



南京三寶科技股份有限公司

NANJING SAMPLE TECHNOLOGY COMPANY LIMITED*

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



Third Quarterly Report

2004

* for identification purpose only

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This report, for which the directors of NANJING SAMPLE TECHNOLOGY COMPANY LIMITED (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM” Listing Rules) for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading and (iii) 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.*

FINANCIAL HIGHLIGHTS

The turnover of the Group for the nine months ended 30 September 2004 (the "Review Period") amounted to approximately RMB47,515,000 representing a rapid growth of approximately 61.65% as compared to the corresponding period of last year.

The profit attributable to shareholders for the nine months ended 30 September 2004 was RMB11,712,000, representing an increase of approximately 33.93% as compared to the corresponding period of last year.

The basic earnings per share for the nine months ended 30 September 2004 was approximately RMB22.05 cents (corresponding period of 2003: RMB19.43 cents).

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004.

The management of the Group will apply a scrupulous management style and investment strategy in order to bring a long term and stable flow of income to the Group.

THIRD QUARTERLY RESULTS

The board of directors (the “Board”) of Nanjing Sample Technology Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the nine months and three months ended 30 September 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2004	2003	2004	2003
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover	3	47,515	29,393	16,178	9,024
Cost of sales		(24,501)	(15,358)	(9,175)	(4,971)
Gross profit		23,014	14,035	7,003	4,053
Other operating income		6,179	8,281	2,413	1,218
Marketing and promotional expenses		(6,762)	(4,507)	(2,983)	(1,903)
Administrative expenses		(8,192)	(5,988)	(4,514)	(2,280)
Profit from operations	4	14,239	11,821	1,919	1,088
Gain on disposal of a subsidiary		-	141	-	-
Interest on bank borrowings wholly repayable within five years		(850)	(2,188)	(217)	(978)
Profit before taxation		13,389	9,774	1,702	110
Taxation	5	(1,774)	(789)	(338)	-
Profit before minority interests		11,615	8,985	1,364	110
Minority interests		97	(240)	(1)	(80)
Net profit for the period		11,712	8,745	1,363	30
Dividends	6	-	-	-	-
Earnings per share – Basic	7	RMB22.05cents	RMB19.43cents	RMB2.11cents	RMB0.07cents

NOTES TO THE THIRD QUARTERLY RESULTS

I. BACKGROUND OF THE CORPORATION

The Group is a major developer and provider of video security system solutions in the PRC targeting on government authorities. Its system solutions are currently designated for use in (i) traffic monitoring and control sector and (ii) customs logistics monitoring sector in the PRC.

The Company's H Shares have been listed on GEM of the Stock Exchange since 9 June 2004.

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated results have been prepared in accordance with generally accepted accounting principles in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months and nine months ended 30 September 2004 and 2003 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003. The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

3. TURNOVER

	Nine months ended 30 September 2004		Three months ended 30 September 2004	
	RMB'000	2003 RMB'000	RMB'000	2003 RMB'000
Provision of video security system solutions	47,002	28,719	16,019	8,970
Sales of related computer products	513	674	159	54
	47,515	29,393	16,178	9,024

4. PROFIT FROM OPERATIONS

The Group's profit from operations has been arrived at after charging:

	Nine months ended 30 September 2004		Three months ended 30 September 2004	
	RMB'000	RMB'000	RMB'000	RMB'000
Included in administrative expenses:				
Amortisation of goodwill	100	100	33	33
Amortisation of technical know-how	1,050	1,100	350	350
Cost of inventories recognised as expenses	21,139	13,208	8,090	4,574
Depreciation and amortisation of property, plant and equipment	624	514	207	198
Loss on disposal of property, plant and equipment	—	5	—	—
Operating lease rentals in respect of land and buildings	630	334	60	56
Directors' and supervisors' remuneration	637	357	212	119
Staff costs	5,267	4,921	1,959	1,689
And after crediting:				
Government grant	3,112	2,401	1,123	—
Interest income	64	239	38	79
PRC value added tax refunded	2,899	1,370	1,577	679
Write back of allowance for inventories included in cost of sales	—	40	—	—

5. TAXATION

	Nine months ended 30 September 2004		2003		Three months ended 30 September 2004		2003	
	RMB'000		RMB'000		RMB'000		RMB'000	
The charge comprises:								
PRC income tax	(1,774)		(871)		(338)		—	
Deferred taxation	—		82		—		—	
	(1,774)		(789)		(338)		—	

PRC income tax is calculated at the rates prevailing under the relevant laws and regulations in the PRC.

The Company is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%.

The Company's subsidiaries are subject to a PRC income tax rate of 33%, except for Nanjing Golden Dragon Software Company Limited, being a qualified PRC software enterprise, which is entitled to exemption from PRC income tax for two years commencing from its first profit-making year of operation and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years. This subsidiary is exempted from PRC income tax in 2002 and 2003.

The tax expense is reconciled to the profit per the condensed consolidated income statement as follows:

	Nine months ended 30 September 2004		2003		Three months ended 30 September 2004		2003	
	RMB'000		RMB'000		RMB'000		RMB'000	
Profit before taxation	13,389		9,774		1,702		110	
Tax at the domestic income tax rate at 15%	2,008		1,466		255		16	
Tax effect of expenses that are not deductible in determining taxable profit	269		190		49		57	
Tax effect of expenses that are not taxable in determining taxable profit	(481)		(252)		(109)		(73)	
Effect of different tax rates of subsidiaries	(22)		(615)		143		—	
Tax expense for the period	1,774		789		338		—	

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2004 (2003: NIL).

7. EARNINGS PER SHARE

The basic earnings per share for the three months and nine months ended 30 September 2004 were RMB2.11 cents and RMB22.05 cents, the calculation is based on the profit attributable to shareholders of approximately RMB1,363,000 and RMB11,712,000 respectively and on the weighted average number of 64,500,000 and 53,113,138 ordinary shares in issue respectively for the periods.

The basic earnings per share for the three months and nine months ended 30 September 2003 were RMB0.07 cents and RMB19.43 cents, the calculation is based on the profit attributable to the shareholders of approximately RMB30,000 and RMB8,745,000 respectively and on the weighted average number of 45,000,000 ordinary shares in issue during the periods.

Diluted earnings per share for the three months and nine months ended 30 September 2003 and 2004 are not presented, as there were no dilutive potential ordinary shares in existence during the periods.

8. RESERVES

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2004	—	3,904	1,952	23,969	29,825
Premium arising on issue of shares	66,280	—	—	—	66,280
Expenses incurred in connection with the issue of share	(13,639)	—	—	—	(13,639)
Net profit for the period	—	—	—	11,712	11,712
At 30 September 2004	52,641	3,904	1,952	35,681	94,178
At 1 January 2003	—	1,174	587	7,457	9,218
Net profit for the period	—	—	—	8,745	8,745
At 30 September 2003	—	1,174	587	16,202	17,963

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover: Turnover of the Group reached RMB47,515,000 for the Review Period, an increase of 61.65% from RMB29,393,000 recorded in the corresponding period of the previous year, mainly attributable to the strengthened marketing activities adopted by the Group. In addition, following the enforcement of the Road Traffic Safety Law with effect from 1 May 2004, the PRC public security authorities have increasing needs to enhance supervision by technological means which also contributed to the higher turnover of the Group during the Review Period.

Gross profit margin: The gross profit margin of the Group for the Review Period was 48.44%, largely the same as that of 47.75% in the corresponding period of the previous year.

Marketing and promotional expenses: In the Review Period, the marketing expenses of the Group rose to approximately RMB6,762,000 from approximately RMB4,507,000 in the corresponding period of the previous year. The increase was driven by an increased number of marketing campaigns launched by the Group in an effort to explore new regional markets and sales opportunities.

Administrative expenses: In the Review Period, the administrative expenses of the Group increased from approximately RMB5,988,000 in the corresponding period of the previous year to approximately RMB8,192,000. The higher administrative expenses were mainly caused by the initial expenses of the Group after relocating its office.

Net profit: Due to a significant surge in sales, the net profit attributable to shareholders was up 33.93% during the Review Period to approximately RMB11,712,000 from approximately RMB8,745,000 for the corresponding period of the previous year.

Business Review and Prospect

During the Review Period, the Group continued focusing on the provision of video security system solutions which accounted for the majority of its turnover. Despite the intense market competition, the enforcement of the Road Traffic Safety Law in May 2004 and the increasing demand in the video security system solutions market provided the Group with more business opportunities.

Meanwhile, the Group has further consolidated its existing business and is capturing the emerging business opportunities and seeking for better operations mode, so as to build a more solid earnings base for the interest of the Group and its shareholders.

Prospect

The third quarter of 2004 has an important implication to the Group. The relocation to Maqun Technology Park in early September 2004 signified a new milestone for the Group's development. In September 2004, the Group entered into an agreement with Shanghai Jiaohai Information Technology Company Limited for a container electronic plate identification system, bringing for the Group a valuable opportunity to expand its business into the Yangtze River Delta, the busiest logistic region in China. The Group will keep expanding marketing activities in its present business and will penetrate into the central-western regions in China for its traffic monitoring and control business. Moreover, it will capitalise on the opportunity of entering into the Yangtze River Delta and the implementation of the "Port-Area Cooperation Plan", thus accelerating the growth and development of its customs logistics monitoring business.

INTERESTS DISCLOSEABLE UNDER THE SECURITIES AND FUTURES ORDINANCE (“SFO”) OF CHAPTER 571 OF HONG KONG LAW

Interests or short positions in the share capital of the Company and its associated corporation of the Directors and chief executive officers

Save as disclosed below, as at 30 September 2004, none of the Directors and the chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the SFO of Chapter 571 of Hong Kong Law) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the Rules 5.46 to 5.67 of the GEM Listing Rule.

Long positions in shares:

Name of Director	Number of Domestic Shares	Nature of interest	Approximate percentage of the registered capital of the Company (%)
Sha Min	450,000	Beneficial owner	0.7

Note: As Du Yu (杜予) is the spouse of Sha Min, Du Yu (杜予) is deemed to be interested in the 450,000 Domestic Shares held by Sha Min pursuant to Part XV of the SFO.

Shares Discloseable under the SFO and Substantial Shareholders

Save as disclosed below, so far to the knowledge of the Directors, as at 30 September 2004, the following shareholders (other than the Directors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Division 2 and 3 of Part XV of the SFO, or which were required to be recorded in the register required to be kept under Section 336 of the SFO, or direct or indirect interests of 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

Long positions in shares:

Name of shareholders	Number of Domestic Shares	Nature of interest	Approximate percentage of registered capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1)	19,650,000	Beneficial and corporate	30.47
Nanjing Zhongbei (Group) Company Limited ("Nanjing Zhongbei")	12,000,000	Beneficial	18.60
Nanjing Huadong Electronics Information & Technology Company Limited ("Huadong Technology")	12,000,000	Beneficial	18.60
Nanjing Huadong Electronics Group Company Limited ("Huadong Electronics") (Note 2)	12,000,000	corporate	18.60

Notes:

1. Sample Group directly holds 18,000,000 Domestic Shares and is also interested in 95.00% of the registered capital of Nanjing Sample Technology Commerce City Company Limited (南京三寶科技商城有限公司) ("Sample Commerce City"), which in turn is directly interested in 1,650,000 Domestic Shares. Pursuant to the section 316 of the SFO, Sample Group is deemed to be interested in the 1,650,000 Domestic Shares held by Sample Commerce City.
2. Pursuant to section 316 of SFO, Huadong Electronics is deemed to be interested in 12,000,000 Domestic Shares held by Huadong Technology, as Huadong Electronics is interested in 45.20% of registered capital of Huadong Technology.

Directors' and Supervisors' Interests in Underlying Shares by Derivatives

Save as disclosed above, as at 30 September 2004, none of the Directors or Supervisors is authorised to subscribe any H shares of the Company. As at 30 September 2004, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the period.

Share Option Scheme

The Company has adopted a Share Option Scheme. The principle terms and conditions of the Share Option Scheme are set in the section "Summary of the terms of Share Option Scheme" in Appendix VII of the Prospectus. As at 30 September 2004, none of the options is granted under the Share Option Scheme.

Competing Business and Conflicts of Interests

None of the Directors, management shareholders or substantial shareholders or any of their associates (as defined in the GEM Listing Rule) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has other conflicts of interests with the group.

Sponsors' Interest

As at 30 September 2004, according to the notification of the sponsors of the Company Core Pacific-Yamaichi Capital Limited ("CPY"), none of CPY, its directors, employees or associates (as defined in Note 3 of Rules 6.35 of the GEM Listing Rule) had any interest in the share capital of the Company or any of its subsidiaries, or had the right to subscribe or nominate the others to subscribe the share capital of the Company or any of its subsidiaries.

According to the agreement entered into by the Company and CPY on 2 June 2004, CPY acts as the Sponsor of the Company for the period from 9 June 2004 to 31 December 2006 or until the agreement is terminated pursuant to the terms and conditions of the agreement and receive and will receive an agreed amount of fees for the services to be rendered in respect thereof.

Audit Committee

The Company established an audit committee on 27 August 2003 with 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 supervise the financial reporting process and internal control of the Company.

The audit committee comprises three independent non-executive directors, namely Mr. Zhang Zhan (the chairman of the audit committee), Mr. Wang Wei and Mr. Lau Shek Yau John. The audit committee of the Company has reviewed the unaudited results of the Group for the Review Period and has provided advice and comment thereon.

Board Practices and Procedures

The Company had complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules from time to time since the Shares of the Company have been listed on the GEM of the Stock Exchange on 9 June 2004.

Purchase, Redemption or Sale of Listed Securities of the Company

During the Review Period, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

By Order of the Board

Nanjing Sample Technology Company Limited*

Sha Min

Chairman

5 November 2004

Nanjing, PRC