



AMPLE

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)



2005

FIRST QUARTERLY REPORT

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM")
OF THE STOCK EXCHANGE OF HONG KONG LIMITED
(THE "STOCK EXCHANGE")**

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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; and (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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Highlights

The turnover of the Group for the three months ended 31 March 2005 (the "Review Period") amounted to approximately RMB13,816,000, representing a growth of approximately 21.6% as compared to the corresponding period of last year.

The net profit for the three months ended 31 March 2005 was approximately RMB793,000, representing a decrease of approximately 82.2% 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 2005.

FIRST QUARTERLY RESULTS

The board (the "Board") of directors (the "Directors") of Nanjing Sample Technology Company Limited* (the "Company") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 31 March 2005 together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

Condensed Consolidated Income Statement

	Notes	Three months ended 31 March	
		2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Turnover	4	13,816	11,358
Cost of sales		(8,152)	(5,565)
Gross profit		5,664	5,793
Other operating income		1,095	3,057
Marketing and promotional expenses		(1,438)	(2,121)
Administrative expenses		(3,830)	(1,305)
Profit from operations	5	1,491	5,424
Interest on bank borrowings wholly repayable within five years		(621)	(441)
Profit before taxation		870	4,983
Taxation	6	(114)	(692)
Profit before minority interests		756	4,291
Minority interests		37	153
Net profit for the period		793	4,444
Dividends	7	—	—
Earnings per share — Basic (RMB cents)	8	1.23	9.88

NOTES TO THE FIRST 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 and (ii) customs logistics monitoring sector in the PRC.

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

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated results have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They are prepared under the historical cost convention.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group's results of operations and financial position.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2005 and 2004 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2004. 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 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

	Three months ended 31 March	
	2005 <i>RMB'000</i> (unaudited)	2004 <i>RMB'000</i> (unaudited)
Provision of video security system solutions	13,816	11,120
Sales of related computer products	—	238
	13.816	11,358

Financial Information

5. PROFIT FROM OPERATIONS

	Three months ended 31 March	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
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The Group's profit from operations has been arrived at after charging:		
Amortisation of goodwill included in administrative expenses	33	34
Amortisation of technical know-how included in administrative expenses	—	350
Cost of inventories recognised as expenses	6,101	4,069
Depreciation and amortisation of property, plant and equipment	1,436	214
Operating lease rentals in respect of land and buildings	21	285
Directors' and supervisors' remuneration	114	213
Staff costs	1,751	1,685
And after crediting:		
Government grant	495	1,722
Interest income	121	13
PRC value added tax refunded	479	1,322
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6. TAXATION

	Three months ended 31 March	
	2005	2004
	RMB'000	RMB'000
	(unaudited)	(unaudited)
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The charge comprises:		
PRC income tax	(114)	(692)
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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* (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 exempted from PRC income tax in 2002 and 2003 and entitled to 50% relief in 2004.

Financial Information

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

	Three months ended 31 March			
	2005		2004	
	RMB'000	%	RMB'000	%
	(unaudited)		(unaudited)	
Profit before taxation	870		4,983	
Tax at the domestic income tax rate of 15%	131	15.0	747	15.0
Tax effect of expenses that are not deductible in determining taxable profit	72	8.3	104	2.1
Tax effect of income that are not taxable in determining taxable profit	(72)	(8.3)	(198)	(4.0)
Effect of different tax rate of a subsidiary	(17)	(2.0)	39	1.0
Tax expense and effective tax rate for the period	114	13.0	692	14.1

7. INTERIM DIVIDENDS

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2005 (2004: NIL).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit of approximately RMB793,000 for the three months ended 31 March 2005 (2004: RMB4,444,000) and the weighted average number of 64,500,000 (2004: 45,000,000) ordinary shares in issue during the period.

No diluted earnings per share have been presented for the three months ended 31 March 2005 and 2004 as no potential ordinary shares in existence during the relevant periods.

9. RESERVES

	Capital surplus	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2005	52,641	6,010	3,005	38,815	100,471
Net profit for the period	—	—	—	793	793
At 31 March 2005	52,641	6,010	3,005	39,608	101,264
At 1 January 2004	—	3,904	1,952	23,969	29,825
Net profit for the period	—	—	—	4,444	4,444
At 31 March 2004	—	3,904	1,952	28,413	34,269

Management Discussion and Analysis

FINANCIAL REVIEW

The turnover of the Group was approximately RMB13,816,000 for the three months ended 31 March 2005, representing an increase of approximately 21.6% as compared with the corresponding period in the previous year. The relatively stable growth in turnover was mainly driven by increase in sales in the traffic monitoring and control sector. However, due to the increase in the number of competitors in the market, the gross profit margin of the Group decreased from approximately 51.0% of the corresponding period of last year to approximately 41.0% of the current period.

The resources input to the public security command centre market in the previous year have seen rewards. For the three months ended 31 March 2005, marketing and promotional expenses accounted for approximately 10.4% of turnover, which substantially dropped from approximately 18.7% in the corresponding period of last year.

With the stable upturn in the Group's business and its successful listing, administrative expenses such as salaries, traveling, entertainment and professional expenses increased as compared with the corresponding period of last year. At the same time, the Group relocated its office to the newly-completed Sample Science and Technology Park in September last year. This led to the surge in depreciation and amortisation expenses of fixed assets by approximately RMB1,222,000 as compared with the same period of last year.

Net profit of the Group for the three months ended 31 March 2005 failed to rise in line with the growth in turnover. Given the slight reduction in gross profit margin resulting from market competition, other operating income including government subsidy and PRC value-added tax refunded dropped significantly by approximately RMB2,070,000, together with the higher administrative expenses incurred, the net profit for the period fell to approximately RMB793,000, representing a decrease of approximately 82.2% as compared with approximately RMB4,444,000 in the corresponding period of last year.

REVIEW OF BUSINESS OBJECTIVES

Product Development and Upgrade

Traffic Monitoring and Control Sector

During the Review Period, the Group devoted substantial efforts in the first stage of research and development of integrated digital ePolice based on our existing traffic monitoring and control products such as Intelligent ePolice System for Vehicles and Multi-function ePolice.

The Group further updated and upgraded Multi-function ePolice for Vehicles which was launched in 2004. We also completed the research and development of the upgraded version of Traffic Rule Violation Punishment Software.

In respect of Mobile Vehicle Inspection System launched on 30 June 2004, the commercialisation of the new mobile vehicle inspection system is in progress.

Customs Logistics Monitoring Sector

During the Review Period, the Group completed the preliminary research and development of customs passage monitoring center system based on the successful research and development of the Customs Intelligent Checkpoint System, and established the standard version of the Customs Gate System.

The research and development of the Electronic Clearance System has had substantial progress and the system will be put into operation in the near future.

Sales and Marketing

The Group continued to promote the Sample Intelligent Traffic and Customs Logistics Solutions, both within the province and at the cities and provinces nearby in the PRC. With the further expansion of our influence in the government sector, we were awarded “Outstanding Private Enterprise in Jiangsu Province” in March 2005.

At the same time, the Group has also established a sound sales network across the country, which helped to promote our system solutions through product distribution and seeking for strategic partners. With the support from the nationwide 110 Traffic Management Center under the public security bureaus, coupled with the promotion of the Group’s traffic monitoring products driven by the needs to satisfy the requirements of the urban security and monitoring system, as well as the upgrading and promotion of the existing Traffic Rule Violation Punishment System, such series of products have become more competitive in the industry.

By promoting our products to the customs logistics monitoring sector, we were managed to establish a cordial business relationship with the players in the customs sector throughout the county and are in an effort to promote our latest products to the Customs General Administration of the PRC.

Future Prospects

The board of directors of the Group believes that the traffic monitoring and control and customs logistics monitoring sectors are growing vigorously and the demand for traffic and customs products, powered by such growth, is also in an increasing trend. The implementation of the Law on Road Traffic Safety will also bring the industry with more business opportunities. In addition, the reputation of the Company was raised with our extended efforts in marketing. In 2005, our unparalleled research and development team, sales team and other staff, under the leadership of the board of directors and management of the Company, are committed to achieve better results.

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 2005, the interests and 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") of Chapter 571 of the Laws of Hong Kong) which should 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 taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company pursuant to Rule 5.46 of the GEM Listing Rules.

Long positions in shares:

Name of Directors	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.

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far to the knowledge of the Directors, as at 31 March 2005, the following shareholders (other than the Directors or chief executive officers of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company which should 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) ("Sample Group") (Note 1)	19,650,000	Beneficial 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	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	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

Note:

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.

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 March 2005, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 31 March 2005, 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 kind of right during the period.

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 other conflicts of interests with the Group.

COMPLIANCE ADVISER'S INTEREST

As at 31 March 2005, according to the notification of the compliance adviser 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 Rules) 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 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 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 then 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 audited results of the Group for the year and has provided advice and comments thereon.

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

28 April 2005
Nanjing, the PRC

* for identification purpose only