



# 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

## First Quarterly Report 2007



\* for identification purpose only

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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.*

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# Financial Highlights

The turnover of the Group for the three months ended 31 March 2007 (the “Review Period”) amounted to approximately RMB27,526,000, representing a significant increase of approximately 162.43% as compared to the corresponding period of last year.

The net profit attributable to the equity holders of the parent for the three months ended 31 March 2007 was approximately RMB10,357,000, representing an increase of approximately 2,618.37% as compared to the corresponding period of last year.

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007.

# Financial Information

## First Quarterly Results

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2007 together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

### Unaudited Consolidated Results

	Notes	Three months ended 31 March	
		2007 RMB'000	2006 RMB'000
Turnover	4	<b>27,526</b>	10,489
Costs of sales		<b>(13,615)</b>	(7,473)
Gross profit		<b>13,911</b>	3,016
Other operating income		<b>1,080</b>	1,688
Marketing and promotional expenses		<b>(1,244)</b>	(1,152)
Administrative expenses		<b>(3,074)</b>	(2,522)
Finance costs	5	<b>(323)</b>	(633)
Profit before tax		<b>10,350</b>	397
Income tax expenses	6	—	(43)
Net profit for the period	7	<b>10,350</b>	354
Attributable to:			
Equity holders of the parent		<b>10,357</b>	381
Minority interests		<b>(7)</b>	(27)
Net profit for the period	10	<b>10,350</b>	354
Earnings per share			
– Basic (RMB cents)	9	<b>16.05</b>	0.60

# Financial Information

## Notes to the First Quarterly Results

### 1. GENERAL

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited) (the “Company”) was established in the Mainland China (the “PRC”) and was approved to be reorganised into a joint stock limited company on 28 December 2000. It is principally engaged in the provision of video security system solutions, sale of security system software and sales of related computer products. The addresses of the registered office and principal place of business of the Company are located at Room 103, Building No.1, Ruan Jian Chuang Ye Zhong Xin, High Technology Development Region Qixia District, Nanjing City, Jiangsu Province, the PRC and No. 10 Maqun Avenue, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC, respectively.

The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 June 2004.

The books and records of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) are maintained in Renminbi (“RMB”), the currency in which the majority of the Group’s transactions is denominated.

### 2. BASIC OF PREPARATION

The unaudited consolidated results have been prepared on the historical cost basis.

The unaudited consolidated results have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounting policies adopted in preparing the unaudited consolidated results for the three months ended 31 March 2007 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006. The unaudited consolidated results are unaudited but have been reviewed by the Company audit committee.

# Financial Information

## 3. SEGMENTAL INFORMATION

### Business segments

Over 90% of the Group's revenue, 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 revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

## 4. TURNOVER

Turnover represented net proceeds received and receivable from the provision of video security system solutions.

## 5. FINANCE COSTS

	Three months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
Interest on bank borrowings wholly repayable within five years	323	633

# Financial Information

## 6. INCOME TAX EXPENSES

	Three months ended	
	31 March	
	2007	2006
	RMB'000	RMB'000
The charge comprises:		
PRC income tax	—	43

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 PRC income tax rate of 33%, except Nanjing Sample Logistics Company Limited (南京三寶物流科技有限公司) (formerly known as 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 operating and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years (the "Tax Relief"). This subsidiary was entitled to the 50% relief from 2005 to 2007.



# Financial Information

## 7. NET PROFIT FOR THE PERIOD

	Three months ended 31 March	
	2007	2006
	RMB'000	RMB'000
The Group's net profit for the period is arrived at after charging:		
Cost of inventory recognized as expenses	10,265	6,627
Research and development expenses	884	613
Depreciation of property, plant and equipment	1,494	987
Operating lease rental in respect of land use rights	38	38
Staff costs (including directors' remuneration)	2,056	1,632
And after crediting:		
Government grant	—	500
Interest income	394	335
PRC value added tax refunded	896	611

## 8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2007 (2006: Nil).

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31 March 2007 and 2006 is based on the profit attributable to equity holders of the parent approximately RMB10,357,000 and RMB381,000 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 three months ended 31 March 2007 and 2006 as no potential dilution of ordinary shares was in existence during the relevant periods.

# Financial Information

## 10. RESERVES

	Attributable to equity holders of the parent						
	Share	Statutory	Statutory	Retained	Total	Minority	Total
	premium	surplus	welfare	profits		interests	
	reserve	fund					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2007	52,641	17,601	—	94,924	165,166	1,322	166,488
Net profit for the period	—	—	—	10,357	10,357	(7)	10,350
At 31 March 2007	52,641	17,601	—	105,281	175,523	1,315	176,838
At 1 January 2006	52,641	7,913	3,956	50,613	115,123	4,857	119,980
Net profit for the period	—	—	—	381	381	(27)	354
At 31 March 2006	52,641	7,913	3,956	50,994	115,504	4,830	120,334

# Management Discussion and Analysis

## Financial Review

### Turnover

The Group's turnover for the three months ended 31 March 2007 amounted to approximately RMB27,526,000, representing a significant increase of approximately 162.43% over that of the corresponding period of last year. The rapid growth was mainly attributable to the continuous increase in sales of Intelligence Police Inspection System and Customs Logistics Monitoring System in the Review Period.

### Gross profit

The Group's gross profit of approximately 50.54% in the Review Period increased by approximately 21.79% as compared with approximately 28.75% of the corresponding period of last year. The Group successfully changed its sales mix to concentrate more on sales of software system products and led to achievement of higher profit margin.

### Marketing and promotional expenses

The marketing and promotional expenses to turnover for the three months ended 31 March 2007 was 4.52%, representing a significant decrease of 6.46% as compared to approximately 10.98% in the corresponding period of last year. The decrease was resulted from the change of sales mix, accordingly the Group can carry out and complete the software system products in house. Finally, it led to a decrease of travelling expenses.

### Administrative expenses

The Group's administrative expenses experienced an increase of 21.89% from approximately RMB2,522,000 in the corresponding period of last year to approximately RMB3,074,000 in the Review Period. The increase mainly resulted from increase in depreciation of property, plant and equipment for the Review Period.

# Management Discussion and Analysis

## **Net profit**

The profit attributable to the equity holders of the parent increased significantly from approximately RMB381,000 in the corresponding period of last year to approximately RMB10,357,000 in the Review Period, representing an increase of 2,618.37%.

## **Business Review and Prospect**

### **Traffic Sector**

During the Review Period, the Group was devoted in providing system integration services for the traffic monitoring and control sector in the PRC on the basis of its current business model. Meanwhile, the system solution of “Intelligence Police Inspection System” first launched by the Group in the PRC in response to the demand of the public transport sector gained recognition from the Ministry of Public Security in the sense that we were invited to participate in establishing the industrial standards and such system solution has been promoted inside and outside of the province gradually. Participation in the establishment of industrial standards represents new momentum to the sustainable development of the Group.

# Management Discussion and Analysis

## Logistics Sector

The Group completed the system structuring proposal of a nationwide custom gate technical service platform, which was reported and obtained recognition from the Department of Scientific and Technological Development, the Supervisory Department and the Procurement Centre of the General Customs Administration. On the other hand, the first draft of the “Industrial Standards of Checkpoints (卡口行業標準)” for the Customs nationwide, contract of one-off software development for the checkpoint system, fee schedule of Interregional Checkpoints and proposal of checkpoint training demonstration station of the General Customs Administration have been submitted to the Supervisory Department of the General Customs Administration for approval. Upon approval of the Supervisory Department of the General Customs Administration, the Group plans to promote such the relevant products in full force. Moreover, the Group has completed the feasibility report of “Technical Study on Intelligent Containers and Industrialisation (智能化集裝箱技術研究及產業化)” and made application to the Department of Scientific and Technological Development regarding 863 projects in order to ascertain the cooperation mode.

Meanwhile, the Group has finished the preliminary construction solution of “RFID Container Management of Southern Zhongji Eastern Plant (南方中集東部工廠RFID集裝箱管理)” and the Western China transport project, “Electronic Label for Containers and its Application (集裝箱電子標籤及應用)” and expects that trial run will be carried out mainly in Chongqing and Shanghai during the year. Moreover, the Group participated in the “European Union Secure Trade Lane (歐盟安全貿易通道)” project led by the General Customs Administration and was designated as the leader unit in the group of “RFID Tag and Reader Standards (RFID標籤及讀寫器標準組)”. By this way, the Group believes that it will help to promote the application of RFID products in customs logistics.

## Other Information

### 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 31 March 2007, 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.

## Other Information

### Interests Discloseable under the SFO and Substantial Shareholders

So far to the knowledge of the Directors, as at 31 March 2007, the following persons (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
Jiang Su Century Golden Ox Technology & Industry & Trade Corporation (江蘇世紀金牛科技工貿實業有限公司) ("Century Golden Ox")	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	Corporate	18.60

# Other Information

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 interested in 45.20% of registered capital of Huadong Technology.

Pursuant to an agreement dated 29 December 2006, Huadong Electronics agreed to dispose of its entire shareholding of 12,000,000 domestic shares of the Company to an independent third party (the "Disposal"). However, the completion of the Disposal was pending for the approval by the Ministry of Commerce of the People's Republic of China.

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

Save as disclosed above, as at 31 March 2007, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 31 March 2007, 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

The shareholders of the Company conditionally adopted a share option scheme ("Share Option Scheme"), by a resolution dated 24 April 2004. As at 31 March 2007, no option(s) is granted under the Share Option Scheme.

## Competing Business and Conflicts of Interest

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.



## Other Information

### **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 three months ended 31 March 2007.

### **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 three months ended 31 March 2007, 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.

# Other Information

## 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*

11 May 2007

Nanjing, the PRC

\* *for identification purpose only*