



JIANGSU NANDASOFT COMPANY LIMITED

江蘇南大蘇富特軟件股份有限公司

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

(Stock Code: 8045)

Interim Report
2007

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

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

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

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

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

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

Highlights

- Achieved a turnover of approximately RMB146,900,000 for the six months ended 30th June, 2007, representing an approximately 32.4% decrease as compared with that of the corresponding period in 2006.
- Accomplished a net profit of approximately RMB191,000 for the six months ended 30th June, 2007.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2007.

Interim Results

The board of Directors ("Board") of Jiangsu NandaSoft Company Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three and six months ended 30th June, 2007.

For the three months ended 30th June, 2007, the unaudited turnover is approximately RMB76,855,000, representing a decrease of approximately RMB17,784,000, or approximately 18.8% in turnover as compared with that of the same period in 2006.

For the six months ended 30th June, 2007, the unaudited turnover is approximately RMB146,900,000, representing a decrease of approximately RMB70,319,000, or approximately 32.4% in turnover as compared with that of the same period in 2006.

The unaudited net loss of the Group for three months ended 30th June, 2007 is approximately RMB31,000 and for the unaudited net profit of the Group for the six months ended 30th June, 2007 is RMB191,000.

The unaudited results of the Group for the three months and six months ended 30th June, 2007 together with the unaudited comparative figures for the corresponding period in 2006 are as follows:

	Notes	For the three months ended 30th June,		For the six months ended 30th June,	
		2007 RMB	2006 RMB	2007 RMB	2006 RMB
Revenue	2	76,854,963	94,638,849	146,899,330	217,218,818
Cost of Sales		(69,402,295)	(87,812,359)	(133,111,101)	(200,774,573)
Gross Profit		7,452,668	6,826,490	13,788,229	16,444,245
Other income		1,983,789	726,748	7,043,487	3,794,416
Distribution costs		(4,823,644)	(6,382,575)	(9,677,076)	(12,128,906)
Research and development costs		(781,244)	(1,458,602)	(1,829,414)	(2,413,644)
Administrative expenses		(3,078,932)	(5,360,864)	(7,394,783)	(12,058,197)
Finance costs		(798,500)	(421,062)	(1,754,454)	(1,016,516)
Profit/(loss) before tax	3	(45,863)	(6,069,865)	175,989	(7,378,602)
Income tax expense	4	(246,377)	(276,496)	(367,734)	(355,446)
Loss for the period		(292,240)	(6,346,361)	(191,745)	(7,734,048)
Profit/(loss) attributable to:					
Equity holders of the parent		(31,095)	(6,161,190)	191,387	(7,717,099)
Minority interests		(261,145)	(185,171)	(383,132)	(16,949)
		(292,240)	(6,346,361)	(191,745)	(7,734,048)
Earnings/(loss) per share – basic	5	(0.00003)	(0.00660)	0.00020	(0.00830)

Consolidated Balance Sheet

	Notes	(Unaudited) 30th June, 2007 RMB	(Audited) 31st Dec, 2006 RMB
Non-current assets			
Property, plant and equipment		20,505,364	22,751,771
Prepaid lease payment		9,689,605	9,808,105
Intangible assets		19,603,362	19,683,585
Interest in a jointly controlled entity		4,633,205	—
Interest in associates		9,541,011	9,541,011
Available for sale investment		4,990,331	5,570,541
Deposit paid		22,752,000	22,752,000
Total Non-Current Assets		91,714,878	90,107,013
Current assets			
Inventories		40,242,697	35,024,985
Trade and other receivables	6	127,859,395	131,612,649
Prepaid land lease payments		237,000	237,000
Equity investment at fair value through P&L		181,415	305,060
Due from shareholders		3,180,119	3,180,119
Due from minority shareholders		1,145,347	1,145,347
Cash and bank balances		22,536,634	66,371,906
Total Current Assets		195,382,607	237,877,066
Current liabilities			
Trade and other payables	7	34,286,345	37,564,096
Receipt in advance, other creditor and accruals		46,099,677	44,062,091
Due to shareholders		115,297	115,297
Interest-bearing bank and other borrowings		22,000,000	63,000,000
Tax payable		187,101	117,489
Total Current Liabilities		102,688,420	144,858,973
Net current assets		92,694,187	93,018,093
Total assets less current liabilities		184,409,065	183,125,106
Non-current liabilities			
Interest-bearing bank and other borrowings		(16,000,000)	(10,000,000)
Net Assets		168,409,065	173,125,106
Equity			
Equity attributable to equity holders of the parent			
Issued capital		93,400,000	93,400,000
Reserves		60,683,117	61,584,334
		154,083,117	154,984,334
Minority interest		14,325,948	18,140,772
Total Equity		168,409,065	173,125,106

Consolidated Cash Flow Statement (Unaudited)

	Six months ended 30th June, 2007 RMB	Six months ended 30th June, 2006 RMB
Cash flows from operating activities	8,796,636	(3,217,364)
Cash flow from taxation	(4,472,068)	3,104,770
Cash flows from investing activities	(7,516,955)	(320,136)
Cash flows from financial activities	(40,644,693)	24,799,117
Net (decrease) increase in cash and cash equivalent	(43,837,080)	24,366,387
Cash and cash equivalents at the beginning of the period	66,371,906	28,525,251
Effect of foreign exchange rate changes	1,808	(7,198)
Cash and cash equivalents at the end of the period	22,536,634	52,884,440

Statement of Changes In Equity (Unaudited)

	Share Capital RMB	Share Premium RMB	Statutory Surplus Reserve RMB	Statutory Public Welfare Fund RMB	Exchange reserve RMB	Retained earnings RMB	Total RMB
At 1st January, 2006	93,400,000	48,868,818	4,691,686	2,345,842	(16,533)	45,202,631	194,492,444
Profit for the period	-	-	-	-	-	(7,717,099)	(7,717,099)
Exchange difference arising on translation of foreign operations	-	-	-	-	(7,198)	-	(7,198)
At 30th June, 2006	93,400,000	48,868,818	4,691,686	2,345,842	(23,731)	37,485,532	186,768,147
At 1st January, 2007	93,400,000	48,868,818	4,846,407	2,423,203	(45,195)	5,491,101	154,984,334
Profit for the period	-	-	-	-	-	191,387	191,387
Disposal of Subsidiary	-	-	(727,853)	(366,559)	-	-	(1,094,412)
Exchange difference arising on translation of foreign operations	-	-	-	-	1,808	-	1,808
At 30th June, 2007	93,400,000	48,868,818	4,118,554	2,056,644	(43,387)	5,682,488	154,083,117

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 year.

	For the three months ended 30th June, 2007		For the six months ended 30th June, 2007	
	RMB	2006 RMB	RMB	2006 RMB
Sales of computer software products	7,220,719	3,775,837	9,456,227	7,215,197
System integration	61,632,792	79,548,101	127,047,711	143,378,768
Import and export of IT related products And equipment	8,001,452	11,314,911	10,395,392	66,624,853
	76,854,963	94,638,849	146,899,330	217,218,818

3. Profit/Loss before tax

For the six months ended 30th June, 2007		2006
RMB		RMB

Profit/loss before tax has been arrived at after charging:

Depreciation and amortisation on:		
– property, plant and equipment	1,152,038	2,075,743
– intangible assets (included in research and development costs)	614,484	2,413,643
Cost of Sale	133,111,101	200,774,573

4. Income Tax Expenses

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 is 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.

For the three months ended 30th June, 2007		For the six months ended 30th June, 2007	
RMB	2006 RMB	RMB	2006 RMB

The charge comprises:

PRC income tax			
Current year	246,377	276,496	367,734 355,446

5. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the loss attributable to shareholders of approximately RMB31,000 and the profit attributable to shareholders of approximately RMB191,000 for the three and six months ended 30th June, 2007 (2006: Loss RMB6,161,000 and RMB7,717,000) and on 934,000,000 (2006: 934,000,000) shares in issue during the periods.

Diluted earnings per share is not presented for the three months and six months ended 30th June, 2007 and 2006 as there were no potential dilutive securities in existence during the relevant periods.

6. Trade and Other Receivable

	(Unaudited) 30th June, 2007 RMB	(Audited) 31st Dec, 2006 RMB
Trade receivables	90,536,963	94,281,994
Less: accumulated impairment	(32,952,922)	(34,787,968)
	57,584,041	59,494,026
Notes receivables	547,607	426,932
Advance to suppliers	27,305,603	32,661,552
Other receivables	28,426,385	25,034,380
Other receivable from 中國石油天然氣 股份有限公司	6,590,000	6,590,000
Advance to Yahu	7,405,759	7,405,759
Total receivables and other receivables	127,859,395	131,612,649

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:

	(Unaudited) 30th June, 2007 RMB	(Audited) 31st Dec, 2006 RMB
Aged:		
0 – 90 days	18,445,818	21,983,226
91 – 180 days	5,933,330	3,537,544
181 – 365 days	6,053,622	6,645,108
Over 365 days	27,151,271	27,328,148
	57,584,041	59,494,026

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

7. Trade and Other Payables

Aged analysis of trade and other payables are as follows:-

	(Unaudited) 30th June, 2007 RMB	(Audited) 31st Dec, 2006 RMB
Trade payables Aged:		
0 – 90 days	19,664,160	22,950,747
91 – 180 days	4,316,228	2,497,889
181 – 365 days	1,465,188	4,107,537
Over 365 days	8,298,499	7,862,021
	33,744,075	37,418,194
Notes payable	542,270	145,902
	34,286,345	37,564,096

8. Segment Information

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

	Sales of computer software products six months ended 30th June,		System Integration six months ended 30th June,		Import and export of IT related products six months ended 30th June,		Total six months ended 30th June,	
	2007 RMB	2006 RMB	2007 RMB	2006 RMB	2007 RMB	2006 RMB	2007 RMB	2006 RMB
Revenue								
External Sales	9,456,227	7,215,197	127,047,711	143,378,768	10,395,392	66,624,853	146,899,330	217,218,818
Result								
Segment result	3,674,543	702,729	(5,522,825)	(7,984,976)	(119,902)	790,490	(1,968,184)	(6,491,757)
Other income							4,134,452	404,168
Unallocated corporate expense							(235,825)	(274,496)
Finance Cost							(1,754,454)	(1,016,517)
Profit/(loss) before tax							175,989	(7,378,602)
Income tax expense							(367,734)	(355,446)
Loss for the period							(191,745)	(7,734,048)

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the period. (2006: Nil).

Management Discussion and Analysis

Financial Review

Results

During the period, 1000Hz firewall product was launched to the market which leads to the turnover for sale of computer products increased by 31% and which is the highest profit margin business within the Group and thus even the revenue of the Group for the three months and six months ended 30th June, 2007 drop to RMB76,855,000 and RMB146,900,000, represent 18.8% and 32.4% when compare with the same period of 2006 but the loss was reduced to RMB31,000 for the three months ended 30th June, 2007 and there is profit of RMB191,000 for the six months ended 30th June, 2007 when compare with the same period of 2006.

Apart from that, the management keep tight control for all distribution and administration expense which leads profit increased for the period ended 30th June, 2007 when compare with the same period of 2006.

Financial Resources and liquidity

As at 30th June, 2007, shareholders' funds of the Group amounted to approximately RMB154,083,000. Current assets amounted to approximately RMB195,383,000, of which approximately RMB22,537,000 were cash and bank deposits. The Group had non-current liabilities of RMB16,000,000 and its current liabilities amounted to approximately RMB102,688,000, mainly its trade payable, accruals and current account with shareholders. The net asset value per share was RMB0.165. The Group expresses its gearing ratio as a percentage of bank borrowing and long-term debts over total assets. As at 30th June, 2007, the Group had a gearing ratio of 13.2% and the Group has short-term loan of RMB38,000,000.

Others

Throughout the six months ended 30th June, 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 the 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.

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

As at 30th June, 2007, there were no charges on group assets, and it is the same as the comparative six months ended 30th June, 2006.

As at 30th June, 2007, the Group had no material contingent liabilities and it is the same as the comparative six months ended 30th June, 2006.

Foreign Currency Risk

During the six months ended 30th June, 2007, all the Group's sales and purchases were substantially denominated in Renminbi, the Board of Directors considers that the potential foreign exchange exposure of the Group is limited.

Employee and Remuneration Policies

As at 30th June, 2007, total remuneration cost for the Group is RMB8,819,000 (2006: RMB10,621,000) and the Group had 395 employees (2006: 615 employees). Remuneration is determined by reference to market terms and performance, qualifications and experience of individual employee. Discretionary bonuses on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contribution to retirement scheme, medical scheme, unemployment insurance and housing fund.

Business Review

Development Trend of Network Security Market

As the existing network security products of PRC enter the phase of maturity, it is anticipated the network security market will maintain stable and swift growth. Coupled with new techniques and innovations continuing to emerge, the PRC network security market will be generating more growth points.

Paralleled to its efforts to extend and expand its product lines, NandaSoft has strived to enhance its total solutions in network security to deliver more outstanding performance, and has already developed solutions for different areas, namely firewall and VPN system for external protection of the information network, intrusion detect system for central protection, as well as intranet surveillance system for internal network information exchange surveillance. Meanwhile, we are devoted to enhancing the capability in providing secured services and consultancy, with the objective to help more users to build more secured information security infrastructures.

Product Development

Network Security Total Solutions

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

- 1000Hz firewall products were launched on market and were continuously perfected according to market response;
- Firewall series was complemented with new and improved high-end firewall products;
- Quarterly upgraded versions of SoftNIDS (a Soft intrusion detect system product series) and SoftWALL (a Soft firewall product series) were launched;
- R&D of the Soft Intranet Information Surveillance System 3.0 was completed;
- Soft Desktop operation system was completed and application solutions specially tailored for the common sectors was launched. The testing version of the server operation system was completed;
- “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;
- Network Security Total Solutions tailored for the education and telecommunication sectors were launched;

In addition, 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 top 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

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 has always taken the development of core agents as the focus of its channel building efforts. In accordance with the principle of mutual growth with its partners, the Company held the marketing and promotion events in Jianxi, Fujian and Henan during the first half of the year with distinguished results, paying visits to key industrial leaders and realizing adequate exchange with various local partners.

On the industry side, the Company participated in the preliminary work of product selection for the departments, offices and bureaus of the State's administrations, building up a foundation for the marketing of the sector in the future. During the period, NandaSoft launched the network security construction solutions for the "Inter-school Internet Project" of Jianxu Province with the approval from the concerning departments, and the promotion work in the sector would be launched in the second half of the year.

In order to further enhance its after-sales service, NandaSoft implemented the trade-in program of network security equipment specially for its existing clients, through which communication between the Company and its clients was strengthened while new business opportunity was explored, laying the client base for the NandaSoft intranet surveillance system in the future.

The Company continued to be a short-listed 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, 連雲港遠洋集團, 楊成電廠 and so on. During the period, the Company achieved better sales results based upon its existing client base. With securing of the order from 河南焦作信用社, the Company has successfully opened the business in the high-end financial sector in Heman, producing a leverage effect for the brand-building process of NandaSoft.

In order to inform its clients various new security concepts, 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 and Changchun, etc. These activities have established 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 the key sectors, the brand share of NandaSoft's products has been further increased.

Security System Integration and Services

Being a leading corporation in the sector, NandaSoft has always explored the road to scale maximization and international development. On the basis of the deep culture in business and the practice of internationalization in the past, NandaSoft learnt that clients demanded the suppliers to provide all-round, high-end consultancy, R&D, implementation, maintenance and repair services. In the light of this, NandaSoft has set up different service standards and regulations to build the system and infrastructure for its services and to regulate the service procedure, with the aim to create and provide valuable and satisfactory service for its clients.

With an established brand image that boosts Soft as the "Network Security Expert", the Company continued to step up the launch and promotion of its security system integration and services business during the year. A technical team focusing on security system integration and services was set up 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

NandaSoft regulated its strategy targeted at its subsidiaries, focusing on developing the market of North China, South China and Southern Suzhou based upon the relying points of the Beijing, Shenzhen and Suzhou companies. Meanwhile, the Company developed the agency business and outsourcing business targeted at Japan in cooperation with Lenovo. During the period, NandaSoft has passed the CMM3 certification, helping to clear the way to entering the international market in the future.

During the period, the Suzhou Company has won the bids for the system intelligitization for Suzhou Industrial Zone Science and Technology Park Phase 4, network communications and wireless meeting for Science and Technology Park 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 targeted at Japan, completed Phrase 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.

NandaSoft signed the land-use agreement of NandaSoft Software City with the Nanjing Municipal during the period. It was planned that the construction work would fully roll-out during the second half of the year.

Prospects

In response to the shift of client's demand for network security from product-based to service-based. Soft will focus on providing comprehensive network security products and services to its clients.

In the future, the Company will strive to promote its 1000Hz Security System Product Series and Intranet Information Security Surveillance System, proposing to provide NandaSoft network security surveillance system solutions for the sectors of education and communication so as to set the standards in the sector. Emphasizing on the industrialization of "Open Security Enhancement Operation System" and "Integrated Security Protection Platform Technology", the Company 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 target its security integration and services 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.

As the construction works of NandaSoft Software City commences, the Company will substantially develop the business of outsourcing service for Europe and America based on the existing outsourcing business for Japan, turning itself into the model of outsourcing in Jiangsu Province and bringing another new profit growth-point for the Company.

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 29th December, 2008. The service contracts will be renewed for a service period of three years subject to the approval at the forthcoming annual general meeting of the Company.

Save as disclosed above, none of the directors nor the supervisors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

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

At 30th June, 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 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.

Save as disclosed above, as at 30th June, 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 period 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 19th April, 2001. Up to 30th June, 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 30th June, 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	60,000,000	8.57%	–	–	60,000,000	6.42%
	Interest of a controlled corporation	104,750,000	14.96%	–	–	104,750,000	11.22%
			Sub-total:				Sub-total:
			23.53%				17.64%
Jiangsu Hi-Tech Investment Corporation	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 entered into separate agreements with Jiangsu Zongyi Company Limited and Jiangsu Provincial Hi-Tech Industry Investment Company Limited for the transfer of 160,000,000 and 40,000,000 domestic shares in the Company on 30th June, 2005, thereby creating a long position of 21.41% in the entire share capital of the Company.
- (3) Jiangsu Management Centre is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1st July, 2001 pursuant to the PRC law. The interest of Jiangsu Management Centre comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's total issued share capital) held by Jiangsu Management Centre; and
 - (b) 104,750,000 domestic shares (100% deemed interests held by Jiangsu Management Centre representing approximately 11.22% of the Company's total issued share capital) held through Jiangsu Co-Creation, which is approximately 85% owned by Jiangsu Management Centre.

Save as disclosed above, as at 30th June, 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 period or at any time during the period.

Directors' and Supervisors' Rights to Acquire H Share

During the period ended 30th June, 2007, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th June, 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 period.

Competing Interests

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

Corporate Governance and Audit Committee

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

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

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, all directors of the Company have complied with the required standard of dealings and the code of conduct regarding securities transactions by directors adopted by the Company throughout the period ended 30th June, 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 six months ended 30th June, 2007.

On behalf of the Board

Xie Li

Chairman

10th August, 2007, Nanjing, the PRC