



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)

Third
Quarterly Report
2007



Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (The “Stock Exchange”)

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

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM. The principal means of information dissemination on GEM is publication on the internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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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.

Highlights

- Achieved a revenue of approximately RMB214,379,000 for the nine months ended 30th September 2007, representing an approximately 30% decrease as compared with that of the corresponding period in 2006.
- Accomplished a net profit of approximately RMB130,000 for the nine months ended 30th September 2007.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2007.

Third Quarterly 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 nine months ended 30th September 2007.

For the three months ended 30th September 2007, the unaudited revenue is approximately RMB67,479,000, representing a decrease of approximately RMB20,979,000, or approximately 23.7% in revenue as compared with that of the same period in 2006.

For the nine months ended 30th September 2007, the unaudited revenue is approximately RMB214,379,000, representing a decrease of approximately RMB91,299,000, or approximately 30.0% in revenue as compared with that of the same period in 2006.

The unaudited net loss of the Group for three months ended 30th September 2007 is approximately RMB61,000. For the nine months ended 30th September 2007, the unaudited net profit of the Group is approximately RMB130,000.

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

	Notes	For the three months ended 30th September,		For the nine months ended 30th September,	
		2007 RMB	2006 RMB	2007 RMB	2006 RMB
Revenue	2	67,479,365	88,458,816	214,378,695	305,677,634
Cost of sales		(61,496,663)	(77,401,747)	(194,607,764)	(278,176,320)
Gross profit		5,982,702	11,057,069	19,770,931	27,501,314
Other income		4,198,736	331,348	11,258,059	4,385,075
Distribution costs		(4,188,475)	(5,398,259)	(13,865,551)	(17,527,165)
Research and development costs		(1,073,194)	(1,508,659)	(2,902,608)	(3,922,303)
Administrative expenses		(4,565,182)	(9,965,519)	(11,959,964)	(22,023,716)
Finance Costs		(378,893)	(1,246,383)	(2,149,183)	(2,523,210)
Profit/(loss) before tax		(24,306)	(6,730,403)	151,684	(14,110,005)
Income tax expense	3	45,459	34,604	(322,276)	(320,842)
Profit/(loss) for the period		21,153	(6,695,799)	(170,592)	(14,430,847)
Attributable to					
Equity holders of the parent		(61,459)	(6,742,444)	129,929	(14,460,544)
Minority interest		82,612	46,645	(300,521)	29,697
		21,153	(6,695,799)	(170,592)	(14,430,847)
Earnings/(loss) per share					
— basic	4	(0.0001)	(0.0072)	0.00001	(0.0155)

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 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 September, 2007		For the nine months ended 30th September, 2007	
	RMB	2006 RMB	RMB	2006 RMB
Sales of computer software products	1,229,477	6,879,099	10,685,704	14,094,296
System integration	61,251,509	64,694,350	188,299,221	208,073,118
Import and Export of IT related products and equipment	4,998,379	16,885,367	15,393,770	83,510,220
	67,479,365	88,458,816	214,378,695	305,677,634

3. Income Tax Expense

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 September, 2007		For the nine months ended 30th September, 2007	
	RMB	2006 RMB	RMB	2006 RMB
The (credit)/charge comprises:				
PRC income tax	(45,459)	(34,604)	322,275	320,842

4. Earnings/(Loss) Per Share

The calculation of basic earnings/(loss) per share is based on the loss attributable to shareholders of approximately RMB61,000 for the three months ended 30th September 2007 and profit attributable to shareholders of RMB130,000 for the nine months ended 30th September 2007 (2006: loss of RMB6,696,000 and RMB14,461,000) 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 nine months ended 30th September 2007 and 2006 as there were no potential dilutive securities in existence during the relevant periods.

5. Reserves

Other than the profit/(loss) for the period as disclosed in the consolidated statement of changes in equity, there were no movements in reserves of the Group for the relevant periods in 2006 and 2007.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the nine months period ended 30th September 2007. (2006: Nil)

Management Discussion and Analysis

Financial Review

Results

During the period, the Group facing of unprecedented competition under the rapid development in technology market which directly affects the market share and competitive edge of the Group and thus the consolidated revenue of the Group for the three months and nine months ended 30th September 2007 was approximately RMB67,479,000 and RMB214,379,000, representing a decrease of approximately 23.7% and 30.0% as compared to the same period in the previous year.

With the reducing of revenue, the Group strength the strategy on keeping control of distribution and administration expense which cause the consolidated operating loss attributable to shareholders of the Group for the three months ended 30th September 2007 was approximately RMB61,000 and the consolidated operating profit attributable to shareholders of the Group for the nine months ended 30th September 2007 was RMB130,000.

Business Development Review

Product Development

Network Security Total Solutions

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

- Soft Intranet Information Surveillance System 3.0 was launched to market, with trial run at the concerning client sites;
- 1000Hz firewall products were complemented 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;

- Soft server operation system was completed and application solutions specially tailored for the common sectors were launched; and
- “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.

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 server operation system and embedded operation system continued;
- Research on IPV6 network security protection technology continued; and
- Research on mobile communication security technology.

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

Product Promotion and Marketing

During the period, the marketing activities were conducted with a focus on the launch of the Soft Intranet Information Surveillance System. Soft Intranet Information Surveillance System 3.0 is an intranet computer surveillance and internal confidential information leakage prevention system self-designed and developed by NandaSoft. The system can effectively record internal computer information, control the connections between computers and various equipments, and at the same time record and control the various actions of different computer users such as network interviewing, document operating and program processing. The system also provides useful functions such as screen capturing of the computer under surveillance, preventing illegal intranet computer access, protecting the security uses of the unit or user information by operating in the security zone.

Through implementing the trade-in program of network security equipment for its existing clients in Jiangsu Province, the Company recommended to its existing clients the new intranet surveillance system which complements the existing network security products to provide corporate internal network with stronger security protection. The Network Security Construction Solutions for the “Inter-school Internet Project” of Jiangsu Province launched by NandaSoft was further promoted during the period and received positive response from the industry in Subei region. In addition, the Company has secured orders on network security products from a number of clients including the Department of Civil Affairs of Fujian Province, the Price Bureau of Nanjing City, the Bureau of Agricultural Machinery Administration of Jiangsu Province, Anhui Agricultural University, the Nanjing Municipal Bureau of Quality Supervision (南京市質量監督局), the Fujian Provincial Bureau of Machinery in Complete Set (福建省機械成套局), the Public Security Bureau of Taizhou, the Business College of Zhengzhou (鄭州商學院), Jiangsu Easthigh International Group during the period.

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

Security System Integration and Services

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

During the period, NandaSoft has won the bid for the Jiangsu Province Industrial and Commerce Administration Information System Platform Construction (江蘇省工商管理信息系統平臺系統建設) Project organized by the Government Procurement Centre of Jiangsu Province, which testified to the client recognition in NandaSoft’s technology and service ability and further strengthened the Company’s position in the governmental industry.

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

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

Development of the NandaSoft Group and Construction of Software City

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

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

The Intelligent Building Project for Suzhou Technology Park Phase IV and the Intelligent Building Project for Suzhou Exhibition Centre finished during the period and the Intelligent Building Project for Lakeside Palace currently implementing by Suzhou NandaSoft Technology Company Limited have consolidated Suzhou Company's leading position in the intelligentization constructions in Suzhou region.

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

Future Prospects

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

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

Directors' and Supervisors' Service Contracts

All directors (include Executive Directors, Non-Executive Directors and Independent Non-Executive Directors) and Supervisors have service contracts with the Company which will expire on 29th December 2008. The service contracts will be renewed for a service period of three years subject to the approval at the forthcoming annual general meeting of the Company.

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

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

At 30th September 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 September 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 September 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 September 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 Provincial IT Industrial Investment Company Limited	Beneficial Owner	46,850,000	6.69%	–	–	46,850,000	5.02%
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 September 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 September 2007, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th September 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 September 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 nine months ended 30th September 2007.

On behalf of the Board

Xie Li

Chairman

2nd November 2007, Nanjing, the PRC