



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)



Interim 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.*



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)

FINANCIAL HIGHLIGHTS

The turnover of the Group for the six months ended 30 June 2004 amounted to approximately RMB31,337,000, representing a rapid growth of approximately 53.85% as compared to the corresponding period last year.

The profit attributable to shareholders for the six months ended 30 June 2004 was approximately RMB10,349,000, representing an increase of approximately 18.75% as compared to the corresponding period last year.

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

* for identification purpose only

CONDENSED CONSOLIDATED INCOME STATEMENT

The board of directors (the “Board”) of Nanjing Sample Technology Company Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim financial statements (“Interim Financial Statements”) of the Company and its subsidiaries (the “Group”) for the three months and the six months ended 30 June 2004 together with the unaudited comparative figures for the corresponding periods in 2003 as follows:

	Notes	Six months ended 30 June		Three months ended 30 June	
		2004	2003	2004	2003
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
Turnover	4	31,337	20,369	19,979	16,128
Cost of sales		(15,326)	(10,387)	(9,761)	(7,748)
Gross profit		16,011	9,982	10,218	8,380
Other operating income		3,766	7,063	709	2,344
Marketing and promotional expenses		(3,779)	(2,604)	(1,658)	(1,324)
Administrative expenses		(3,678)	(3,708)	(2,373)	(1,636)
Profit from operations	5	12,320	10,733	6,896	7,764
Gain on disposal of a subsidiary		–	141	–	141
Interest on bank borrowings wholly repayable within five years		(633)	(1,210)	(192)	(579)
Profit before taxation		11,687	9,664	6,704	7,326
Taxation	6	(1,436)	(789)	(744)	(362)
Profit before minority interests		10,251	8,875	5,960	6,964
Minority interests		98	(160)	(55)	(83)
Net profit for the period		10,349	8,715	5,905	6,881
Dividends	7	–	–	–	–
Earnings per share – Basic	8	RMB21.85 cents	RMB19.37 cents	RMB11.88 cents	RMB15.29 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	At 30 June 2004 RMB'000 (Unaudited)	At 31 December 2003 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	41,076	21,930
Technical know-how		933	1,633
Goodwill		339	406
Deferred tax assets		770	770
		43,118	24,739
Current assets			
Inventories		1,640	1,566
Amounts due from customers for contract work		755	2,629
Trade and other receivables	10	32,491	40,293
Taxation recoverable		1,237	1,237
Restricted bank deposits		49,956	1,205
Bank balances and cash		81,411	64,374
		167,490	111,304
Current liabilities			
Trade and other payables	11	22,867	14,213
Taxation payable		717	2,198
Short-term bank loans		10,000	25,000
		33,584	41,411
Net current assets		133,906	69,893
Total assets less current liabilities		177,024	94,632
Non-current liabilities			
Long-term bank loan		15,000	15,000
Minority interests		4,709	4,807
Net assets		157,315	74,825
Capital and reserves			
Share capital	12	64,500	45,000
Reserves	13	92,815	29,825
Shareholders' funds		157,315	74,825

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Capital surplus	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2004	45,000	—	3,904	1,952	23,969	74,825
Issue of H shares upon listing on the GEM of the Stock Exchange	20,400	—	—	—	—	20,400
Conversion of certain state-owned domestic shares to H shares	(900)	—	—	—	—	(900)
Premium arising on issue of shares	—	66,280	—	—	—	66,280
Expenses incurred in connection with the issue of shares	—	(13,639)	—	—	—	(13,639)
Net profit for the period	—	—	—	—	10,349	10,349
At 30 June 2004	64,500	52,641	3,904	1,952	34,318	157,315
At 1 January 2003	45,000	—	1,174	587	7,457	54,218
Net profit for the period	—	—	—	—	8,715	8,715
At 30 June 2003	45,000	—	1,174	587	16,172	62,933

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	28,817	26,432
Net cash outflow from investing activities	(68,288)	(5,230)
Net cash from financing activities	56,508	1,067
Increase in cash and cash equivalents	17,037	22,269
Cash and cash equivalents at the beginning of the period	64,374	36,583
Cash and cash equivalents at the end of the period	81,411	58,852



NOTES TO THE INTERIM FINANCIAL STATEMENTS

I. CORPORATION BACKGROUND

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 (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 Interim Financial Statements have been prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA") and the disclosure requirements set out in Chapter 18 of the GEM Listing Rules.

The Interim Financial Statements have been prepared under the historical cost convention. The accounting policies adopted are consistent with those set out in the Group's annual financial statements for the year ended 31 December 2003.

The Interim Financial Statements are unaudited but have been reviewed by the audit committee of the Company.

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.

NOTES TO THE INTERIM FINANCIAL STATEMENTS

4. TURNOVER

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Provision of video security system solutions	30,983	19,749	19,863	15,575
Sales of related computer products	354	620	116	553
	31,337	20,369	19,979	16,128

5. PROFIT FROM OPERATIONS

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

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of goodwill included in administrative expenses	67	67	33	33
Amortisation of technical know-how included in administrative expenses	700	750	350	350
Cost of inventories recognised as expenses	13,049	8,634	8,980	6,715
Depreciation and amortisation of property, plant and equipment	417	316	203	187
Loss on disposal of property, plant and equipment	—	5	—	5
Operating lease rentals in respect of land and buildings	570	278	285	139
Directors' and supervisors' remuneration	425	238	212	119
Staff costs	3,308	3,232	1,623	1,603
And after crediting:				
Government grant	1,989	2,401	267	1,626
Interest income	26	160	13	21
PRC value added tax refunded	1,322	691	—	96
Write back of allowance for inventories included in cost of sales	—	40	—	—

NOTES TO THE INTERIM FINANCIAL STATEMENTS

6. TAXATION

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
The charge comprises:				
PRC income tax	(1,436)	(871)	(744)	(362)
Deferred taxation	—	82	—	—
	(1,436)	(789)	(744)	(362)

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 consolidated income statement as follows:

	Six months ended 30 June		Three months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Profit before taxation	11,687	9,664	6,704	7,326
Tax at the domestic income tax rate at 15%	1,753	1,450	1,006	1,099
Tax effect of expenses that are not deductible in determining taxable profit	220	133	116	54
Tax effect of expenses that are not taxable in determining taxable profit	(372)	(179)	(174)	(45)
Effect of different tax rates of subsidiaries	(165)	(615)	(204)	(746)
Tax expense for the period	1,436	789	744	362

NOTES TO THE INTERIM FINANCIAL STATEMENTS

7. DIVIDENDS

The Directors do not recommend payment of an interim dividend for the six months ended 30 June 2004 (2003: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30 June 2004 is based on the profit attributable to shareholders of respectively approximately RMB5,905,000 and RMB10,349,000 and on the weighted average number of 49,714,286 and 47,357,143 ordinary shares in issue respectively for the periods.

The calculation of the basic earnings per share for the three months and six months ended 30 June 2003 is based on the profit attributable to shareholders of respectively approximately RMB6,881,000 and RMB8,715,000 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 six months ended 30 June 2003 and 2004 is not presented as there were no dilutive potential ordinary shares in existence during the periods.

9. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost					
At 1 January 2004	8,620	2,699	2,251	11,484	25,054
Additions	—	118	—	19,445	19,563
At 30 June 2004	8,620	2,817	2,251	30,929	44,617
Depreciation and amortisation					
At 1 January 2004	50	1,692	1,382	—	3,124
Charge for the period	93	192	132	—	417
At 30 June 2004	143	1,884	1,514	—	3,541
Net book value					
At 30 June 2004	8,477	933	737	30,929	41,076
At 31 December 2003	8,570	1,007	869	11,484	21,930

NOTES TO THE INTERIM FINANCIAL STATEMENTS

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Trade receivables	24,820	29,421
Other receivables	4,977	7,439
Prepayments to suppliers	2,694	3,433
	32,491	40,293

Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance, except for certain well established customers. The following is an aged analysis of trade receivables:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Age		
0 to 90 days	21,414	29,421
91 to 180 days	3,406	—
181 to 365 days	—	—
1 to 2 years	—	—
	24,820	29,421

11. TRADE AND OTHER PAYABLES

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Trade payables	11,685	8,245
Other payables	11,182	5,968
	22,867	14,213

The following is an aged analysis of trade payables:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Age		
0 to 30 days	2,215	4,554
31 to 60 days	847	446
61 to 90 days	3,881	337
Over 90 days	4,742	2,908
	11,685	8,245

NOTES TO THE INTERIM FINANCIAL STATEMENTS

12. SHARE CAPITAL

	Number of shares		Amount	
	At 30 June 2004 '000	At 31 December 2003 '000	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000
Registered, issued and fully paid:				
Domestic shares with par value of RMB1.00 each	44,100	45,000	44,100	45,000
H shares with par value of RMB1.00 each	20,400	—	20,400	—
	<u>64,500</u>	<u>45,000</u>	<u>64,500</u>	<u>45,000</u>

13. 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 in connection with the issue of share	(13,639)	—	—	—	(13,639)
Net profit for the period	—	—	—	10,349	10,349
At 30 June 2004	<u>52,641</u>	<u>3,904</u>	<u>1,952</u>	<u>34,318</u>	<u>92,815</u>
At 1 January 2003	—	1,174	587	7,457	9,218
Net profit for the period	—	—	—	8,715	8,715
At 30 June 2003	<u>—</u>	<u>1,174</u>	<u>587</u>	<u>16,172</u>	<u>17,933</u>
Net profit for the period	—	—	—	11,892	11,892
Transfer (net of share attributable to minority shareholders)	—	2,730	1,365	(4,095)	—
At 31 December 2003	<u>—</u>	<u>3,904</u>	<u>1,952</u>	<u>23,969</u>	<u>29,825</u>

Financial Review

For the six months ended 30 June 2004 (the "Review Period"), the turnover of the Group reached RMB31,337,000, representing an increase of approximately 53.85% over that of the corresponding period of the previous year. The increase in turnover of the Review Period was due to the increasing brand awareness of the Group together with strengthened marketing activities. In addition, due to the reduction in cost of sales by way of enhancement of production efficiency which expedited the assembling and installation process of projects, the gross profit margin for the Review Period increased to 51.09% (the corresponding period of 2003: 49.01%). The net profit from ordinary operation attributable to shareholders under the Review Period recorded was RMB10,349,000 (the corresponding period of 2003: RMB8,715,000), representing an increase of 18.75% over that of the corresponding period of the previous year.

The marketing expense of the Group increased from approximately RMB2,604,000 for the six months ended 30 June 2003 to approximately RMB3,779,000 for the Review Period. The increase in the marketing expense was driven by increased marketing activities which aimed at exploring broader regional marketing and sales opportunities.

The administrative expenses of the Group reduced from approximately RMB3,708,000 for the six months ended 30 June 2003 to approximately RMB3,678,000 for the Review Period. The decrease in administrative expenses was mainly due to the Group's continuous effort in keeping the cost low.

Liquidity and Financial Resources

The Group adopted stringent financial management policies and maintained a healthy financial condition. The net current assets as at 30 June 2004 was approximately RMB133,906,000 (At 31 December 2003: approximately RMB69,893,000).

As at 30 June 2004, the cash on hand and bank deposits of the Group amounted to approximately RMB131,367,000 (At 31 December 2003: approximately RMB65,579,000).

Capital Structure

As at 30 June 2004, the total bank borrowings of the Group was RMB25,000,000 (At 31 December 2003: RMB40,000,000) with fixed annual interest rates ranging from 5.73% to 5.49%, which are repayable within one to two years.

Pledge of Assets of the Group

As at 30 June 2004, the short-term bank borrowings of RMB10,000,000 of the Group were unsecured. According to the undertaking issued by Industrial and Commercial Bank of China on 29 December 2003, the long-term bank borrowing of RMB15,000,000 which is repayable within two years is guaranteed by the Company in the form of the Company's credit upon listing of the H Shares on GEM.

Employees

As at 30 June 2004, the Group has an aggregate of 176 employees, of which 35 are research and development staff. During the Review Period, the staff cost (including directors' and supervisors' remuneration) was approximately RMB3,733,000 (corresponding period of 2003: approximately RMB3,470,000).

The salary and bonus policy of the Group is principally determined by the performance of individual employee.

Gearing Ratio

The gearing ratio (calculated as total debts divided by total assets) of the Group as at 30 June 2004 was approximately 11.87% (At 31 December 2003: 29.40%).

Risk in Foreign Exchange

The revenue and expense of the Group were denominated in Renminbi. The Directors consider that the Group's risk in foreign exchange is insignificant.

Treasury Policy

The Group continued to adopt a conservative treasury policy. All bank deposits were denominated in Renminbi to minimise the risk from foreign exchange.

Significant Investment Held

The Group did not have significant investment held as at 30 June 2004.

Material Acquisition and Disposal

No material acquisition or disposal of subsidiaries and associated companies was entered by the Group during the Review Period.

Future Plans Relating to Material Investment or Capital Asset

As at the date of this report, the Group has not executed any agreement in respect of proposed acquisition and did not have any other future plan of material investment or capital asset.

Contingent Liabilities

As at 30 June 2004, the Group did not have any material contingent liabilities.

Business Review

During the Review Period, the Group kept focusing on provision of video security system solutions and the turnover of the Group was also mainly contributed by the provision of video security system solutions to its customers. Due to the brand awareness in the market and the decrease in the cost of sales, the competitive edges and profit margin of the Group were prominent. During the Review Period, the Group attained one new customer; namely Traffic Command Centre of Taian City of Shandong Province (山東省泰安市交通指揮中心) for which the contract amount exceeds RMB10 million.

Despite the increasingly intense competition in the market, the profit of the video security system solutions market was relatively stable. The Group is committed to consolidate its existing business and seek for a more profitable operating model, continue to explore the business in the Traffic Sector's system solutions. The Group is expecting a successful launch of the model so as to create a more satisfactory profit base for the interests of the Group as well as the shareholders of the Company.

Market Prospect for the New Products

Video Camera Type ePolice (capable of taking numerous photos, recreating driving routes of violating vehicles): its characteristics are its capabilities to capture continuous image at high speed and recreate the driving routes of violating vehicles. Due to the increasing legal consciousness of the public and the demand for more accurate and more sufficient evidence of violation to be provided by the law enforcement authority from the public, the ePolice system which captured single photos in the past could no longer satisfy the requirements of law enforcement. Video Camera Type ePolice will become dominant in the future market and the market prospect is bright.

Highway Vehicle Monitoring Web Enquiry System: the system is one of the accessory products of the Highway Database System which handles fundamental data enquiry, consolidated criteria enquiry, statistical statement enquiry and overall condition enquiry within the Highway Database System. It expands the scope of application of the Highway Database System.

Remote and Warning System: the system is capable of controlling and blocking the vehicles at road exits and checkpoints and punishing the speeding driver timely. The system is applied in the ClearWay Project proposed by the Ministry of Public Security and is highly recommended by the Ministry.

Customs Operation Data Integration Platform: the Platform is a business processing platform which reconciles the actual information collected by the customs smart cards and the electronic information in the H2000 operating system of the customs. It is applied in the intelligent checkpoint management system of the customs throughout the country. The system will be adopted at more than 600 on-site customs throughout the country and the market prospect of the product is promising.

Customs Vehicle and Cargo Supervision System for Cargo Transit Operation: the system is specially designed for the customs' real-time supervision system of the Transit transportation vehicle and cargo at the cross-customs area. It is applied in the cargo transit operation of the customs all over the country. In line with the growth of the import and export business of the PRC, transit business at the cross-customs area is also expanding and thus the market prospect of the system is promising.

COMPARISON OF BUSINESS PROGRESS WITH BUSINESS OBJECTIVES

The comparison of the actual business progress during the Review Period with the business objectives set out in the Prospectus of the Company dated 2 June 2004 is as follows:

Product Development and Upgrade

Pursuant to the research and development programs and strategies of the Group, it intends to concentrate on developing and upgrading the core technology required for its video security system solutions and technology products, in order to enhance the quality standard of the products, the reliability of the system and the technical barrier of the industry and to promote the launch of new products.

	Business objectives set out in the Prospectus of the Company	Actual business progress during the Review Period
Traffic monitoring and control sector	Video Camera Type ePolice (capable of taking numerous photos, recreating driving routes of violating vehicles) Products: Highway Vehicles Monitoring Web Enquiry System, Remote and Warning System	This technology is in the final testing stage and is anticipated to be completed in October 2004. These two systems have passed the analytical design stage and are to be developed after the establishment of testing platform.
Customs logistics monitoring sector	Customs Operation Data Integration Platform Customs Vehicle and Cargo Supervision System for Cargo Transit Operation	The system design of the platform was completed. The system is undergoing an onsite testing stage and the testing report is anticipated to be released at the end of 2004.

Sales and Marketing

Traffic monitoring and control sector	Upgrade the existing equipments of existing customers, promote products to potential customers	The Company examined and upgraded the existing equipments for its existing customers.
Customs logistics monitoring sector	Place advertisements on the magazine "PRC Customs" once per quarter	Advertisements should be placed at good timing according to the needs of business. Advertisement will be placed in such kind of magazine in the second half of 2004.

USE OF PROCEEDS FROM THE PLACING

The Company was listed on the GEM by placing 20,400,000 H Shares on 9 June 2004. The gross proceeds from the placing amounted to HK\$84,660,000 (including gross proceeds of HK\$3,735,000 for National Council for Social Security Fund, the PRC) and the net proceeds was approximately HK\$68,058,000 after deducting relevant listing expenses. The table below summarises the proceeds from the placing and their actual and intended use of the Company during the period from 27 May 2004 to 30 June 2004 (the "Period"):

	Proposed fundings required during the Period	Actual fundings spent during the Period
	HK\$	HK\$
R&D and upgrading of system solutions		
– Traffic monitoring and control sector	300,000	200,000
– Customs logistics monitoring sector	–	–
Construction of information platform		
– Traffic monitoring and control sector	100,000	50,000
– Customs logistics monitoring sector	–	50,000
Launching of new system solutions		
– Traffic monitoring and control sector	200,000	–
– Customs logistics monitoring sector	100,000	–
Purchase of additional equipment and/or facilities for commercialisation of system solutions	400,000	–
Expansion of sales and distribution network	200,000	–
Subtotal	1,300,000	300,000
Working capital	–	–
Total	1,300,000	300,000

The remaining proceeds have been placed as deposits in banks and will be used to implement the Company's remaining business objectives.

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 corporations of the Directors, Supervisors and chief executive officers

Save as disclosed below, as at 30 June 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 associates (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") of Chapter 571 of Hong Kong Law) which should be notified to the Company and the Stock Exchange pursuant to Division 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 the Shares:

Name of Directors	Number of Shares	Nature	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 450,000 Domestic Shares held by Sha Min pursuant to Part XV of the SFO.

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

Shares Discloseable under the SFO and Substantial Shareholders

Save as disclosed below, so far to the knowledge of the Directors, as at 30 June 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 position in the Shares:

Name of Shareholders	Number of 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 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 June 2004, none of the Directors or Supervisors is authorised to subscribe any H Shares of the Company. As at 30 June 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 June 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 June 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 Rule 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 has 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

11 August 2004
Nanjing, PRC