



# 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)

Stock Code : 8287



THIRD QUARTERLY REPORT | 2006

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*This report, for which the directors (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, 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.*

*\* for identification purpose only*

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## Financial Highlight

The turnover of the Group for the nine months ended 30 September 2006 (the "Review Period") amounted to approximately RMB73,553,000, representing a growth of approximately 47.34 % as compared to the corresponding period of last year.

The profit attributable to equity holders of the parent for the nine months ended 30 September 2006 was approximately RMB30,054,000, representing an increase of approximately 97.53% as compared to the corresponding period of last year.

The earnings per share was approximately RMB46.60 cents.

The board (the "Board") of directors of the Company does not recommend the payment of an interim dividend for the nine months ended 30 September 2006.

The Board is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the nine months and the three months ended 30 September 2006 together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

## Condensed Consolidated Income Statement

	Notes	For the nine months ended 30 September		For the three months ended 30 September	
		2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Turnover	4	73,553	49,920	22,707	18,525
Cost of sales		(38,778)	(22,026)	(12,114)	(10,788)
Gross profit		34,775	27,894	10,593	7,737
Other income		16,382	7,840	12,843	2,367
Marketing and promotional expenses		(4,750)	(4,975)	(1,559)	(1,610)
Administrative expenses		(10,199)	(11,822)	(3,709)	(3,695)
Finance costs	5	(1,789)	(1,873)	(488)	(640)
Profit before tax		34,419	17,064	17,680	4,159
Income tax expenses	6	(4,134)	(1,968)	(2,967)	—
Net profit for the period	7	30,285	15,096	14,713	4,159
Attributable to:					
Equity holders of the parent		30,054	15,215	14,840	4,255
Minority interests		231	(119)	(127)	(96)
Net profit for the period		30,285	15,096	14,713	4,159
Earnings per share — Basic	9	RMB46.60 cents	RMB23.59 cents	RMB23.01 cents	RMB6.60 cents

### Notes to the Third Quarterly Results

#### 1. BACKGROUND OF THE CORPORATION

The Group is a major developer and provider of video security system solutions in the People's Republic of China ("PRC") targeting on government authorities. Its system solutions are currently designated for use in (i) traffic monitoring and control sector (the "Traffic Sector") and (ii) customs logistics monitoring sector (the "Customs 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 the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the nine months ended 30 September 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

#### 3. SEGMENTAL INFORMATION

##### Business segments

Over 90% of the Group's turnover, results, assets and liabilities are derived from provision of video security system solutions. Accordingly, no detailed analysis of the Group's business segments are disclosed.

##### Geographical segments

The Group's operations are situated in the PRC in which its turnover was derived principally therefrom. Accordingly, no geographical segments are presented.

## 4. TURNOVER

	For the nine months ended 30 September		For the three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Provision of video security system solutions	73,553	49,920	22,707	18,525

## 5. FINANCE COSTS

	For the nine months ended 30 September		For the three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
Interest on bank borrowings wholly repayable within five years	1,789	1,873	488	640

## 6. INCOME TAX EXPENSES

	For the nine months ended 30 September		For the three months ended 30 September	
	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)	2006 RMB'000 (unaudited)	2005 RMB'000 (unaudited)
The charge comprises:				
PRC income tax	4,134	1,968	2,967	—

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

The Company is recognized 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\* (南京金龍軟件有限公司), 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 entitled to 50% relief in 2004, 2005 and 2006.



## 7. NET PROFIT FOR THE PERIOD

	For the nine months ended 30 September		For the three months ended 30 September	
	2006 <i>RMB'000</i> <i>(unaudited)</i>	2005 <i>RMB'000</i> <i>(unaudited)</i>	2006 <i>RMB'000</i> <i>(unaudited)</i>	2005 <i>RMB'000</i> <i>(unaudited)</i>
The Group's net profit for the period has been arrived at after charging:				
Amortisation of goodwill included in administrative expenses	—	67	—	—
Cost of inventories recognized as expenses	28,590	17,503	7,665	9,260
Depreciation and amortization of property, plant and equipment	2,990	3,823	1,181	1,845
Operating lease rentals in respect of land and buildings	96	63	46	21
Staff costs (including Directors' and supervisors' remuneration)	5,190	5,308	1,385	1,980
And after crediting				
Government grant	1,270	1,359	770	864
Interest income	1,679	539	642	134
PRC value added tax refunded	3,305	2,788	2,212	2,018

### 8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (2005: Nil).

### 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2006 is based on the profit attributable to equity holders of the parent of approximately RMB14,840,000 and RMB30,054,000 respectively and on the weighted average number of 64,500,000 ordinary shares in issue for the periods.

The calculation of the basic earnings per share for the three months and nine months ended 30 September 2005 is based on the profit attributable to equity holders of the parent of approximately RMB4,255,000 and RMB15,215,000 respectively and on the weighted average number of 64,500,000 ordinary shares in issue for the periods.

No diluted earnings per share have been presented for the three months and the nine months ended 30 September 2006 and 2005 as no potential dilution of ordinary shares was in existence during the relevant periods.

## 10. RESERVES

	Attributable to equity holders of the parent						Total
	Share	Statutory	Statutory	Retained	Total	Minority	
	premium	surplus	welfare	profits		interests	
	RMB'000	reserve	fund	RMB'000		RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2006	52,641	7,913	3,956	50,613	115,123	4,857	119,980
Net profit for the							
period	—	—	—	30,054	30,054	231	30,285
At 30 September							
2006	52,641	7,913	3,956	80,667	145,177	5,088	150,265
At 1 January 2005	52,641	6,010	3,005	38,815	100,471	4,775	105,246
2004 final							
dividends paid				(6,450)	(6,450)	—	(6,450)
Net profit for the							
period	—	—	—	15,215	15,215	(119)	15,096
At 30 September							
2005	52,641	6,010	3,005	47,580	109,236	4,656	113,892

# Management Discussion and Analysis

## Financial Review

For the nine months ended 30 September 2006 (the “Review Period”), the turnover of the Group reached approximately RMB73,553,000, representing an increase of approximately 47.34% over that of the corresponding period of last year. The gross profit margin for the Review Period decreased from 55.88% to 47.28%. Although the Group is facing fierce competition among the video security systems solution industry and leading to diminishing profit margin, the Group’s turnover still recorded an increase resulting from our mature technology and continuous induction of newly developed products.

For the nine months ended 30 September 2006, other operating income of the Group increased by 108.95% as compared with the corresponding period of last year. Such rapid increase was mainly contributable to the sales of software products other than security system amounting to approximately RMB10,000,000.

Marketing and promotional expenses maintained at a similar level as compared to the corresponding period of last year and recorded a decrease of 4.52%. The administrative expenses decreased from approximately RMB11,822,000 to approximately RMB10,199,000 as compared with the corresponding period of last year, representing a decrease of 13.73%. The decrease was attributable to the cost saving under the resource reallocation in research and development of approximately RMB900,000.

## Business Review

As for the traffic monitoring and control business, the Group continued the business plan generated in the first half of the year in this quarter, which is further reinforcing the existing product technologies as well as continuously introducing newly developed products that can suit the needs of the public security and that can meet the demands of the market, so as to increase the market share and maintain the steady growth of the Group’s revenue.

As for the customs logistics monitoring business, the Group has recently completed the equipment management of its own developed “Centralized Monitoring System”, and is currently conducting testing and document processing for the effective control of resources through custom gates. Moreover, the containers for sea transport work of “Inter-regional Site Connection Platform Software” has been completed, with the overall design to be completed soon. The development of the “Inter-regional Site Application System” for the customs import, export and transshipment of cargoes in containers will be completed before the Customs confirmed the location for testing. Information value-added services can be provided to users, and site connection can be accomplished across places which lack information updates, such as ports, depots, freight forwarders and transportation sites under the supervision of the Customs, so as to realize the goal of information sharing and stringent control.

### Prospect

At present, after aggressive product promotion in various provinces and cities, the Group has succeeded to establish the brand awareness of our products for the traffic monitoring and control business and customs logistics business. Meanwhile, the Group is planning to set up subsidiaries in Hong Kong, mainly responsible for promotion of overseas businesses. The Group expected the turnover and profit to maintain steady growth in the fourth quarter.

Besides, the Company had resolved to dispose 80% equity interests of Nanjing Sample Information System Engineering Company Limited\*. We believe that resources can be more centralised in researching and developing new products, thus reinforcing the development of the Group and strengthening its core competitiveness.

### Interests or Short Positions in the Share Capital of the Company and its Associated Corporations of the Directors, Supervisors and Chief Executive Officers

As at 30 September 2006, the interests or short position of the directors, supervisors and chief executive officers of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”) (Chapter 571 of the Laws of Hong Kong)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

#### Long positions in shares of the Company:

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 is the spouse of Sha Min, Du Yu is deemed to be interested in 450,000 domestic shares held by Sha Min pursuant to Part XV of the SFO.

### Interests Discloseable under the SFO and Substantial Shareholders

So far to the knowledge of the directors of the Company (the “Directors”), as at 30 September 2006, the following shareholders (other than the Directors, supervisors or chief executive officers of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

#### Long positions in shares of the Company:

Name of Shareholders	Number of domestic shares	Nature of interest	Approximate percentage of the registered capital of the Company (%)
Nanjing Sample Technology Group Company Limited* (南京三寶科技集團有限公司) (“Sample Group”) (Note 1)	19,650,000	Beneficial owner and corporate	30.47
Nanjing Zhongbei (Group) Company Limited* (南京中北(集團)股份有限公司) (“Nanjing Zhongbei”)	12,000,000	Beneficial owner	18.60
Nanjing Huadong Electronics Information & Technology Company Limited* (南京華東電子信息科技股份有限公司) (“Huadong Technology”)	12,000,000	Beneficial owner	18.60
Nanjing Huadong Electronics Group Company Limited* (南京華東電子集團股份有限公司) (“Huadong Electronics”) (Note 2)	12,000,000	Beneficial owner	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 ("Sample Commerce City"), which in turn is directly interested in 1,650,000 domestic shares. Pursuant to 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 the SFO, Huadong Electronics is deemed to be interested in 12,000,000 domestic shares held by Huadong Technology, as Huadong Electronics is in control of the board of directors of Huadong Technology.

### Directors' and Supervisors' Interests in Underlying Shares by Derivatives

Save as disclosed above, as at 30 September 2006, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 30 September 2006, none of the Directors or supervisors of the Company 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 right during the period.

### Share Option Scheme

A share option scheme ("Share Option Scheme") was conditionally approved by a resolution of the shareholders of the Company dated 24 April 2004. As at 30 September 2006, no option(s) had been granted under the Share Option Scheme.

### Competing Business and Conflicts of Interests

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



### **Compliance Adviser's Interest**

As at 30 September 2006, according to the notification of the compliance adviser of the Company, Core Pacific-Yamaichi Capital Limited ("CPY Capital"), none of CPY Capital, its directors, employees or associates (as defined in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the share capital of the Company or any of its subsidiaries, or had the right to subscribe or nominate 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 Capital on 2 June 2004, CPY Capital acts as the compliance adviser 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 receives and will receive an agreed amount of fees for the services to be rendered in respect thereof.

### **Code of Conduct for Securities Transactions by Directors**

The code of conduct for securities transactions by Directors adopted by the Company is on terms no less exacting than the required standard of dealings in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any circumstances that the Directors did not comply with the required standards of dealings and the code of conduct for securities transactions by Directors throughout the nine months ended 30 September 2006.

### **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 comments thereon.

### Code on Corporate Governance Practices

For the nine months ended 30 September, 2006, the Company fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules.

### Purchase, Redemption or Sales 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*

26 October 2006  
Nanjing, the PRC

\* for identification purpose only