



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

06

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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 RMB305,678,000 for the nine months ended 30th September 2006, representing an approximately 2.1% increase as compared with that of the corresponding period in 2005.
- Accomplished a net loss attributable to equity holders of the parent of approximately RMB14,461,000 for the nine months ended 30th September 2006.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30th September 2006.

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 2006.

For the three months ended 30th September 2006, the unaudited turnover is approximately RMB88,459,000, representing a decrease of approximately RMB54,011,000, or approximately 37.9% in turnover as compared with that of the same period in 2005.

For the nine months ended 30th September 2006, the unaudited turnover is approximately RMB305,678,000, representing an increase of approximately RMB6,206,000, or approximately 2.1% in turnover as compared with that of the same period in 2005.

The unaudited net loss attributable to equity holders of the parent of the Group for three months ended 30th September 2006 is approximately RMB6,742,000. For the nine months ended 30th September 2006, the unaudited net loss attributable to equity holders of the parent of the Group is approximately RMB14,461,000.

The unaudited results of the Group for the three months and nine months ended 30th September 2006 together with the unaudited comparative figures for the corresponding period in 2005 are as follows:

	Notes	For the three months ended 30th September		For the nine months ended 30th September	
		2006 RMB	2005 RMB	2006 RMB	2005 RMB
Revenue	2	88,458,816	142,469,932	305,677,634	299,471,933
Cost of sales		(77,401,747)	(125,624,691)	(278,176,320)	(253,534,690)
Gross profit		11,057,069	16,845,241	27,501,314	45,937,243
Other income		331,348	1,057,287	4,385,075	4,359,724
Distribution costs		(5,398,259)	(5,426,161)	(17,527,165)	(15,250,794)
Research and development costs		(1,508,659)	(1,779,694)	(3,922,303)	(4,172,687)
Administrative expenses		(9,965,519)	(6,292,977)	(22,023,716)	(18,772,734)
Finance Costs		(1,246,383)	(565,806)	(2,523,210)	(1,250,054)
Profit/(Loss) before tax		(6,730,403)	3,837,890	(14,110,005)	10,850,698
Income tax expense	3	34,604	70,889	(320,842)	(580,396)
Profit/(Loss) for the period		(6,695,799)	3,908,779	(14,430,847)	10,270,302
Attributable to					
Equity holders of the parent		(6,742,444)	2,801,365	(14,460,544)	7,820,953
Minority interest		46,645	1,107,414	29,697	2,449,349
		(6,695,799)	3,908,779	(14,430,847)	10,270,302
Earnings/(Loss) per share					
– basic	4	(0.0072)	0.0030	(0.0155)	0.0084

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 September		For the nine months ended 30th September	
	2006 RMB	2005 RMB	2006 RMB	2005 RMB
Sales of computer software products	6,879,099	2,015,787	14,094,296	15,086,037
System integration	64,694,350	99,250,815	208,073,118	217,500,943
Import and Export of IT Products	16,885,367	41,203,330	83,510,220	66,884,953
	88,458,816	142,469,932	305,677,634	299,471,933

3. Income Tax Expense

	For the three months ended 30th September		For the nine months ended 30th September	
	2006	2005	2006	2005
	RMB	RMB	RMB	RMB
The charge/(credit) comprises:				
PRC income tax	(34,604)	(70,889)	320,842	580,396

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%.

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

4. Earnings/(loss) Per Share

The calculation of basic loss per share is based on the loss attributable to shareholders of approximately RMB6,742,000 and RMB14,461,000 for the three and nine months ended 30th September 2006 (2005: profit of RMB2,801,000 and RMB7,821,000) and on 934,000,000 (2005: 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 2006 and 2005 as there were no potential dilutive securities in existence during the relevant periods.

5. Reserves

Other than the loss/profit for the period, there were no movements in reserves of the Group for the relevant periods in 2005 and 2006.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the nine months period ended 30th September 2006. (2005: Nil)

Management Discussion and Analysis

Financial Review

Results

The consolidated revenue of the Group for the three months and nine months ended 30th September 2006 was approximately RMB88,459,000 and RMB305,678,000, representing a decrease of approximately 37.9% and an increase of approximately 2.1% as compared to the same period in the previous year.

The Group's consolidated operating loss attributable to equityholders of the parent for the three months and nine months ended 30th September 2006 was approximately RMB6,742,000 and RMB14,461,000.

The increasing of operating loss for the Group during the period since there is unprecedented competition under the rapid development in technology market, which directly affects the market share and competitive edge of the Group. Besides, substantial amount of resources was placed on the product development and business promotion activities which cause increasing of distribution and administration expense.

The Board believes that the Company's strategies to speed up the process of product development, as well as strengthen its sales network and expand its product market was in the interests of the Company's long-term development despite its evident effects to the results for the period.

Business Development Review

Being the core business of NandaSoft, NandaSoft Network Security Total Solutions have all along operated in accordance with a customer-based and market-oriented mechanism and continued to launch innovative quality information security products and specialized information security services. 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 for 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 the enhancement of secured service capability and secured security consulting capabilities, with the objective to help more users build more secured information security infrastructure. No matter it is a small enterprise or a large-scale internet data centre, all NandaSoft will provide uniquely designed security protection services upon requests from different clients. During the period, NandaSoft was named as one of the "Top 100 Enterprises in Software and Information Services Innovation in China 2006" and has become the outstanding enterprise in software and information services innovation in China.

NandaSoft regards its clients as partners, alliances and even all together, a unity. NandaSoft strived to provide clients with specialized, systematic, timely and quality network security services. Not only did NandaSoft provide clients in Jiangsu regions with services such as network security system training, network security consultation, quality management in network security, network security implementation and contingency services, but also developed agents in other cities across the nation engaging network security services, so as to get close to the client and satisfy all the security needs of the partners effectively.

Product Development

Network Security Total Solutions

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

- 1000Hz firewall products were launched and continued to improve according to the market response;
- The quarterly upgraded versions of SoftNIDS (a Soft intrusion detect system product and SoftWALL (a Soft firewall product series) were launched;
- The research and development of the Soft Intranet Information Surveillance System 3.0(蘇富特內網信息安全監控系統 3.0) entered testing stage, and a new version is expected to be launched in the fourth quarter;
- The desktop operation system has been further improved and enhanced, and has obtained stage-specific achievements with sales team being established to work closely with the PC manufacturers; an application solution targeting at government departments was 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, has 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 continued;
- Research on IPV6 network security protection technology continued;

Product Promotion and Marketing Activities

With the support from the units such as Jiangsu Small and Medium Enterprise Bureau, the Company carried out market training activities including “Seminar on Network Security of Small and Medium Enterprises in Nanjing”, “Informatization Training for Small and Medium Enterprises in Wuxi” targeting at the small and medium enterprises users with vigorous growth in Jiangsu regions. In the Seminar on Network Security of Small and Medium Enterprises in Nanjing, NandaSoft specifically conducted a report on “network security defense infrastructure” which effectively displayed the understanding of NandaSoft over the network security. In the Informatization Training for Small and Medium Enterprises in Wuxi, most of the enterprises further learned the products of Soft through the communication with the information officers of the enterprises. The Company has considered to launch the quarterly small and medium enterprises version of related security solutions and products according to the demands of market. NandaSoft indicated that this plan was under consideration.

The “Spotlight Launch of Soft: a Nationwide Circuit Exhibition of Security Products” (蘇富特亮劍出鞘安全產品全國巡展) campaign held this year continued to deepen. During the quarter, the “NandaSoft Network Information Security Product Sales Exhibition and Technical Forum 2006” was held in Nanchang of Jiangxi Province, Shijiazhuang of Hebei Province and Changchun of Jilin Province etc.; and being one of the most important exhibitors in the “Second Session of China (Nanjing) International Software Products Exposition”, the Company displayed all its capabilities (especially in the security total solutions) in the exposition, and implemented extensive marketing activities to obtain large amount of information about the potential users and attract leaders at all levels from the nation, Ministry of Information Industry, Jiangsu Province and domestic and overseas industry specialists to visit the booth of the Company for exploration and instruction. Leaders at all level and specialists highly recognized the efforts made and the success gained by the Company in respect of the

technology, products market and services of information security. In this exposition, NandaSoft displayed Soft's all-round product series which forms the complete security system. At the same time, it launched the key product: the trial version of "intranet surveillance system" and held a live seminar on the same. These activities have found a solid client base for full roll-out of Soft security products across the nation.

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 with Anhui Normal University an informatization construction project of the said university in the approximate amount of RMB10,000,000. Meanwhile, the Company has successfully undertaken internal network reconstruction for Jiangsu Provincial Government, vertical cable network upgrading and reconstruction for Local Taxation Bureau of Jiangsu Province, and various informatization construction projects for different units including Prison Administration Bureau of Jiangsu Province, Taixing City Administrative Network Centre of Jiangsu, Administrative System Network on Highway Tolling of Jiangsu, Management office of Summer Palace in Beijing, Nanjing Institute of Politics, Yancheng Teachers College etc..

Development of Nandasoft Technology Group

During the period, the Suzhou company has successfully undertaken the S&T venture information platform of Suzhou which is a S&T network information platform targeting at the public with the aim of effectively sharing information services, realizing management informatization, decision scientification and maximum utilization of information resources. Meanwhile, it has also undertaken the integrated information query analysis system for the members of Suzhou Federation of Industry & Commerce, the project on unified customer-end system of internet for Nantong Branch of Jiangsu Mobile Company Limited.

During the period, the Beijing company continued to strengthen the cooperation relationship with the existing clients and signed new orders for the projects including air conditioner's automatic control system of China construction first building (group) corporation limited 二 公 司, management system on legal training of China Securities Regulatory Commission and digital library in Guiyang Cultural Palace of Nationalities etc..

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 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' Chief Executives' and Supervisors' Interests in Shares

The Worker Union of Jiangsu Provincial Management Center for Education Equipment and Self-supporting School (the "Union"), one of the domestic shareholders and promoters of the Company, held 110,000,000 domestic shares on behalf of various individuals, including directors, supervisors, staff members of the Company and other members of the Union. Between 2004 and 2005, the Union transferred all domestic shares held by it to various parties. Xie Li, Chen Dao Xu, the spouse of Zhang Yun Xia, Zhou Ming Hai, Wang Dao Wu, Zhou Wen Da and Shi Jian Jun were amongst some of the transferees to whom the Union transferred the domestic shares in June 2005.

As at 30th September 2006, the interests and short positions of the Directors, Chief Executives and Supervisors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO") which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited ("the Stock Exchange") pursuant to divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long positions in shares

Name	Type of interests	Number of domestic shares held		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
		directly or indirectly 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 in this paragraph, as at 30th September 2006, none of the Directors, Chief Executives and Supervisors had interest in any securities of the Company or any of its associated corporations.

Substantial Shareholders

On 30th September, 2006, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests in the share capital of the Company:

Long positions in Shares

Shareholder	Capacity	Number of 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 corporations	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 Education Development Company Limited	Beneficial Owner	104,750,000	14.96%	–	–	104,750,000	11.22%
Golden 21 Investment Holdings Limited (Note4)	Beneficial Owner	–	–	25,362,000	10.84%	25,362,000	2.72%

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 September 2005, thereby creating a long position of 21.41% in the entire share capital of the Company.
- (3) Jiangsu Management Center is a professional unit entity established which changed its name from Jiangsu Educational Instrument Corporation on 1st July 2001 pursuant to the PRC law. The interest of Jiangsu Management Center comprises:
 - (a) 60,000,000 domestic shares (representing approximately 6.42% of the Company's total issued share capital) held by Jiangsu Management Center; and
 - (b) 104,750,000 domestic shares (100% deemed interests held by Jiangsu Management Center 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 Center.
- (4) The interest of Golden 21 Investment Holdings Limited represents approximately 10.84% of total H shares and representing approximately 2.72% of the total domestic and H shares.

Save as disclosed above, as at 30th September 2006, the Directors were not aware of any other person who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed under Division 2 and 3 of Part XV of the SFO, or who was interested in 5% or more of the nominal value of any class of share capital, or options in respect of such capital, carrying rights to vote in all circumstances at general meetings of the Company.

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 2006, no option has been granted pursuant to such share option scheme.

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 30th September 2006, none of the directors or supervisors was granted options to subscribe for H shares of the Company. As at 30th September 2006, 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 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 year ended 30th September 2006.

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 30th September 2006.

On behalf of the Board

Xie Li
Chairman

3rd November 2006, Nanjing, the PRC