



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

INTERIM REPORT

* 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.*

** For identification purpose only*

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Financial Highlight

The turnover of the Group for the six months ended 30 June 2005 amounted to approximately RMB31,395,000, representing an increase of approximately 0.19% as compared to the corresponding period last year.

The net profit for the six months ended 30 June 2005 was approximately RMB10,960,000, representing an increase of approximately 5.90% 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 2005.

Condensed Consolidated Income Statement

The board (the “Board”) of Directors 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 2005 together with the unaudited comparative figures for the corresponding periods in 2004 as follows:

| | <i>Notes</i> | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|
| | | 2005 <i>RMB'000</i> (Unaudited) | 2004 <i>RMB'000</i> (Unaudited) | 2005 <i>RMB'000</i> (Unaudited) | 2004 <i>RMB'000</i> (Unaudited) |
| Turnover | 4 | 31,395 | 31,337 | 17,579 | 19,979 |
| Cost of sales | | (11,238) | (15,326) | (3,086) | (9,761) |
| Gross profit | | 20,157 | 16,011 | 14,493 | 10,218 |
| Other operating income | | 5,473 | 3,766 | 4,378 | 709 |
| Marketing and promotional expenses | | (3,365) | (3,779) | (1,927) | (1,658) |
| Administrative expenses | | (8,127) | (3,678) | (4,297) | (2,373) |
| Profit from operations | 5 | 14,138 | 12,320 | 12,647 | 6,896 |
| Interest on bank borrowings wholly repayable within five years | | (1,233) | (633) | (612) | (192) |
| Profit before taxation | | 12,905 | 11,687 | 12,035 | 6,704 |
| Taxation | 6 | (1,968) | (1,436) | (1,854) | (744) |
| Profit before minority interests | | 10,937 | 10,251 | 10,181 | 5,960 |
| Minority interests | | 23 | 98 | (14) | (55) |
| Net profit for the period | | 10,960 | 10,349 | 10,167 | 5,905 |
| Dividends | 7 | — | — | — | — |
| Earnings per share — Basic | 8 | RMB16.99 cents | RMB21.85 cents | RMB15.76 cents | RMB11.88 cents |

Condensed Consolidated Balance Sheet

| | Notes | At 30 June 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 9 | 63,692 | 65,347 |
| Goodwill | | 205 | 271 |
| Deferred tax assets | | 843 | 843 |
| | | 64,740 | 66,461 |
| Current assets | | | |
| Inventories | | 2,969 | 1,762 |
| Amounts due from customers for contract work | | 8,861 | 6,267 |
| Trade and other receivables | 10 | 63,863 | 33,878 |
| Amount due from a related company | | — | 841 |
| Taxation recoverable | | — | 129 |
| Restricted bank deposits | | 1,952 | 1,952 |
| Bank balances and cash | | 118,311 | 139,780 |
| | | 195,956 | 184,609 |
| Current liabilities | | | |
| Trade and other payables | 11 | 24,851 | 26,336 |
| Construction cost payables | | 5,873 | 8,553 |
| Taxation payable | | 4,196 | 1,435 |
| Short-term bank loans | | 30,000 | 30,000 |
| Long-term bank loans due within one year | | 5,000 | 5,000 |
| | | 69,920 | 71,324 |
| Net current assets | | 126,036 | 113,285 |
| Total assets less current liabilities | | 190,776 | 179,746 |
| Non-current liabilities | | | |
| Long-term bank loans | | 10,000 | 10,000 |
| Minority interests | | 4,845 | 4,775 |
| Net assets | | 175,931 | 164,971 |
| Capital and reserves | | | |
| Share capital | 12 | 64,500 | 64,500 |
| Reserves | 13 | 111,431 | 100,471 |
| Shareholders' funds | | 175,931 | 164,971 |

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 2005 | 64,500 | 52,641 | 6,010 | 3,005 | 38,815 | 164,971 |
| Net profit for the period | — | — | — | — | 10,960 | 10,960 |
| At 30 June 2005 | 64,500 | 52,641 | 6,010 | 3,005 | 49,775 | 175,931 |
| 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 |

Condensed Consolidated Cash Flow Statement

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) |
| Net cash (outflow)/inflow from operating activities | (21,551) | 28,817 |
| Net cash inflow/(outflow) from investing activities | 82 | (68,288) |
| Net cash inflow from financing activities | — | 56,508 |
| (Decrease)/Increase in cash and cash equivalents | (21,469) | 17,037 |
| Cash and cash equivalents at the beginning of the period | 139,780 | 64,374 |
| Cash and cash equivalents at the end of the period | 118,311 | 81,411 |

Notes to the Interim Financial Statements

1. BACKGROUND OF THE CORPORATION

The Group is a major developer and provider of video security system solutions in the People's Republic of China ("PRC") targeting on government authorities. Its system solutions are currently designated for use in (i) traffic monitoring and control sector (the "Traffic Sector") and (ii) customs logistics monitoring sector (the "Customs Sector") in the PRC.

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

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated results have been prepared in accordance with 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 results of operations and financial position.

The accounting policies adopted in preparing the unaudited condensed consolidated results for the six months ended 30 June 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.

Notes to the Interim Financial Statements

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

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) |
| Provision of video security system solutions | 31,395 | 30,983 | 17,579 | 19,863 |
| Sales of related computer products | — | 354 | — | 116 |
| | 31,395 | 31,337 | 17,579 | 19,979 |

Notes to the Interim Financial Statements

5. PROFIT FROM OPERATIONS

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) |
| The Group's profit from operations has been arrived at after charging: | | | | |
| Amortisation of goodwill included in administrative expenses | 67 | 67 | 34 | 33 |
| Amortisation of technical know-how included in administrative expenses | — | 700 | — | 350 |
| Cost of inventories recognised as expenses | 8,243 | 13,049 | 2,142 | 8,980 |
| Depreciation and amortisation of property, plant and equipment | 1,978 | 417 | 542 | 203 |
| Operating lease rentals in respect of land and buildings | 42 | 570 | 21 | 285 |
| Directors' and supervisors' remuneration | 228 | 425 | 114 | 212 |
| Staff costs | 3,328 | 3,308 | 1,577 | 1,623 |
| And after crediting: | | | | |
| Government grant | 495 | 1,989 | — | 267 |
| Interest income | 405 | 26 | 284 | 13 |
| PRC value added tax refunded | 770 | 1,322 | 291 | — |

Notes to the Interim Financial Statements

6. TAXATION

| | Six months ended 30 June | | Three months ended 30 June | |
|-----------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) |
| The charge comprises: | | | | |
| PRC income tax | (1,968) | (1,436) | (1,854) | (744) |
| Deferred taxation | — | — | — | — |
| | (1,968) | (1,436) | (1,854) | (744) |

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.

Notes to the Interim Financial Statements

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

| | Six months ended 30 June | | Three months ended 30 June | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) | 2005 RMB'000 (Unaudited) | 2004 RMB'000 (Unaudited) |
| Profit before taxation | 12,905 | 11,687 | 12,035 | 6,704 |
| Tax at the domestic income tax rate at 15% | 1,936 | 1,753 | 1,805 | 1,006 |
| Tax effect of expenses that are not deductible in determining taxable profit | 287 | 220 | 215 | 116 |
| Tax effect of expenses that are not taxable in determining taxable profit | (183) | (372) | (111) | (174) |
| Effect of different tax rates of subsidiaries | (72) | (165) | (55) | (204) |
| Tax expenses for the period | 1,968 | 1,436 | 1,854 | 744 |
| Effective tax rate for the period | 15.25% | 12.29% | 15.41% | 11.10% |

7. DIVIDENDS

The Board dose not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30 June 2005 is based on the profit attributable to shareholders of respectively approximately RMB10,167,000 and RMB10,960,000 and on the weighted average number of 64,500,000 ordinary shares in issue for the periods.

Notes to the Interim Financial Statements

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.

No diluted earnings per share have been presented for the six months ended 30 June 2005 and 2004 as no potential dilution of ordinary shares was in existence during the relevant periods.

9. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Furniture, fixtures and equipment | Motor vehicles | Leasehold improvements | Construction in progress | Total |
|--|-----------------------|--|-------------------|---------------------------|-----------------------------|-------------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Cost | | | | | | |
| At 1 January 2005 | 28,441 | 16,525 | 2,652 | 16,109 | 6,761 | 70,488 |
| Additions | — | 212 | — | — | 111 | 323 |
| At 30 June 2005 | 28,441 | 16,737 | 2,652 | 16,109 | 6,872 | 70,811 |
| Depreciation and amortisation | | | | | | |
| At 1 January 2005 | 400 | 2,485 | 1,566 | 690 | — | 5,141 |
| Charge for the period | 410 | 374 | 159 | 1,035 | — | 1,978 |
| At 30 June 2005 | 810 | 2,859 | 1,725 | 1,725 | — | 7,119 |
| Net book value | | | | | | |
| At 30 June 2005 | 27,631 | 13,878 | 927 | 14,384 | 6,872 | 63,692 |
| At 31 December 2004 | 28,041 | 14,040 | 1,086 | 15,419 | 6,761 | 65,347 |

Notes to the Interim Financial Statements

10. TRADE AND OTHER RECEIVABLES

| | At 30 June 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
|--------------------------|---|---|
| Trade receivables | 54,095 | 29,339 |
| Other receivables | 7,444 | 3,759 |
| Prepayments to suppliers | 2,324 | 780 |
| | 63,863 | 33,878 |

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 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
|-----------------|---|---|
| Age | | |
| 0 to 90 days | 17,789 | 22,200 |
| 91 to 180 days | 15,646 | 6,708 |
| 181 to 365 days | 20,660 | 431 |
| 1 to 2 years | — | — |
| | 54,095 | 29,339 |

Notes to the Interim Financial Statements

11. TRADE AND OTHER PAYABLES

| | At 30 June 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
|----------------|---|---|
| Trade payables | 15,208 | 17,104 |
| Other payables | 9,643 | 9,232 |
| | 24,851 | 26,336 |

The following is an aged analysis of trade payables:

| | At 30 June 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
|---------------|---|---|
| Age | | |
| 0 to 30 days | 2,621 | 8,766 |
| 31 to 60 days | 1,772 | 2,379 |
| 61 to 90 days | 1,231 | 1,551 |
| Over 90 days | 9,584 | 4,408 |
| | 15,208 | 17,104 |

Notes to the Interim Financial Statements

12. SHARE CAPITAL

| | Number of shares | | Amount | |
|--|--|--|---|---|
| | At 30 June 2005 '000 (Unaudited) | At 31 December 2004 '000 (Audited) | At 30 June 2005 RMB'000 (Unaudited) | At 31 December 2004 RMB'000 (Audited) |
| Registered issued and fully paid: | | | | |
| Domestic shares with per value of RMB1.00 each | 44,100 | 44,100 | 44,100 | 44,100 |
| H shares with per value of RMB1.00 each | 20,400 | 20,400 | 20,400 | 20,400 |
| | 64,500 | 64,500 | 64,500 | 64,500 |

13. RESERVES

Movements of the reserves for the six months ended 30 June 2005 and 2004 are shown in the condensed consolidated statement of changes in equity.

Management Discussion and Analysis

Financial Review

For the six months ended 30 June 2005 (the “Review Period”), the turnover of the Group was approximately RMB31,395,000, representing an increase of approximately 0.19% over that of the corresponding period of the previous year. The gross profit margin for the Review Period increased from 51.09% to 64.20% as compared with the corresponding period of the previous year. The increase in gross profit margin was mainly due to the completion of sales of software products relating to security system amounting to approximately RMB10,840,000 during the period from April to June. The software products were developed and sold to customers on the existing technological establishment. The relating research expenses and staff cost have already charged to the income statements when incurred. Hence, it brought along with high profit margin to the Group.

For the six months ended 30 June 2005, other operating income of the Group increased by 45.33% as compared with the corresponding period of the previous year. Although there was a decrease in government grant and refund of PRC value added tax of approximately RMB1,494,000 and RMB552,000 respectively, the Group sold software products other than security system amounting to approximately RMB3,000,000 during the Review Period. Finally, it led to an increase in the other operating income.

Marketing and promotional expenses maintained at the same level as the corresponding period of the previous year. The administrative expenses increased from approximately RMB3,678,000 to approximately RMB8,127,000 as compared with the corresponding period of the previous year. The increase was attributed to (i) the charge of depreciation on the Group’s property and plant amounting to approximately RMB1,819,000, (ii) payment of professional expenses after the listing of the Company approximately RMB1,000,000 and (iii) research and development expenses of approximately RMB1,400,000.

Management Discussion and Analysis

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 2005 was approximately RMB126,036,000 (At 31 December 2004: approximately RMB113,285,000).

As at 30 June 2005, cash on hand and bank deposits of the Group amounted to approximately RMB118,311,000 (At 31 December 2004: approximately RMB139,780,000)

Capital Structure

There has been no change to the capital structure of the Group as at 30 June 2005 as compared with that as at 31 December 2004.

Bank Borrowings

As at 30 June 2005, the total bank borrowings of the Group was RMB45,000,000 (At 31 December 2004: RMB45,000,000) 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 2005, the short-term bank borrowings of RMB30,000,000 were unsecured. 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.

Management Discussion and Analysis

Employees

As at 30 June 2005, the Group has an aggregate of 180 employees, of which 54 are research and development staff. During the Review Period, the staff costs (including directors' and supervisors' remuneration) was approximately RMB3,556,000 (corresponding period of 2004: approximately RMB3,733,000).

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

Gearing Ratio

The gearing ratio (calculated at total debts divided by total assets) of the Group as at 30 June 2005 was approximately 17.26% (At 31 December 2004: 17.92%).

Risk in Foreign Exchange

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

Significant Investment

The Group did not have significant investment as at 30 June 2005.

Material Acquisition and Disposal

The Group did not have any material acquisition or disposal during the Review Period.

Management Discussion and Analysis

Future Plans Relating to Material Investment or Capital Asset

As at the date of this announcement, 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 2005, the Group did not have any material contingent liabilities.

Business Review and Prospects

During the Review Period, the Group continued to focus on the provision of video security system solutions, and its turnover was derived mainly from the provision of video security system solutions to its customers. In view of the growing number of market competitors, the pressure from market competition and on profit margin faced by the Group is becoming more intense.

With an increasingly competitive market, profit of the video security system solutions market decreased further. However, the Group is putting more effort in consolidating its existing businesses and searching for a more beneficial operating model, with an aim to expand its business to include the provision of video security information, thereby gaining momentum in profit growth. The Group looks forward to the smooth commencement of such model, which helps the Group in seeking and grasping better business opportunities and generating larger profits and offering higher returns for our shareholders.

Entering the second year since the Company's listing on GEM of the Stock Exchange, with persistent business expansion, the Group relocated to the Sample Science and Technology Park in late 2004 and all aspects of its operations have seen improvement.

Management Discussion and Analysis

Looking forward, the Group will devote more effort in the research and development and application of fundamental technologies which are principally based on video technology and maintain the products' competitive advantage in the industry, with an aim to set the industry standard in the PRC. In addition, the Group will further optimise and improve the overall solution to traffic monitoring and control and customs logistics, so as to further explore the PRC market. In order to raise its technological standard, the Group will continue to co-operate with renowned academic institutions, scientific research organizations and domestic and foreign leading enterprise to enhance to its technological innovation capability.

Market Prospects for New Products

Second generation of Mobile Vehicle Inspection System: its main feature is that it can detect vehicles involved in crimes and vehicles which evade annual inspection and penalty. Following the implementation of new Law on Road Traffic Safety of the PRC, the State has imposed heavier penalty on vehicles which break the laws, and required law enforcement authorities to provide more concrete and sufficient proof for unlawful acts. The Mobile Vehicle Inspection System can provide timely and accurate information for law enforcement authorities and will have enormous market development potential.

Motor Vehicle Safety Protection and Surveillance System: the system can be used at road exits for motor vehicle surveillance and interception. Identification results are compared with the records in the "blacklist" database to check if the passing vehicle is traced by public securities departments, thereby providing strong evidence for tracing suspected criminal vehicles. The system also automatically detects the speed of moving vehicles and automatically takes pictures of speeding vehicles, providing proofs for subsequent punishment. Therefore, this system will be highly promoted by the Ministry of Public Security and the Ministry of Communications and will be widely used in various regions.

Management Discussion and Analysis

Video Information Intelligent Processing System: video information monitored by customs undergoes intelligent processing which facilitates collection of on-site information such as terminal container number, electronic licence plate, weigh bridge weighing, IC card, etc. for goods passing through customs counters. Actual information collected is matched and compared with those in the customs' H2000 clearance information system, and automatic inspection and release as well as 24-hour automatic monitoring of counters can be done together with the customs' risk surveillance system. With the increasing number of facilities such as customs counters, port depots, export processing zones and logistics park zones which requires customs monitoring, the market development opportunities for this product are ample.

Comparison of Business Progress with Business Objectives

The Group aims at becoming an outstanding supplier and operator of video security system solutions in the sectors of traffic monitoring and control and customs logistics monitoring.

The comparison of the actual business progress during the Review Period with the business objectives set out in the prospectus (the “Prospectus”) of the Company dated 2 June 2004 is as follows. The Group constantly reviews its business objectives and strategies and makes adjustments when necessary.

Product Development and Upgrade

Pursuant to its research and development programs and strategies, the Group 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 its products, system reliability and the technical threshold of the industry and to advance the launch of new products.

| | Business objectives stated in the Prospectus | Actual 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 Vehicle Monitoring Web Enquiry System, Remote and Warning System | The technology has completed the final testing and user testing stages, and is under batch production |

Comparison of Business Progress with Business Objectives

| Business objectives stated in the Prospectus | | Actual progress during the Review Period |
|--|---|---|
| Customs logistics monitoring sector | Multi-function ePolice (capable of providing traffic light signaling, law violation monitoring, speeding detection and traffic flow statistics at the same time) Product: Special Highway Sections Regulation and Detection System (speeding, trespassing traffic light signal and wrong lane) | The initial sample functional test and analytical design have been completed. The hardware optimisation Special Highway Sections Regulation and Detection System (speeding, trespassing traffic light signal and wrong lane), which is based on a professional mode, has been put to use and is under small-scale production |
| | Mobile Vehicle Inspection System: (capable of detecting vehicles which are involved in crimes and vehicles which evade annual inspection and penalty) Product: Motor Vehicle Safety Prevention and Surveillance System | The second generation of the Mobile Vehicle Inspection System was launched in 2005 and initial product verification has completed. The development group recorded a satisfactory image identification rate from the recognition algorithm. The Group conducted a user trial during the third quarter of 2005 and the system is under small-scale production. The Motor Vehicle Safety Prevention and Surveillance System that corresponds with the Mobile Vehicle Inspection System has also completed the functional test. |
| Customs logistics monitoring sector | Customs Operation Integration Platform | Data The platform has been launched as our product and has been widely used in facilities such as customs counters and export and processing zones |

Comparison of Business Progress with Business Objectives

| | Business objectives stated in the Prospectus | Actual progress during the Review Period |
|---------------------------------------|--|--|
| | Customs Vehicle & Cargo Supervision System for Cargo Transit Operation | The testing report of the system was released in January 2005. The product has preliminarily been used in the transcustoms business and its relevant product performance is under further testing. |
| | Customs Inbuilt Image Collection Equipment for Yard Supervision | The device is under small-scale production and trial. Feedback is being collected from users for product optimization. |
| | Video Information Intelligent Processing System for Customs Monitoring | Video information monitored by customs undergoes intelligent processing in the system and this will facilitate the inspection of goods passing through customs counters. The system is currently under sample testing and system performance test stages and test report is intended to be released in late August |
| Sales and Marketing | Business objectives stated in the Prospectus | Actual progress during the Review Period |
| Traffic monitoring and control sector | Upgrade the existing equipment of existing customers, promote products to potential customers | The Company continued to provide system examination and upgrading services to its existing customers to retain more long-term customers |
| | Advertise through major media, hold conferences and meetings, promote industry product standards | In addition to the shooting of large-scale promotion videos, increasing effort has been put in marketing through major media in the industry |

Comparison of Business Progress with Business Objectives

| Sales and Marketing | Business objectives stated in the Prospectus | Actual progress during the Review Period |
|-------------------------------------|---|--|
| | Help the public security headquarters to upgrade the existing Traffic Rule Violation Punishment System and promote new products to them | The Group participated in the Security Management Exhibition of Qixia District, Nanjing in April 2005 and the International Traffic Facilities Fair of Jiangsu Province in June to attract more business partners |
| Customs logistics monitoring sector | Place advertisements in the magazine "PRC Customs" once per quarter | The Company is discussing with the publisher in respect of issues such as fund and page layout in order to place advertisement in "PRC Customs" as soon as possible |
| | Establish business representative offices in Fujian Province and Liaoning Province of the PRC | Consultation on matters relating to the establishment of representative offices in Fujian and Liaoning is underway |
| | Focus on the holding of business conferences in Beijing, Shenzhen and Shanghai | The Company has not been able to seek suitable opportunities to hold business conferences in Beijing, Shenzhen and Shanghai in the first half of 2005. It will continue to seek such opportunities in the second half of 2005 to attract customers |

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 aggregate net proceeds from the placing amounted to HK\$68,058,000 (i.e. RMB72,141,000). The breakdown of the use of proceeds by the Group and the estimated costs for the year ended 30 June 2005 is set out below:

| | Proposed fundings required for the period (HK\$) | Actual fundings utilised during the period (HK\$) |
|---|---|--|
| Research and development and upgrading of system solutions | | |
| — Traffic monitoring and control sector | 2,700,000 | 2,410,000 |
| — Customs logistics monitoring sector | 600,000 | 590,000 |
| Construction of information platform | | |
| — Traffic monitoring and control sector | 1,380,000 | 1,370,000 |
| — Customs logistics monitoring sector | 310,000 | 430,000 |
| Launching of new system solutions | | |
| — Traffic monitoring and control sector | 770,000 | 480,000 |
| — Customs logistics monitoring sector | 150,000 | 120,000 |
| Purchase of additional equipment and facilities for the commercialisation of system solutions | 2,610,000 | 2,800,000 |
| Expansion of sales and distribution network | 1,590,000 | 2,180,000 |
| Sub-total | 10,110,000 | 10,380,000 |
| Working capital | 1,700,000 | 1,420,000 |
| Total | 11,810,000 | 11,800,000 |

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 June 2005, 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 30 June 2005, the following shareholders (other than the Directors, supervisors or chief executive officers of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

Long positions in shares of the Company:

| Name of shareholder | Number of domestic shares | Nature of interest | Approximate percentage of the registered capital of the Company (%) |
|---|---------------------------|--------------------------------|---|
| Nanjing Sample Technology Group Company Limited* (南京三寶科技集團有限公司) ("Sample Group") (Note 1) | 19,650,000 | Beneficial owner and corporate | 30.47 |
| Nanjing Zhongbei (Group) Company Limited* (南京中北(集團)股份有限公司) ("Nanjing Zhongbei") | 12,000,000 | Beneficial owner | 18.60 |
| Nanjing Huadong Electronics Information & Technology Company Limited* (南京華東電子信息科技股份有限公司) ("Huadong Technology") | 12,000,000 | Beneficial owner | 18.60 |
| Nanjing Huadong Electronics Group Company Limited* (南京華東電子集團股份有限公司) ("Huadong Electronics") (Note 2) | 12,000,000 | 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 ("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 30 June 2005, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 30 June 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 right during the period.

Share Option Scheme

The principle terms and conditions of the share option scheme ("Share Option Scheme"), which was conditionally approved by a resolution of the shareholders of the Company dated 24 April 2004, are set out in the section "Summary of the terms and conditions of Share Option Scheme" in Appendix VII to the Prospectus. As at 30 June 2005, no options is granted under the Share Option Scheme.

Other Information

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.

Compliance Adviser's Interest

As at 30 June 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 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 receives and will receive an agreed amount of fees for the services to be rendered in respect thereof.

Code of Conduct for Securities Transactions by Directors

The code of conduct for securities transactions by Directors adopted by the Company is on terms no less exacting than the required standard of dealings in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any circumstances that the Directors did not comply with the required standards of dealings and the code of conduct for securities transactions by Directors throughout the six months ended 30 June 2005.

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 six months ended 30 June 2005, the Company has not entirely complied with the code provisions of the Code on Corporate Governance Practices ("CGP") as set out in Appendix 15 to the GEM Listing Rules. The reasons for the main deviations are set out below:

| Code provisions of CGP | | Reason for deviation |
|------------------------|--------------------------------------|---|
| A2.1 | Chairman and Chief Executive Officer | Mr. Sha Min currently acts as the Chairman and Chief Executive Officer of the Company. The Company is still looking for the suitable candidate to fill up the post of Chief Executive Officer. There is no clear distinction between the roles of Chairman and Chief Executive Officer. |
| B1.1 to 1.5 | Remuneration Committee | The establishment of the remuneration committee and drafting of its terms of reference are in progress. |

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 August 2005
Nanjing, the PRC

** for identification purpose only*