



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 2007



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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 Highlights

The turnover of the Group for the nine months ended 30 September 2007 (the “Review Period”) amounted to approximately RMB101,657,000, representing an increase of approximately 38.21% as compared to the corresponding period of last year.

The net profit attributable to the equity holders of the parent for the nine months ended 30 September 2007 was approximately RMB42,208,000, representing an increase of approximately 40.44% as compared to the corresponding period of last year.

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2007.

Financial Information

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30 September 2007 together with the unaudited comparative figures for the corresponding periods in 2006 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Nine months ended 30 September		Three months ended 30 September	
		2007	2006	2007	2006
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover	4	101,657	73,553	32,439	22,707
Cost of sales		(35,817)	(38,778)	(11,045)	(12,114)
Gross profit		65,840	34,775	21,394	10,593
Other income		4,350	16,382	1,795	12,843
Distribution costs		(6,984)	(4,750)	(2,477)	(1,559)
Administrative expenses		(12,613)	(10,199)	(4,317)	(3,709)
Finance costs	5	(2,356)	(1,789)	(877)	(488)
Profit before taxation		48,237	34,419	15,518	17,680
Income tax expenses	6	(6,000)	(4,134)	(1,886)	(2,967)
Net profit for the period	7	42,237	30,285	13,632	14,713
Attributable to:					
Equity holders of the parent		42,208	30,054	13,606	14,840
Minority interests		29	231	26	(127)
Net profit for the period		42,237	30,285	13,632	14,713
Earnings per share		RMB	RMB	RMB	RMB
— Basic	9	57.05 cents	46.60 cents	14.65 cents	23.01 cents

Financial Information

NOTES TO THE THIRD QUARTERLY RESULTS

1. BACKGROUND OF THE CORPORATION

Nanjing Sample Technology Company Limited (南京三寶科技股份有限公司) (the “Company”) was established in the People’s Republic of 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, sales 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 GEM of 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 condensed consolidated income statement have been prepared on the historical cost basis.

The condensed consolidated income statement 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 condensed consolidated income statement for the nine months ended 30 September 2007 are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006. The condensed consolidated income statement are unaudited but have been review by the Company 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.

Financial Information

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

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

5. FINANCE COSTS

	Nine months ended 30 September		Three months ended 30 September	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Interest on bank borrowings wholly repayable within five years	2,356	1,789	877	488

6. INCOME TAX EXPENSES

	Nine months ended 30 September		Three months ended 30 September	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The charge comprises:				
PRC income tax	6,000	4,134	1,886	2,967

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 (formerly known as 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 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 in 2005 to 2007.

Financial Information

7. NET PROFIT FOR THE PERIOD

	Nine months ended 30 September		Three months ended 30 September	
	2007	2006	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
The Group's profit from operations has been arrived at after charging:				
Cost of inventories recognized as expenses	22,869	28,590	6,489	7,665
Depreciation and amortization of property, plant and equipment	3,870	2,990	1,178	1,181
Operating lease rentals in respect of land right and buildings	476	96	419	46
Staff costs (including Directors' remuneration)	7,064	5,190	1,714	1,385
And after crediting:				
Government grant	—	1,270	—	770
Interest income	984	1,679	118	642
PRC value added tax refunded	2,082	3,305	1,011	2,212

8. DIVIDEND

The Board dose not recommend the payment of an interim dividend for the nine months ended 30 September 2007 (2006 : Nil).

Financial Information

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the nine months ended 30 September 2007 and 2006 is based on the profit attributable to equity holders of the parent approximately RMB42,208,000 and RMB30,054,000 respectively and on the weighted average number of 73,985,294 and 64,500,000 ordinary shares in issue for the respective periods.

The calculation of the basic earnings per share for the three months ended 30 September 2007 and 2006 is based on the profit attributable to equity holders of the parent approximately RMB13,606,000 and RMB14,840,000 respectively and on the weighted average number of 92,851,648 and 64,500,000 ordinary shares in issue for the respective periods.

No diluted earnings per share have been presented for the nine months and the three months ended 30 September 2007 and 2006 as no potential dilution of ordinary shares was in existence during the relevant periods.

10. RESERVES

	Attributable to equity holders of the parent					
	Share premium	Statutory surplus reserve	Statutory welfare fund	Retained profits	Total	Minority interests
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
At 1 January 2007	52,641	17,601	—	94,924	165,166	1,322
Bonus issue and capitalization issue	(32,250)	—	—	(96,750)	(129,000)	—
Net profit for the period	—	—	—	42,208	42,208	29
At 30 September 2007	20,391	17,601	—	40,382	78,374	1,351
At 1 January 2006	52,641	7,913	3,956	50,613	115,123	4,857
Net profit for the period	—	—	—	30,054	30,054	231
At 30 September 2006	52,641	7,913	3,956	80,667	145,177	5,088

Management Discussion and Analysis

FINANCIAL REVIEW

TURNOVER

The Group's turnover for the Review Period amounted to approximately RMB101,657,000, representing an increase of approximately 38.21% over that of the corresponding period of last year. The growth was mainly attributable to the continuous increase in sales of Intelligence Police Inspection System and Customs Logistics Monitoring System in the Review Period. During the Review Period, the Group has completed sales of customs centralized monitoring system in Dalian Protective Tariff Port Area of approximately RMB26,081,000.

GROSS PROFIT

The Group's gross profit of approximately 64.77% in the Review Period increased by approximately 22.49% from approximately 42.28% of the corresponding period of last year. Following the trend in the first and second quarter, the increase in gross profit margin was mainly due to the change in the Group's sales mix to concentrate more on sales of software system products and led to achievement of higher profit margin.

OTHER INCOME

The Group's other income of approximately RMB4,350,000 for the Review Period experienced a drop of approximately RMB12,032,000 as compared with approximately RMB16,382,000 of the corresponding period of last year mainly since significant amount of the sales of software products completed as compared to 2006.

DISTRIBUTION COSTS

The distribution costs for the Review Period was increased in line with the growth in turnover.

Management Discussion and Analysis

ADMINISTRATIVE EXPENSES

The Group's administrative expenses experienced an increase of 23.67% from approximately RMB10,199,000 in the corresponding period of last year to approximately RMB12,613,000 in the Review Period mainly contributed to the increase of staff costs and research and development costs.

NET PROFIT FOR THE PERIOD

The profit attributable to the equity holders of the parent increased from approximately RMB30,054,000 in the corresponding period of last year to approximately RMB42,208,000 in the Review Period, representing an increase of 40.44%.

BUSINESS REVIEW AND FUTURE PROSPECT

With increasing demand for our products in the third quarter, the Company has strived to be innovative on the foundation of its existing technology strengths by broadly applying the technology of high DPI and high recognition rate into its system products gradually. Given that the Company has the leading advantage of RFID technology; it has applied such RFID technology into transportation management system for the first time to meet the actual requirements of its customers, so as to maintain its technology leading advantage in the fierce competitive market and expand its market share.

Moreover, the Company has put much emphasis on the cooperation with international renowned enterprises. On 5 September 2007, the Company and Microsoft (China) Company Limited entered into a memorandum of understanding in Nanjing pursuant to which both parties implemented the co-operation on the joint development of SaaS Operation Service Management Platform, for the provisions of application and management services (based on software on the Microsoft platform) to certain corporate clients in the customs, logistics and transportation sectors.

Management Discussion and Analysis

During the Review Period, Daiyao Bay Logistics Control System performed well in this quarter as planned in the first half year, and received positive feedback from the users. On the other hand, the Company formed a development team for Nanjing Longtan Logistics Monitoring System and formulated the development plan. Also, the Company completed the 2.0 upgrading project for the four customs within Yangtze River Delta, resolved the issue of compatibility of Shanghai electronic vehicle license plate, completed inter-connection between cross-border speed customs clearance and control gate within Pearl River Delta with relevant authority as well as drafted and submitted the proposal of operation and maintenance system for China Customs Project.

The Company built a strategic alliance with the Service Centre of Daiyao Bay Customs Authorities for promoting container truck at port terminals, for the period ended 30 September 2007; such strategic alliance issued vehicle license plates to and collected fees and charges from over 2,400 container trucks. The operation project for electronic vehicle license plate commenced issue of electronic vehicle plate in cooperation with Huangpu Customs.

The Company has completed the initial testing of electronic labels to containers in Chongqing Port, the patent application for electronic labels to containers, installation and commissioning of the equipment for Nanjing Customs Vehicle Management System and development of related software, as well as label placing of approximately 100 public transportation vehicles for Nanjing Customs.

In the fourth quarter of this year, the Company intends to formulate its investigation and research scheme of port area, further follow-up the promotion of loading goods to container trucks in those ports in Suzhou, Ningbo, Fuzhou and Lianyungang and of the entire market of electronic customs lock system as well as makes every effort to promote operation platform. Moreover, the Company aims to complete the inter-connection, inspection and reception of relevant control gates of Yangtze River Delta and Pearl River Delta, investigation and research of the system for control gate with China Customs, finalization and implementation of the proposal of operation and maintenance for China Customs Project, testing of demonstration project in Chongqing Port and improvement of management system for electronic vehicle license plate of Nanjing Customs.

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 30 September 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 shares	Nature of interest	Approximate
			percentage of the registered capital of the Company (%)
Sha Min	1,350,000	Beneficial owner	0.7

Note: As Du Yu is the spouse of Sha Min, Du Yu is deemed to be interested in 1,350,000 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 30 September 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 shareholder	Number of 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)	58,950,000	Beneficial owner/ corporate	30.47
Jiang Su Century Golden Ox Technology & Industry & Trade Corporation* (江蘇世紀金牛科技實業有限公司)	22,455,000	Beneficial owner/ corporate	11.60
Active Gold Holding Limited	49,545,000	Beneficial owner/ corporate	25.60
Atlantics Investment Management Limited ("Atlantics Investment") (Note 2)	12,620,000	Investment manager/ corporate	6.52

Notes:

1. Sample Group directly holds 54,000,000 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 4,950,000 domestic shares. Pursuant to Section 316 of the SFO, Sample Group is deemed to be interested in the 4,950,000 domestic shares held by Sample Commerce City.
2. Pursuant According to the GEM Listing Rules, substantial shareholder refers to a company or a person who is entitled to control or exercise the control of 10% or more of the voting power at any general meeting of the company. Since Atlantis Investment Management Ltd. holds more than 20.62% of the total issued H Shares, it is therefore a substantial shareholder of the Company.

Other Information

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 30 September 2007, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 30 September 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 30 September 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.

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 2007.

Other Information

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 2007, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules.

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

12 November 2007

Nanjing, the PRC

As at the date hereof, the executive Directors are Mr. Sha Min (Chairman), Mr. Chang Yong, Mr. Guo Ya Jun; the non-executive Director is Mr. Ge Jun; and the independent non-executive Directors are Mr. Zhang Zhan, Mr. Wang Wei and Mr. Lau Shek Yau John.

** for identification purposes only*