March, 2007.

For the three months ended 31 March, 2007, the unaudited turnover is approximately RMB70,044,000, representing a decrease of approximately RMB52,099,000, or approximately 42.7% in turnover as compared with that of the same period in 2006. The unaudited attributable profit of the Group for three months ended 31 March, 2007 is approximately RMB222,000.

The unaudited results of the Group for the three months ended 31 March, 2007 together with the unaudited comparative figures for the corresponding period in 2006 are as follows:

		For the three months ended 31st March, 2007	2006
	Notes	RMB	RMB
Revenue	2	70,044,367	122,143,634
Cost of sales		(63,708,805)	(112,525,879)
Gross profit		6,335,562	9,617,755
Other income		5,059,698	3,158,620
Distribution costs		(4,853,432)	(5,746,330)
Research and development costs		(1,048,170)	(955,042)
Administrative expenses		(4,315,850)	(6,697,333)
Finance costs		(955,954)	(686,407)
Profit/(Loss) before taxation		221,854	(1,308,737)
Income tax expenses	3	(121,358)	(78,950)
Profit/(Loss) for the period		100,496	(1,387,687)
Attributable to:			
Equity holders of the parent		222,484	(1,555,909)
Minority interests		(121,988)	168,222
		100,496	(1,387,687)
Earnings/(Loss) per share	4	0.0002	(0.0017)

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. Revenue

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

	For the three months ended 31st March, 2007	2006
	RMB	RMB
Sales of computer software products	2,235,508	3,427,117
System integration	65,414,919	63,603,455
Import and export of IT related products	2,393,940	55,113,062
	70,044,367	122,143,634

Dividend

The Board does not recommend the payment of dividend for the period. (2006: Nil)

Financial Review

The consolidated turnover of the Group for the period ended 31 March, 2007 was approximately RMB70,044,000. During the period, the Group concentrate on high-profit margin business and thus even the revenue of the Group drop for 42.7% when compare with the same period of 2006 but attributable profit of the Group for three months ended 31 March, 2007 was changed from attributable loss of RMB1,556,000 with that of the same period in 2006 to attributable profit of RMB222,000.

Apart from that, the management keeps tighter control for all distribution and administration expense which made the profit increase for the period ended 31 March 2007 when compare with the same period of 2006.

Business Objectives Review

Review on Business Development

Development Trend of Network Security Market

The vigorous growth of the network security market was driven by the ever-emerging new viruses, malicious software and targeted attacks, which drove enterprises of different scales to invest in security measures.

Paralleled to its efforts to extend and expand its product lines, NandaSoft strived to enhance its total security solutions to deliver more outstanding performance, and has already established external protection of the information network: firewall and VPN system, central protection: intrusion detect system and internal network information exchange surveillance: intranet surveillance system. Meanwhile, it was devoted to completing and improving its high-end firewalls for a more comprehensive product mix, with the objective to help more users to build more secured information security infrastructure.

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

Product Development

Network Security Total Solutions

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

- 1000Hz firewall products was launched into the market and was continuously perfected according to market response;
- High-end firewalls were improved with a comprehensive range of firewall products developed;
- Quarterly upgraded versions of SoftNIDS (a Soft intrusion detect system product) and SoftWALL (a Soft firewall product series) were launched;
- Research of the Soft Intranet Information Surveillance System 3.0 was under integration testing and system testing, and the new version of which is scheduled to be launched during the second quarter;
- Desktop operation system was further improved and upgraded. A sales team was formed to cooperate with PC manufacturers for gradational achievements. Application solutions tailored for government departments were launched;
- “Network Security Integrated Protection System NSS-2” (網絡安全綜合防護系統NSS-2), the National Information Security Key Project, was put into implementation as planned;

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

- Distributed security domain logic territory protection technology;
- Distributed multi-layer defense technology;
- Research on desktop operation system;
- Research on server operation system and embedded operation system continued;
- Research on IPV6 network security protection technology continued;
- Research on mobile communication security technology;

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

Product Promotion and Marketing Activities

NandaSoft accelerated the development of marketing channels. Apart from the provinces with established market stands, the Company focused on the building of business in new provinces and devised the initial plan for setting up provincial offices in 10 provinces including Hubei, Sichuan, Dongbei, Xibei provinces. In line with its presence in 7 major regions in the PRC, the Company will integrate its geographical layout of security product sale in the domestic market with its gear-up sales channels, stepping up its efforts in channel building. A marketing department will be established in each sub-region to take charge of the overall marketing planning, marketing activities, project management and client management, while the sales and technical support staff is stepped up as required.

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

The Company continued to be 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, Bureau of Radio Administration of Jiangsu Province, Department of Personnel of Jiangsu Province, Bureau of Agricultural Machinery Administration of Jiangsu Province, Bureau of Labour of Xuzhou Municipal, Administration of Quality and Technology Supervision of Taizhou Municipal, 連運港遠洋集團·楊成電廠 and so on. During the period, the Company has achieved better sales results based upon its client base. The Company continued to be engaged in large scale security projects from Jiangsu Province Radio Administration Bureau, Nanjing Library, Public Security Bureau, Suqian Municipal Bureau of Quality and Technical Supervision, Suzhou Wujiang Public Health Center, Xinbei District of Changzhou Municipal, Bureau of Communications in Jiangsu Province and from Henan Province Statistics Bureau, Henan Province Fire Bureau; and obtained new large scale security projects from Jianxi Architectural Design Institute. Major breakthroughs were witnessed in Yunnan Province and Guizhou Province.

In order to build up a new security idea for its clients, to establish a secure and healthy network for its users, and to deliver state-of-the-art technology and recent trend of the network security market to its clients in a timely manner, the Company organized the "NandaSoft Network Information Security Product Sales Exhibition and Technical Forum 2007" in Nanjing Municipal of Jiangsu Province, Nanchang Municipal of Jiangxi Province, Jilin Changchun, etc. These activities have found a solid client base for full roll-out of Soft security products across the nation. Through the above activities, the Company strived to reinforce its marketing efforts, and expedited the opening up of its sales channels and the development of its agents, which in turn created substantial new breaking grounds for NandaSoft security products for enlargement of their market shares in regional markets. With the promotion and implementation within and outside the province and in key sectors, the brand share of NandaSoft's products has been further increased.

Security System Integration and Services

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

During the period, the Company signed a contract with the Anhui Normal University in relation to a informatization project worth 15 million dollars, while at the same time undertook a number of informatization projects for various units such as Jiangsu Province General Office of the People's Government, Jiangsu Province Bureau of Quality and Technical Supervision network, Jiangsu Province Industry and Commerce Network Revamping Project Phase 1, Nanjing District General Hospital, Jiangsu Province Institute of Technology Wujin School District, Huaian Municipal Bureau of State Land and Resources Grade 3 network, Nanjing University, Nanjing Institute of Politics, Yancheng Teachers College, as well as a number of service projects such as provincial DELL service of Industrial And Commercial Administration Bureau of Jiangsu Province, intelligent system engineering and design services of the Practice and Training Base of Suzhou Science and Technology Town, informatization planning and design of Bureau of Prison Administration of Jiangsu Province, Software Integration Service of the General Office of the People's Government of Jiangsu Province, system enquiry service of Department of Public Health of Jiangsu Province, municipal data exchange services of Wuxi Government, enquiry services of Purchasing Center of Jiangsu Province.

Development of the Soft Group

During the period, the Suzhou company has won the bid for the system intelligentization for Suzhou Industrial Zone Science and Technology Park Phase 4, network communications and wireless meeting for Science and Technology Park Phase 4 and the system integration projects for Government Offices Administration of Suzhou Municipal. It also signed contracts for the OA maintenance projects for various Suzhou government departments.

The Phase II project of the State Administration of Press and Publication (國家新聞出版總署二期項目) and Phase II Project of the Jinrong Road Subdistrict Office (金融街街道辦事處二期項目) by the Beijing company were accepted after testing. The Beijing Company also signed contracts for website improvement project for Jinrong Road Subdistrict Office (金融街街道辦事處網站改造項目) and the network interconnection for Qingdao Fucai Center (青島市福彩中心).

Jiangsu Fuyue Technology Company Limited, with specialization in outsourcing software, completed Phase II and III of SCC line maintenance system, the system for Korea Business Department of 越田本社, ICOMSoft tax integrated management system (ICOMSoft稅綜合管理系統) and the digital camera-related system for Fujitsu (BCL).

Prospects

In response to the transformation of client's demand for network security from product-based to service-based, Soft will strive to provide its clients with comprehensive network security products and services.

In the future, the Company will initiate enhancement of its 1000Hz Security System Product Series and Intranet Information Security Surveillance System, and put more emphasis on the industrialization of "Open Security Enhancement Operation System" and "Integrated Security Protection Platform Technology". It plans to conduct R&D on Soft Security Desktop Operation System SoftOS2.0, Soft Intranet Information Surveillance System 3.0 and Integrated Security Platform ZAP 1.0 products. As for "IPV6 Network Security Protection System", the Company has planned to provide security protection products and total solutions targeting at IPV6 network environment and double its effort on cell communication security related to mobile communication in two to three years time.

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

The proposal for the construction of NandaSoft Software City will be fully implemented this year. After the completion of the construction, NandaSoft Software City will become the demonstrative base of software subcontracting, training and R&D. The Company's business and corporate image could therefore be fully enhanced.

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', and supervisors' interests and short positions in shares and underlying shares

At 31 March, 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 shares

Name	Type of interests	Number of domestic shares held directly or indirectly		Number of H shares	Percentage of deemed beneficial interest in the Company's domestic share capital	Percentage of 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%
Zhou Wen Da	Personal (Note 1)	780,000	–	–	0.11%	0.08%
Shi Jian Jun	Personal (Note 1)	500,000	–	–	0.07%	0.05%

Notes:

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

Save as disclosed above, as at 31 March, 2007, none of the directors 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 March, 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 March, 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 position in shares

Shareholder	Capacity	Number of domestic shares	Percentage of domestic shares	Number of H shares	Percentage of H shares	Number of domestic and H shares	Percentage of domestic and H shares
Nanjing University Asset Administration Company Limited (Note 1)	Beneficial Owner	236,340,000	33.76%	–	–	236,340,000	25.30%
Jiangsu Furen Group Company Limited (Note 2)	Beneficial Owner	200,000,000	28.57%	–	–	200,000,000	21.41%
Jiangsu Provincial Management Centre for Education Equipment and Self-supporting School ("Jiangsu Management Centre") (Note 3)	Beneficial Owner Interest of a controlled corporation	60,000,000	8.57%	–	–	60,000,000	6.42%
		104,750,000	14.96%	–	–	104,750,000	11.22%
		Sub-total: 23.53%				Sub-total: 17.64%	
Jiangsu Provincial IT Industrial Investment Company Limited	Beneficial Owner	45,850,000	6.55%	–	–	45,850,000	4.91%
Jiangsu Co-Creation	Beneficial Owner	104,750,000	14.96%	–	–	104,750,000	11.22%

Notes:

- (1) Nanjing University Asset Administration Company Limited is a wholly owned subsidiary of Nanjing University, a domestic shareholder and promoter of the Company. Nanjing University transferred all equity interests in the domestic shares of the Company, being 200,000,000 domestic shares, to Asset Administration Company Limited at nil consideration on 1st July, 2004.
- (2) Jiangsu Furen Group Company Limited acquired the shares from Jiangsu Zongyi Company Limited and Jiangsu Provincial Hi-Tech Industry Investment Company Limited for the transfer of 160,000,000 and 40,000,000 domestic shares in the Company, thereby creating a long position of 21.41% in the entire share capital of the Company.
- (3) Jiangsu Management Centre is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1 July 2001 pursuant to the PRC law. The interest of Jiangsu Management Centre comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's total issued share capital) held by Jiangsu Management Centre; and
 - (b) 104,750,000 domestic shares (100% deemed interests held by Jiangsu Management Centre representing approximately 11.22% of the Company's total issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Centre.

Save as disclosed above, as at 31 March, 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.

Directors' Interests in Contracts

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

Directors' and Supervisors' rights to Acquire H Share

During the year ended 31 March, 2007, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 31 March, 2007, none of the Directors or the Supervisors nor their spouses or children under the age of 18 had any rights to acquire H shares in the Company or had executed any such right during the year.

Competing Interests

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

Corporate Governance and Audit Committee

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

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

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the year ended 31 March, 2007.

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 31 March, 2007.

On behalf of the Board
Xie Li
Chairman

27 April, 2007, Nanjing, the PRC

As at the date thereof, the Board comprises:

Mr Xie Li (*Executive Director*)
Mr Chen Zheng Rong (*Executive Director*)
Professor Chen Dao Xu (*Non-Executive Director*)
Ms Zhang Yun Xia (*Non-Executive Director*)
Mr Yuan Ren Wei (*Non-Executive Director*)
Mr Xu Huan Liang (*Independent Non-Executive Director*)
Professor Wang Zhi Jian (*Independent Non-Executive Director*)
Mr Yim Hing Wah (*Independent Non-Executive Director*)