SAMPLE

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

ANNUAL REPORT | 2005

* for identification purpose only

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This report, for which the directors (the "Directors") of NANJING SAMPLE TECHNOLOGY COMPANY LIMITED (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM" Listing Rules) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

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Corporate Information

EXECUTIVE DIRECTORS
Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

NON-EXECUTIVE DIRECTORS
Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping
Mr. Zhu De Xiang

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

SUPERVISORS
Mr. Tian Tao
Mr. Sun Huai Dong
Ms. Du Jin

INDEPENDENT SUPERVISORS
Mr. Dai Jian Jun
Ms. Ma Lin Ping

QUALIFIED ACCOUNTANT
Ms. Chu Lai Kuen

COMPANY SECRETARY
Ms. Chu Lai Kuen

AUDIT COMMITTEE
Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

COMPLIANCE OFFICER
Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES
Mr. Guo Ya Jun
Ms. Chu Lai Kuen

COMPLIANCE ADVISER
Core Pacific – Yamaichi Capital Limited

LEGAL ADVISERS
Mallesons Stephen Jaques

AUDITORS
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STOCK CODE
8287

RESULTS

	Year ended 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	**88,314**	77,439	61,836	62,175	32,715
Profit before tax	**25,056**	20,616	23,610	15,315	910
Profit for the year	**21,184**	17,973	20,859	12,813	120
Minority interests	**(82)**	32	(252)	(250)	(55)
Profit attributable to equity holders of the parent	**21,102**	18,005	20,607	12,563	65
Earning per share — Basic (RMB cents)	**32.72**	32.20	45.79	27.92	0.14

ASSETS AND LIABILITIES

	As at 31 December				
	2005	2004	2003	2002	2001
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(restated)	*(restated)*		
Non-current assets	**69,318**	66,311	24,588	15,972	12,662
Current assets	**204,215**	184,759	111,455	93,574	94,070
Current liabilities	**89,053**	71,324	41,411	50,621	56,236
Net current assets	**115,162**	113,435	69,893	42,953	37,834
Equity attributable to equity holders of the parent	**179,623**	164,971	74,825	54,218	41,655
Total equity	**184,480**	169,746	79,632	58,925	50,496

Chairman's Statement

Sha Min
Chairman

To all shareholders,

On behalf of the board of directors (the "Board") of the Company, I hereby present the annual report of the Company (together with its subsidiaries referred to as the "Group") for the year ended 31 December 2005 (period under review) for your review and consideration.

RESULTS

For the financial year of 2005, the revenue and profit for the year attributable to equity holders of the parent increased by 14.04% and 17.20% respectively, to approximately RMB 88,314,000 and RMB 21,102,000 (for the year ended 31 December 2004, the revenue was RMB77,439,000 and the profit for the year attributable to equity holders of the parent was RMB18,005,000). The growth was mainly attributed to the increase in market share in both of traffic monitoring and control sector and customs logistics monitoring sector under our reinforced marketing efforts.

DIVIDENDS

During the period under review, the Board does not recommend the payment of a dividend for the year ended 31 December 2005.

BUSINESS AND OPERATION REVIEW

Effort in Team Building to Strengthen the Foundation of Corporate Development

The corporate strategy for 2005, which is based on core team building and team spirit promotion, served as an integral part for establishing our corporate culture. By executing the human resources, benefit and training schemes, the Company strived to promote professionalism and share successful experiences in order to build up the core team. Therefore, the Company can establish a relationship between corporate development and the team, and connect team strength with personal quality. Deliberation and cooperation became the guiding principles for all project teams. During the year, talents emerging from internal and external sources enabled a simultaneous growth in overall team standards and individual quality.

Core Business Enhancement and Improved Corporate Competitive Advantage

Core business enhancement is the Company's leading objective for 2005. The Company adopted the brand name products development as our operation strategy. The Company continually provided support to sales, technical and project management and gained major breakthrough during the period under review.

In 2005, the Group successfully completed a series of major products development including the Intelligent Police Inspection and Reporting Post System V3.0, Embedded ePolice (for gates) and Integrated Mobile Vehicle Inspection System, ensuring the edges, in terms of persistent innovation, of traffic monitoring and control products. At present, the above products' market share in our leading market exceeded 75%. In the customs logistics monitoring sector, the Company expanded the research in Radio Frequency Identification ("RFID"), and products that applied RFID, such as Electronic Label and Electronic Clearance, have gained recognition from the General Administration of Customs of the People's Republic of China ("General Customs Administration") and the general public. With an affirmative reputation, the Company prospers well by proving ourselves as the chief network integrator for the General Customs Administration's custom gates and its inter-regional application system.

Control Over Application Standard for Establishing the Corporate Defence in Technology

Establishing control over the standard of products application and building up the corporate defence in technology were the main technological objectives for 2005. The Company augmented its industrial application standard research and application for this objective. The Sample Intelligent Police Inspection System V2.0, Sample Highway Vehicles Monitoring and Recording System V3.0 and Sample Intelligent Gate System Management Software V1.0 have been awarded "Nation-wide Recommended Software for 2005" ("二零零五年度全國推薦優秀軟體產品") by the China Software Industry Association ("CSIA"). The quality of this product passed the ISO9001 (Version 2000) twice. The Company has taken the initiative in adopting the standards as recommended by the associations of the state and of the industry in the research and development stage for its new products such as Electronic Clearance and Electronic Vehicle Licence Plate. The Company is striving to become the products application standard participator for maintaining the Company's competitiveness from the technological foundation.

PROSPECT

2006 is a critical year for accomplishing the Company's three-year strategic target. Focusing on core product innovation, traffic and logistics information services and core team building are the main objectives for the Company. The Company will concentrate its efforts on optimisation of internal and external resources. Leveraged on the leading status of the Company in the traffic monitoring and control sector, the Company will commit itself in new products development and in establishing the standards for technological products (both in software and hardware), particularly the modulization, miniaturization and standardization for information collectors and information processors. Furthermore, the Company will further improve Embedded ePolice, Gates and Mobile ePolice in order to accelerate the commercialisation of the products. In terms of customs logistics monitoring sector, we will concentrate our effort in the research and development of RFID information collection technology and setting up the industry standards. Moreover, further resources will be put into the research and development and the commercialisation of the core products. Product standards, patent and copyrights registration and protection, as well as the mechanism for launching new products will also be our focus of work.

On the other hand, the Company will establish appropriate points of after-sales for traffic monitoring and control sector, and the newly established ones are the Nantong and Guangzhou offices. In addition, after-sales services specialization and standardization will be included in our agenda and we will extend and increase the fee of after-sales services. The Company will spare effort in manifesting benefits of its core products and developing the Police Inspection and Reporting Post as the leading product within the industry while maintaining the stable income generated by ePolice and Mobile ePolice. For the customs logistics monitoring sector, drawing support from our leading status as the chief network integrator for the General Customs Administration's custom gates, we strive to increase the market share by participating in the setting up of standards of gates, exploring new modes of site monitoring system and establishing a nationwide maintenance network.

With excellent corporate culture management, strong research abilities, great diversity of products, stringent cost control procedures, high quality after-sales services and experience in the industry, Sample Technology is determined to be the leading enterprise in the China traffic monitoring and control, and customs logistics monitoring industry.

On behalf of Sample Technology, I would like to express appreciation for our suppliers, clients and shareholders for their support and faith, as well as the contribution from every staff, which enabled the Group to achieve the impressive results.

By Order of the Board
Sha Min
Chairman

Nanjing, the PRC
23 March 2006

FINANCIAL REVIEW

Revenue

The audited consolidated revenue of the Group was approximately RMB88,314,000 for the year ended 31 December 2005, representing an increase of approximately 14.04% as compared with 2004. The growth in turnover was attributed to the increase in market share in both of traffic monitoring and control sector and customs logistics monitoring sector under our reinforced marketing efforts.

Gross Profit

The gross profit margin of the Group for the year ended 31 December 2005 was approximately 45.67%, an increase of 4.66% compared with 2004. The increase in gross profit margin mainly resulted from the completion of sales of software products relating to the security system amounting to approximately RMB9,214,000. Since the research and staff costs of these software products had already charged to the income statements of prior years when incurred, it brought along with a relative high profit margin to the Group.

Other Income

The Group recorded an increase of 11.44% in other income from approximately RMB9,020,000 in 2004 to approximately RMB10,052,000 for the year. The decrease in interest income and PRC VAT tax refunded of approximately RMB812,000 and RMB1,754,000 respectively was well compensated by the provision of system solution services other than security system. Finally, it resulted in a slight increase.

Distribution Costs

The distribution costs experienced a slight growth during the year. However, the distribution costs to turnover of the Group decreased to approximately 8.61% for the year from 9.16% in 2004. The Group will continue to adjust the departmental structure in order to simplify project implementation and establish effective cost control measures.

Administrative Expenses

The administrative expenses of the Group rose sharply from approximately RMB11,862,000 to approximately RMB15,207,000. The increase was attributable to i) The total depreciation and amortisation charges increased from approximately RMB3,741,000 to RMB5,195,000, representing an increase of 38.87% resulting from the depreciation of the Group's property located in Maqun Technology Park. ii) The research and development costs after net off the government grants amounted to approximately RMB3,114,000, recording an increase of 51.02%.

Net Profit

The profit attributable to equity holders of the parent increased from approximately RMB18,005,000 in 2004 to approximately RMB21,102,000 representing an increase of 17.20%. The net profit margin of 23.89% for the year remained relatively constant as compared with 23.25% of 2004.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2005, equity attributable to equity holders of the parent was approximately RMB179,623,000. The current assets were approximately RMB204,215,000, comprising cash and bank deposits of approximately RMB140,265,000. The Group had no non-current liabilities for the year. Current liabilities were approximately RMB89,053,000, mainly including trade and other payables, tax liabilities, construction costs payables and short-term bank loans. The net assets per share of the Group was approximately RMB2.78. As at 31 December 2005, the short term borrowings of the Group were RMB46,000,000.

PLEDGE OF ASSETS

As at 31 December 2005, the Group has no asset under collateral.

GEARING RATIO

As at 31 December 2005, the gearing ratio (calculated as bank borrowings and long-term borrowings divided by total assets) of the Group was 16.82%.

FOREIGN CURRENCY EXPOSURE

Since the Group mainly conducts its business in the PRC and most of the sales and purchase of the Group were denominated in RMB, the Group's operating results were not exposed to any foreign currency risk.

SUBSTANTIAL ACQUISITION / DISPOSAL AND SIGNIFICANT INVESTMENT

Throughout the year of 2005, the Group had no substantial acquisition and disposal and has not invested any of the proceeds in any significant financial instrument. In 2006, the Company considers to acquire equity interest of Jiangsu Intellitrants Technology Development Company Limited, a company engaging in intelligent traffic system. The Company intends to enlarge its market share and upgrade its traffic monitoring and control sector. The consideration and the terms of acquisition are under negotiation.

CAPITAL COMMITMENT

As at 31 December 2005, the Group had no significant capital commitment.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the total cost of remuneration of the Group was approximately RMB8,198,000 and the number of employees of the Group was 195. The Group remunerated its staff based on the individual's performance, profile and experience and with reference to the market price. The Group would grant discretionary bonus to the staff with reference to the individual's performance as recognition of their contribution. Other benefits included the contribution to the retirement scheme, medical scheme, unemployment insurance and housing allowance.

BUSINESS REVIEW

Business Expansion

Traffic Monitoring and Control Sector

In 2005, Intelligent Police Inspection and Reporting Post and Mobile ePolice became the core products of traffic monitoring and control sector of the Group under our reinforced marketing efforts. A series of significant contracts were entered into. Securing all the orders of Phase III of Shandong mobile ePolice and the contract for the construction of gates of National Highway 104, the Group has successfully promoted the use of mobile ePolice throughout the country. In the meantime, the Group was granted the contract for the construction of all ePolice in Chongqing, thereby gaining 100% market share in the region. In addition, the Group entered into a series of material contracts with the Command Centre of Laizhou Police Bureau (萊州市公安局指揮中心), Command Centre of Pingdu Police Bureau (平度公安局指揮中心), Zhuhai Police Bureau (珠海市公安局), Qujing Police Bureau (曲靖市公安局) and Xiamen Police Bureau (廈門市公安局), the Group consolidated its market share in those regions.

Customs Logistics Monitoring Sector

In 2005, the Group became the sole chief network integrator of the customs gates and inter-regional application system of the General Administration of Customs. An agreement was entered into between the Group and the General Customs Administration, pursuant to which the two parties will jointly formulate the regulations and standards of the gate system. With such an agreement, the Group's status as the most important supplier of gates for China Customs was recognized. The Group continued to enjoy a relatively monopolizing position in the customs logistics monitoring market with the following achievements: undertaking 5 projects of the 7 + 1 Port-Bond Zone Collaboration Projects (7 + 1 區港聯動項目) approved by the State Council, with a market share reaching 62.5%; contracted to build 20 out of the 29 state-level export processing zones throughout the country, representing a market share of over 60%. The Group was also actively involved in the customs bonded logistics centre projects, the focus of customs logistics monitoring market in 2005 and completed 7 projects including Xiamen Xiangyu Customs Bonded Logistics Zone (廈門象嶼保稅物流園), Shenzhen Yantiangang Bonded Logistics Zone (深圳鹽田港保稅物流園) and Ningbo Bonded Logistics Zone (寧波保稅物流園).

Research and Development

Traffic Monitoring and Control Sector

In 2005, the Group focused on the research and development of core products and completed the research and development of Intelligent Police Inspection and Reporting Post V3.0, Embedded ePolice, Embedded ePolice (for gates) and Multi-functional Inspection ePolice and the technological update of the compatibility of the Master Control Engine of ePolice at highway and city gates, reducing the cost by 18.6%. The breakthroughs achieved in the technological challenges in the implementation of projects such as Intelligent Embedded Master Engine, Standard Connected Wireless Communication System, Integrated Mobile Vehicle Inspection System, Integration Platform of B/S Architectural State, Mobile Highway Speed Detection, Network Security and Remote Maintenance System ensured the stability of the products and the quality of the projects.

Customs Logistics Monitoring Sector

In 2005, the Group focused on the research and development of RFID new products to ensure the technological update of products in that sector. Currently, the terminal container trucks of Phase I to Phase V of Shanghai port Wai Gao Qiao all use electronic licence plates newly developed by the Group and such product has received high market recognition. With the breakthrough attained in the research and development of RFID Third Generation Electronic Locks and the commencement of sample projects in Zhangjiagang, the project was recommended by the General Customs Administration and its products and technology have received recognition.

Qualifications and Honors

In 2005, the Group's "Sample Police Inspection and Reporting Post Information System V2.0", "Sample Highway Vehicle Intelligent Monitoring and Recording System V3.0" and "Sample Intelligent Checkpoint Management Software V1.0", which were developed for use by public security authorities, were awarded "Outstanding Software Products in China in 2005" by the China Software Industry Association. The products were recognized and valued by the Ministry of Public Security with their advanced technology, high market share and superior standard of project implementation.

In 2005, Nanjing Municipal People's Government awarded technological progress awards to various enterprises in recognition of the contributions to the technological industry and economic and social development, and the "Mobile Vehicles Inspection System" developed by the Company was awarded "Nanjing Municipal Science and Technology Advancement Third Prize".

BUSINESS PROSPECT

Research and Development

Traffic Monitoring and Control Sector

In the coming year, the Group is committed to further its efforts in the research and development of traffic monitoring and control products. We will further our steps in setting the standards for hardware and software products and in solving the issues in relation to the modulization, miniaturization and standardization for information collectors and information processors. We will also put more effort on solving the technological problems of Embedded ePolice, Highway Vehicle Monitoring and Reporting System and Mobile ePolice, obtaining intellectual property for our own products and promoting the progress of products commercialization.

Customs Logistics Monitoring Sector

In 2006, regarding the customs logistics monitoring sector, we will continue to focus on the research and development of RFID information collection technology and the formulation of industry standards. We will also put more effort on the research and development and commercialization of major products, with the emphasis on the registration and protection of standards, patents and creation rights as well as the setting up of a mechanism for launching new products. On the basis of our existing products, we will further develop the "embedded" gate system while ensuring that the major products are technologically advanced and stable. In addition, the Group supports the research and standard establishment of "intelligent terminal containers". We will also promote the "Green Channel" supervision mode through demonstration projects. Meanwhile, we will further develop electronic clearance products and strengthen our resource integration ability so as to acquire a larger market share.

Sales and Marketing

Traffic Monitoring and Control Sector

The Group will continue to strengthen the corporate management by adjusting the departmental structure. Our technical centre is sub-divided into software and hardware sections, enabling the effective use and management of human resources. Engineers' involvement in product development help us to build up a unique mode of product development where technology, engineering and production are inter-related elements. This mode of development enhances the applicability of products and simplifies project implementation.

Furthermore, by establishing an office in Nantong and merging the function of after-sales services into the sales department, we ensure the synergy as manifested by after-sales services and the market. Merging the function of equipment purchase into the sales department and the implementation of a tender system would reduce the costs of purchase.

The full implementation of project management system and the mechanism of "One Project, One Form" (一項一表), extends project manager's authorization in human resources allocation and application of funds while allowing the Group to closely supervise on the quality and the schedule of projects and monitor the project progress, the gradual implementation of project agent-in-charge system and ensuring the execution of a project evaluation system of which with the project costs and working hours are the primary concerns.

In the meantime, the Group will promote the Embedded Highway Gate Inspection System, Mobile ePolice and Embedded ePolice to all public security organizations throughout the country to ensure the competitiveness of the core products.

Customs Logistics Monitoring Sector

As a designated chief network integrator for General Customs Administration's custom gates, the Group adopted an accountability mechanism for project managers and established a special task force comprising of distribution, technology and engineering staff with respective defined responsibilities, rights and benefits in order to facilitate the implementation of inter-regional integration of custom gates and the establishment of the gate system operation mechanism.

In addition, with the continuous development of the electronic clearance products, the Group has completed the trial operation at customs ports and actively explored the modes of application for customs logistics monitoring and third-party logistics supply chain and the demand for the future international logistics chain.

By setting up a nationwide after-sales service system, the Group established service points jointly with the General Customs Administration in regions where gates are intensively located, with staff assigned to carry out maintenance and respond to customers' needs in a timely manner. We have also established a shift monitoring mechanism for regular enquiry of the usage of on-site customs systems to ensure its smooth operation.

Meanwhile, the Group provided solutions for frequently asked enquiries, relevant software for downloading and system upgrade via website and established customers maintenance updates to maintain a long-term and close relationship with customers.

USE OF PROCEEDS

The Company obtained proceeds of approximately RMB72,141,000 from the placing ("Placing") of new H shares (net of the related expenses) in June 2004. The use of proceeds of approximately RMB27,456,000 for the year ended 31 December 2005 was set out below.

The Group placed its H share at a price of HK$4.15 per H share. According to the Company's prospectus dated 2 June 2004 ("Prospectus"), the additional net proceeds from the placing will be applied by the Group in the same way and proportion as stated in the Prospectus. The breakdown of the use of proceeds by the Group and the estimated costs is set out below:

	Approximate amount used as at 31 December 2005 *(HK$ million)*	**Estimated costs as at 31 December 2005** *(HK$ million)*
Research and development and upgrading of system solutions		
— Traffic monitoring and control sector	5	5.5
— Customs logistics monitoring sector	2.1	1.3
Construction of information platform		
— Traffic monitoring and control sector	2.8	2.8
— Customs logistics monitoring sector	1	0.6
Launching of new system solutions		
— Traffic monitoring and control sector	1	1.7
— Customs logistics monitoring sector	1	0.4
Purchase of additional equipment and/or facilities for commercialization of system solutions	6	5.4
Expansion of sales and distribution network	3.5	3.6
Sub-total	22.4	21.3
Working capital	4	3.3
Total	26.4	24.6

Set out below is the comparison between the actual business progress for the year ended 31 December 2005 and the business objectives stated in the Prospectus.

PRODUCT DEVELOPMENT AND UPGRADE

	Business objectives as stated in the Prospectus	Actual progress during the period under review
Traffic monitoring and control sector	Mobile Vehicle Monitoring System (checking criminals' vehicles, vehicles evading yearly examination and defaulting penalties)	The system was successfully launched and was promoted nationwide as our key product
	Product: Motor Vehicle Safety Prevention and Surveillance System	The project was suspended due to market factors
	Inbuilt Highway Vehicles Monitoring and Recording System, Embedded Electronic Police System	The system was successfully launched and was promoted nationwide as our key product
	Product: Portable and Mobile Speeding Warning System	System performance test of the product has been completed
Customs logistics monitoring sector	Customs Supervision, Video Information Intelligent Processing System for Customs Monitoring	The analytical design has been completed and is in the final testing stage
	Identity Card Management System in Customs Logistics Monitoring Supervision	The onsite experiment has been completed

SALES AND MARKETING

	Business objectives as stated in the Prospectus	Actual progress during the period under review
Traffic monitoring and control sector	Help the public security headquarters to upgrade the existing Traffic Rule Violation Punishment System and promote new products to them	New products such as Intelligent Police Inspection and Reporting Post System V3.0 have been launched so as to keep the products up-to-date
	Advertise through major media, hold regular trainings and trade fairs with existing customers	Long-term communication with existing customers has been maintained
Customs logistics monitoring sector	Focus on the holding of business conferences in Beijing, Shenzhen, Shanghai and others	On-site project coordination meetings has been convened at the General Customs Administration and in Shenzhen
	Promote new products to the General Customs Administration	The third generation of electronic seals, which was developed with RFID technology, was recognized by the General Customs Administration

ALLOCATION OF HUMAN RESOURCES

	Expected number of employees to be employed by the Group as at 31 December 2005	Actual number of employees employed by the Group as at 31 December 2005
Management and general administration	48	30
Research and development	70	52
Sales and marketing	45	24
Technical support service	78	89
Total	241	195

DIRECTORS

Mr. Sha Min (沙敏), aged 41, is an executive Director and the chairman of the Company. He is responsible for devising the Group's overall strategies and policies. Mr. Sha obtained a master degree in engineering from Southeast University in 1990. Mr. Sha was firstly appointed as a Director in December 1999. He is directly interested in 0.7% of the registered capital of the Company immediately after the Placing. Mr. Sha was conferred the titles of Jiangsu Province Outstanding Yong Entrepreneur and Nanjing Ten Outstanding Young Entrepreneur and Nanjing Ten Outstanding Young Entrepreneur in 2000 and 2001 respectively. Mr. Sha was elected as a committee member of the Chinese People's Political Consultative Conference of the Nanjing Committee in January 2003.

Mr. Chang Yong (常勇), aged 39, has been the general manager of the Company since December 2000. He is responsible for implementing the Group's strategies and business plans. He obtained a master degree in computer application studies from Harbin Polytechnical University in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from 1990 to 1992. Mr. Chang became the vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. He was appointed as an executive director and the general manager of Sample System in December 1997. Mr. Chang was elected as a member of the Chinese People's Political Consultative Committee of Xuanwu District in Nanjing City in 1998. Mr. Chang was firstly appointed as a Director in December 1997.

Mr. Guo Ya Jun (郭亞軍), aged 46, is an executive Director, the deputy general manager and the financial controller of the Company. He is responsible for supervising the Company's accounting department and financial affairs. He graduated from the Faculty of Agricultural Economy at Anhui Agricultural College in August 1982 with a bachelor degree in agricultural economics. Mr. Guo worked for the Finance Bureau of Lingbi County in Anhui Province from 1982 to 1992. He worked for the Nanjing Jintai Building Materials Development Company between 1993 and 1996. Mr. Guo was appointed as the finance manager of Sample Group and Sample System in October 1996 and became the Company's director of finance and deputy general manager in December 2000. He is currently mainly responsible for the financial and administrative management of the Group. He was firstly appointed as a Director in December 1999.

NON-EXECUTIVE DIRECTORS

Mr. Zhao Jing Cheng (趙竟成), aged 60, is a non-executive Director. He graduated from the Faculty of Automatic Control of Southeast University in 1969. Mr. Zhao completed the postgraduate study in Nanjing University of Science and Technology in 1998, and obtained an MBA degree from Macau Science and Technology University in January 2002. He joined Huadong Electronics Factory in August 1970 and is now the president and chairman of the board of, Nanjing Huadong Electronics Group Company Limited. Mr. Zhao was firstly appointed as a Director in July 2000.

Mr. Zhang Yin Qian (張銀千), aged 50, is a non-executive Director. He graduated from Wuxi School of Wireless Electronics Industry in July 1978. Mr. Zhang joined Huadong Electronics Factory in August 1978 and is now the Vice chairman of the board of Nanjing Huadong Electronics Information & Technology Company Limited. Mr. Zhang was firstly appointed as a Director in December 2000.

Mr. Guo Shi Ping (郭試平), aged 53, is a non-executive Director. He is a senior economist and has received tertiary education. Mr. Guo joined Nanjing Public Transport Company (南京公交總公司) in February 1970 and held various positions such as planner, deputy head and head of the industrial relation division. He was the manager of a company under Nanjing Public Transport Company and deputy general manager of Nanjng Zhongbei (Group) Company Limited (南京中北(集團)股份有限公司) and manager for Zhongbei Bus Company (中北巴士公司). He is currently the deputy chairman and general manager of Nanjing Zhongbei (Group) Company Limited.

Mr. Zhu De Xiang (朱德祥), aged 60, is a non-executive Director. He was a political instructor, head of the section and political commissioner of a division of the People's Liberation Army of the Nanjing Military Area Command between September 1965 and August 1991. Mr. Zhu joined Nanjing Zhongbei in August 1991 and is currently the secretary of the communist party of Nanjing Zhongbei. Mr. Zhu firstly was appointed as a Director in December 2000.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan (張展), aged 38, is an independent non-executive Director. He graduated from the Faculty of Computer Science at Wuhan University and obtained a bachelor degree in 1989. Mr. Zhang is currently the general manager of the Beijing investment banking division of China Construction Bank Securities Investment Company Limited. Mr. Zhang was firstly appointed as a Director in December 1997.

Mr. Wang Wei (王煒), aged 46, is an independent non-executive Director. He graduated from the Department of Civil Engineering of the Southeast University with a bachelor degree in July 1982 and a master degree in February 1985. He then taught in the Transport Department of the Southeast University. Mr. Wang obtained a doctorate degree from Southeast University in structural engineering in May 1990. Mr. Wang has been the Head of the City Road Traffic Management (Clear Way Project) National professional Group of the Department of Public Security and Department of Construction since April 2000. Mr. Wang was appointed as an independent non-executive Director in November 2001.

Mr. Lau Shek Yau John (劉石佑), aged 58, is an independent non-executive Director. He was previously the managing director of United Distribution Services (Far East) Limited (a member of the Dodwell Group of Companies). Mr. Lau is active in cargo business and experienced in international trading. In 1985, he established United Distribution Services Far East Limited which was subsequently sold. In 1990, Mr. Lau established Wide Shine Terminals Limited, which was subsequently sold. Mr. Lau is the managing director of Cargo Services Far East Limited and Far East Cargo Line which have overseas offices in the United Kingdom, Singapore, and the PRC. Mr. Lau is the director of Xinhaihua Enterprise Limited and the chairman of Nanjing Xinhaihua Industry Company Limited. Mr. Lau was appointed as a committee member of the Chinese People's Political Consultative Committee of the Nanjing Committee in 2003. Mr. Lau was appointed as an independent non-executive Director in August 2003.

SUPERVISORS

Mr. Tian Tao (田濤), aged 58, is a supervisor of the Company ("Supervisor") and chairman of the supervisory board of the Company. He graduated from the Department of Journalism with a bachelor degree in Journalism in Fudan University in January 1982. Mr. Tian was the director of Nanjing People's Broadcasting Station between November 1983 and August 1984. During the period from August 1984 to

April 1994, Mr. Tian acted as the head of the news department of Nanjing People's Broadcasting Station and was the Secretary of the party committee. Mr. Tian was appointed as the vice minister of the broadcasting department of a Nanjing Municipal Commission of the Communist Party Committee since 1994. Mr. Tian has been the president and director of Nanjing Press Group and the secretary of the party committee since December 2002. He was firstly appointed as a Supervisor in July 2000.

Mr. Sun Huai Dong (孫懷東), aged 38, is a Supervisor. He graduated from the Department of Radio Engineering of the Southeast University with a bachelor degree in July 1990. He worked for the State-owned Factory No. 772 from 1990 to 1992. Mr. Sun was appointed manager of the sales department and general manager of Sample Industry during the period from 1993 to 2002. Mr. Sun has been the vice deputy general manager of Jiangsu Hai Te Man New Material Co., Ltd. since 2002. He was firstly appointed as a Supervisor in December 1999.

Ms. Du Jin (杜瑾), aged 42, is a Supervisor elected by the staff members of the Company. She obtained an MBA degree from Asia International Open University (Macau) in 2000. She formerly worked for Jiangsu Province Telecommunication Equipment Factory from December 1985 to August 1993 and Nabisco Food (Suzhou) Company Limited Nanjing Branch from July 1996 to July 1998. She joined the Company in August 1998 and is now the manager of the Company's customs affair department. She was firstly appointed as a Supervisor in December 1999.

INDEPENDENT SUPERVISORS

Mr. Dai Jian Jun (戴建軍), aged 35, as a Supervisor. He was educated in Jiangsu Public Security Professional School from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a Supervisor in August 2003.

Ms. Ma Lin Ping (馬林萍), aged 44, is a Supervisor. She graduated from the Correspondence School of the Communist Party of the PRC in 1998. She was qualified as an accountant in PRC in 1994. Ms. Ma was an accountant of Nanjing Shi Cheng Certified Public Accountant from November 1995 to September 1999. She was qualified as a registered tax consultant and a registered asset valuer in PRC in 1999 and 2000 respectively. Ms. Ma was the director of Nanjing Shi Cheng Tax Consultants since March 2000. She was appointed as a Supervisor in August 2003.

SENIOR MANAGEMENT

Mr. Fu Yu Qing (富煜清), aged 67, is the Company's chief technical officer. He graduated from Southeast University in August 1961 and obtained a doctorate degree in Philosophy from the University of Laval in 1984. Mr. Fu was an instructor of the Faculty of Wireless Communications of Southeast University from September 1961 to December 1979. He was an associate professor, professor, director of teaching group, director of laboratory and general engineer of the research institute of Southeast University from January 1984 to July 1998. Mr. Fu joined Sample Group in September 1998 and is currently the vice president of Sample Group. Mr. Fu joined the Company and was appointed as the chief technical officer of the Company in December 2000.

Mr. Wang Ting Song (汪廷松), aged 60, is a deputy general manager of the Company. He graduated from Shanghai Chemical College in 1969 majoring in Automatic Control. Mr. Wang was a supervisor of a workshop in a concrete plant of Hezhang county from September 1970 to February 1974. He was a technician in a printing factory of Hezhang county from March 1974 to October 1978. He joined Huadong Electronics Factory in November 1978 as an engineer, and was promoted as the standing deputy head of the TV set factory of Huadong Electronics in November 1997. Mr. Wang was the deputy general manager of Sample Computer Technology between November 1999 and December 2000 before he joined the Company in January 2001.

Ms. Hu Hui Lin (胡慧玲), aged 51, is a manager of the Company's finance department. She graduated from Shenyang Engineering University with a bachelor degree in 1998. She was qualified as a professional accountant in PRC in 1993. Ms. Hu was an accountant of Nanjing Tractor Repairing Factory (formerly known as Integrated Cold Storage Factory) from January 1973 to June 1991. Later, she become the head of finance department of Nanjing Wuzhou Refrigeration Equipment Group (formerly known as (Nanjing Freezer General Factory) from June 1991 to July 1997. Ms. Hu was the manager of the finance department of Nanjing Zhongbei Investment Consultation Company between July 1997 and June 1998 and was the manager of the finance department of Nanda Pharmaceutical Company Limited from June 1998 to January 2000. Ms. Hu was the manager of the finance department of Sample Computer Technology, the predecessor of the Company, between January 2000 and December 2000.

Ms. Chu Lai Kuen (朱麗娟), aged 37, Ms. Chu graduated from Hong Kong Polytechnic University with a bachelor's degree in Accountancy and is a fellow member of the Association of Chartered Certified Accountants. Ms. Chu has over 12 years of experience in auditing and financial management. At present, Ms. Chu is the company secretary, qualified accountant and one of the authorized representatives of the Company. She is responsible for the financial and accounting management and secretarial affairs of the Company.

During the year, the Company has conducted review on its internal governance measures against the provisions as set out in the Code on Corporate Governance Practices (the "Code"). A number of internal governance measures have been introduced to the management of the Company in order to bring up their awareness of the Code. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

Apart from the deviations as disclosed in this report, the Company has complied with all the code provisions on Corporate Governance Practice as set out in the GEM Listing Rules to establish a formal and transparent procedures to protect and maximize the interests of shareholders during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2005.

BOARD OF DIRECTORS AND BOARD MEETING

The Directors for the year are listed as follows:

Executive Directors
Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

Non-executive Directors
Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping (appointed on 19 May 2005)
Mr. Zhu De Xiang
Mr. Zhao Wen (resigned on 19 May 2005)

Independent Non-executive Directors
Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

Each of the Directors has entered into a service contract with the Company. The service contracts will expire on 31 December 2006 and shall renew for another terms of three years subject to the approval at the forthcoming annual general meeting of the Company.

During the year, the Company has not complied with the requirement to separate the roles of Chairman and chief executive officer as set out in Code provision A2.1 of the Corporate Governance Practices since the Company has not found a suitable candidate to fill up the post of chief executive officer. The Company intends to appoint Mr. Chang Yong, an executive Director and general manager of the Company, to be the chief executive officer. The appointment will be considered in the annual board meeting.

The board of Directors held a full board meeting each quarter.

The attendance of individual Directors at the board meetings held during the year is listed as follows:

	Attendance
Executive Directors	
Mr. Sha Min *(Chairman)*	4/4
Mr. Chang Yong	4/4
Mr. Guo Ya Jun	4/4
Non-executive Directors	
Mr. Zhao Jing Cheng	4/4
Mr. Zhang Yin Qian	4/4
Mr. Guo Shi Ping (appointed on 19 May 2005)	2/4
Mr. Zhu De Xiang	4/4
Mr. Zhao Wen (resigned on 19 May 2005)	2/4
Independent Non-executive Directors	
Mr. Zhang Zhan	4/4
Mr. Wang Wei	4/4
Mr. Lau Shek Yau John	2/4

Apart from the above regular board meetings held during the year, the board of Directors will meet on other occasions when a board-level decision on a particular matter is required. The Directors will receive detailed agenda for decision prior to each board meeting.

REMUNERATION COMMITTEE

In accordance with Code provision B1.1 to B1.5 of the Corporate Governance Practices, the appointment and the terms of reference of the Company's remuneration committee have been approved in the board meeting on 10 November 2005. Members of the remuneration committee, with the majority consisting of independent non-executive Directors, comprise:

Mr. Guo Ya Jun *(the Chairman of the remuneration committee)*
Mr. Zhang Zhan
Mr. Wang Wei

The role and function of the remuneration committee included the determination of the specific remuneration packages of all executive Directors, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the board of the remuneration of non-executive Directors. The remuneration committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Company and desirability of performance-based remuneration.

No meeting of the remuneration committee was held during the year. Prior to the establishment of the remuneration committee, the Chairman of the board of Directors is responsible for the review of the remuneration of the executive Directors, non-executive Directors and independent non-executive Directors and Supervisors and independent Supervisors of the Company. The Company considers that the existing terms of service contracts of the executive Directors and appointment letters of the independent non-executive Directors are fair and reasonable.

The remuneration committee plans to meet at least once a year in the coming year.

NOMINATION OF DIRECTORS

The Company's nomination committee was approved and established in the board meeting held on 10 November 2005. Members of the nomination committee comprise:

Mr. Sha Min *(the Chairman of the nomination committee)*
Mr. Zhang Zhan
Mr. Wang Wei

No meeting of the nomination committee was held during the year. Prior to the set up of the nomination committee, the board of Directors has considered the past performance, qualification, general market conditions and the Company's articles of association in selecting and recommending candidates for directorship.

During the year, the board of Directors considered and resolved that all existing Directors shall be recommended to be retained by the Company.

Under the Code provision A4.2 of the Corporate Governance Practices, every Director should be subject to retirement by rotation at least once every three years. The existing articles of association of the Company provide that no Director holding office as chairman shall be subject to retirement by rotation. Accordingly, as at the date of this report, Mr. Sha Min, being the Chairman of the Company, is not subject to retirement by rotation. In order to comply with Code provision A.4.2 of the Corporate Governance Practices, amendments will be proposed at the forthcoming annual general meeting to specify that every Director shall be subject to retirement by rotation at least once every three years.

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year, the auditors' remuneration regarding the annual audit of the Group amounted to RMB468,000.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal controls system of the Group and provide advice and comments on the Company's draft annual reports and accounts, interim reports and quarterly reports to Directors.

The audit committee comprises three independent non-executive Directors, namely Mr. Zhang Zhan (Chairman of the audit committee), Mr. Wang Wei and Mr. Lau Shek Yau John.

The audit committee held 4 meetings during the year. Details of the attendance of the audit committee meetings are as follows:

	Attendance
Members of the Audit committee	
Mr. Zhang Zhan	4/4
Mr. Wang Wei	4/4
Mr. Lau Shek Yau John	2/4

The Group's unaudited quarterly and interim results and annual audited results for the year ended 31 December 2004 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made. The audited consolidated results of the Group for the year ended 31 December 2005 have been reviewed by the audit committee.

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the reporting responsibilities of the external auditors to the shareholders are set out on page 31.

INTERNAL CONTROLS

During the year, the board convened meetings periodically to discuss financial, operational and risk management control. The board and the audit committee have conducted several reviews on its internal control system and evaluations on the effectiveness and the adequacy of the internal control measures on a regular basis.

The Board presents their annual report and audited financial statements for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

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 and (ii) customs logistics monitoring sector in the PRC.

MAJOR CUSTOMERS AND SUPPLIERS

FIVE LARGEST CUSTOMERS

Sales to the Group's five largest customers accounted for 17.8% (2004: 34.2%) of the total sales for the year and sales to the largest customer included therein amounted to 5.1% (2004: 11.7%).

To the knowledge of the Directors, none of the Directors, their associates or any management shareholders who own more than 5% of the Company's issued share capital had material interests in the Group's five largest customers.

FIVE LARGEST SUPPLIERS

Purchase from the Group's five largest suppliers accounted for 20.7% (2004: 18%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 5.7% (2004: 5%).

To the knowledge of the Directors, none of the Directors, their associates or any management shareholder who own more than 5% of the Company's issued share capital had material interests in the Group's five largest suppliers.

RESULTS AND DIVIDENDS

The results and financial position of the Group for the year ended 31 December 2005 are set out on pages 32 to 70 of the annual report.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2005.

RESERVES

Details of the movements of reserves of the Group during the year are set out in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Group's reserves available for distribution amounted to RMB43,075,000.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in the note 16 to the financial statements.

The Directors and Supervisors for the year and up to the date of this report are as follows:

Executive Directors
Mr. Sha Min *(Chairman)*
Mr. Chang Yong
Mr. Guo Ya Jun

Non-executive Directors
Mr. Zhao Jing Cheng
Mr. Zhang Yin Qian
Mr. Guo Shi Ping (appointed on 19 May 2005)
Mr. Zhu De Xiang
Mr. Zhao Wen (resigned on 19 May 2005)

Independent Non-executive Directors
Mr. Zhang Zhan
Mr. Wang Wei
Mr. Lau Shek Yau John

Supervisors
Mr. Tian Tao
Mr. Sun Huai Dong
Ms. Du Jin
Mr. Dai Jian Jun
Ms. Ma Lin Ping

DIRECTORS AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts will expire on 31 December 2006 and shall renew for another term of three years subject to the approval at the annual general meeting of the Company.

Save as the disclosed above, no Directors and Supervisors for re-election at the forthcoming annual general meeting has a service contract with the Company's subsidiaries which is not terminable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

Details of Directors' remuneration and the highest paid individuals are set out in the note 12 and 13 to the financial statements.

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 31 December 2005, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and 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 should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are 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 otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.47 of the GEM Listing Rules.

Long positions in 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.

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2005, the following shareholders (other than the Directors, Supervisors 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 Divisions 2 and 3 of Part XV of the SFO.

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the 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 31 December 2005, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2005, 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 conditionally approved a share option scheme ("Share Option Scheme") on 24 April 2004. The principal terms and conditions of the share option scheme are set out in the section "Summary of the terms of Share Option Scheme" in Appendix VII of the Prospectus. As at 31 December 2005, 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 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.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the independent non-executive Directors an annual confirmation of his independence. The Company considered all the independent non-executive Directors are independent.

COMPLIANCE ADVISER'S INTEREST

As at 31 December 2005, according to the notification of the compliance adviser of the Company, Core Pacific - Yamaichi Capital Limited ("CPY Capital"), none of CPY Capital, 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 Capital on 2 June 2004, CPY Capital 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 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 audited results of the Group for the period under review and has provided advice and comments thereon.

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2005, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2005, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or a Supervisor had a direct and indirect material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

During the year, there was no transaction which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

CORPORATE GOVERNANCE PRACTICES

For the year ended 31 December 2005, the Company has not fully complied with the code provisions as set out in Appendix 15 of the GEM Listing Rules. Major deviations as summarized as follows:

The Code of Corporate Governance	Reason for deviation
A2.1 Chairman and Chief executive	The Company intends to appoint Mr. Chang Yong, an executive director and general manager of the Company, to be the chief executive of the Company, and the appointment will be considered in the annual board meeting.
B1.1–B1.5 Remuneration Committee	The appointment and its terms of reference of the Company's Remuneration Committee have already been approved in board meeting on 10 November 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

On behalf of the Board
Sha Min
Chairman

Nanjing, the PRC
23 March 2006

Report of the Supervisory Committee

To the shareholders,

For the year ended 31 December 2005, the supervisory committee of Nanjing Sample Technology Company Limited, in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company, took an active role to work reasonably and cautiously with the principle of good faith and due diligence to protect the interest of the Company's shareholders.

During the year under review, the supervisory committee conducted careful review on the use of proceeds from placing in strict accordance with the plans of the use of proceeds disclosed in the Prospectus. It provided reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It also strictly and effectively supervised the Company's management in formulating significant policies and making decisions to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of the shareholders.

The supervisory committee have carefully reviewed the Company's financial report, audited by Deloitte Touche Tohmatsu, to be proposed by the Board and agreed that it truly and fully reflect the operating results and asset position of the Company. The supervisory committee have also reviewed the report of the directors and the dividend payment proposal. The supervisory committee are of the opinion that the members of the Board, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager, and senior management had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees, or in violation of any laws and regulations and the articles of association of the Company.

The supervisory committee is in recognition of the achievement and cost-effectiveness of the Company and has great confidence in the future development prospect of the Company.

On behalf of the Supervisory Committee
Tian Tao
Chairman

Nanjing, the PRC
23 March 2006

TO THE MEMBERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED
(established and reorganized into a joint stock limited company in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Sample Technology Company Limited (the "Company") and its subsidiaries (the "Group") from pages 32 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of consolidated financial statements which give a true and fair view. In preparing consolidated financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those consolidated financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the consolidated financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the consolidated financial statements, and of whether the accounting policies are appropriate to the circumstances of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the consolidated financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
23 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
Revenue	7	**88,314**	77,439
Cost of sales		**(47,984)**	(45,680)
Gross profit		**40,330**	31,759
Other income		**10,052**	9,020
Distribution costs		**(7,603)**	(7,094)
Administrative expenses		**(15,207)**	(11,862)
Finance costs	9	**(2,516)**	(1,207)
Profit before tax		**25,056**	20,616
Income tax expense	10	**(3,872)**	(2,643)
Profit for the year	11	**21,184**	17,973
Attributable to:			
Equity holders of the parent		**21,102**	18,005
Minority interests		**82**	(32)
		21,184	17,973
Earnings per share			
— Basic (RMB cents)	15	**32.72**	32.20

Consolidated Balance Sheet

At 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	16	**60,892**	58,028
Prepaid lease payments	17	**7,019**	7,169
Goodwill	18	**271**	271
Other intangible assets	19	**—**	—
Deferred tax assets	30	**1,136**	843
		69,318	66,311
Current assets			
Inventories	21	**2,493**	1,762
Amount due from a related party	34	**—**	841
Trade and other receivables	22	**33,499**	33,878
Prepaid lease payments	17	**150**	150
Amounts due from customers for contract work	23	**26,601**	6,267
Taxation recoverable		**—**	129
Restricted bank deposits		**1,207**	1,952
Bank balances and cash		**140,265**	139,780
		204,215	184,759
Current liabilities			
Trade and other payables	24	**27,679**	26,336
Construction cost payables		**13,212**	8,553
Tax liabilities		**2,162**	1,435
Short-term bank loans	25	**36,000**	30,000
Long-term bank loans due within one year	26	**10,000**	5,000
		89,053	71,324
Net current assets		**115,162**	113,435
		184,480	179,746
Non-current liabilities			
Long-term bank loans	26	**—**	10,000
		184,480	169,746

Consolidated Balance Sheet

At 31 December 2005

	Notes	**2005** **RMB'000**	2004 RMB'000 (Restated)
Capital and reserves			
Share capital	27	**64,500**	64,500
Reserves		**115,123**	100,471
Equity attributable to equity holders of the parent		**179,623**	164,971
Minority interests		**4,857**	4,775
Total equity		**184,480**	169,746

The financial statements on pages 32 to 70 were approved and authorised for issue by the Board of Directors on 23 March 2006 and are signed on its behalf by:

Sha Min
DIRECTOR

Guo Ya Jun
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the parent							
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare fund	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2004	45,000	—	3,904	1,952	23,969	74,825	4,807	79,632
Profit for the year	—	—	—	—	18,005	18,005	(32)	17,973
Issue of overseas listed foreign invested share ("H share") of RMB1.0 each upon listing on the Growth Enterprise Market on 9 June 2004	20,400	—	—	—	—	20,400	—	20,400
Conversion of certain state-owned domestic shares to H shares	(900)	—	—	—	—	(900)	—	(900)
Premium arising on issue of H shares	—	66,280	—	—	—	66,280	—	66,280
Transaction costs attributable to issue of new shares	—	(13,639)	—	—	—	(13,639)	—	(13,639)
Transfers	—	—	2,106	1,053	(3,159)	—	—	—
At 31 December 2004	64,500	52,641	6,010	3,005	38,815	164,971	4,775	169,746
Profit for the year	—	—	—	—	21,102	21,102	82	21,184
Transfer	—	—	1,903	951	(2,854)	—	—	—
Dividends paid	—	—	—	—	(6,450)	(6,450)	—	(6,450)
At 31 December 2005	64,500	52,641	7,913	3,956	50,613	179,623	4,857	184,480

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
OPERATING ACTIVITIES		
Profit before tax	**25,056**	20,616
Adjustments for:		
Finance costs	**2,516**	1,207
Interest income	**(1,157)**	(1,969)
Depreciation of property, plant and equipment	**5,195**	1,973
Operating lease rentals in respect of land use rights	**150**	151
Amortisation of goodwill	**—**	135
Amortisation of other intangible assets	**—**	1,633
(Gains) loss on disposal of property, plant and equipment	**(4)**	2
Allowance for inventories	**783**	170
Operating cash flows before movements in working capital	**32,539**	23,918
Increase in inventories	**(1,514)**	(366)
Increase in amounts due from customers for contract work	**(20,334)**	(3,638)
(Increase) decrease in trade and other receivables	**(545)**	7,339
Increase in trade and other payables	**1,343**	12,123
Cash generated from operations	**11,489**	39,376
PRC enterprise income tax paid	**(3,309)**	(2,371)
NET CASH FROM OPERATING ACTIVITIES	**8,180**	37,005
INVESTING ACTIVITIES		
Interest received	**2,922**	204
Proceeds on disposal of property, plant and equipment	**6**	10
Purchase of property, plant and equipment	**(5,971)**	(36,266)
Refund from contractors on adjustments on cost of property, plant and equipment	**2,569**	—
Decrease (increase) in restricted bank deposits	**745**	(747)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**271**	(36,799)

For the year ended 31 December 2005

	2005 *RMB'000*	2004 *RMB'000* *(Restated)*
FINANCING ACTIVITIES		
Dividends paid	**(6,450)**	—
Interest paid	**(2,516)**	(1,941)
Repayment of bank loans	**(35,000)**	(35,000)
New bank loans raised	**36,000**	40,000
New capital raised on issue of H shares, net of expenses	**—**	72,141
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(7,966)**	75,200
NET INCREASE IN CASH AND CASH EQUIVALENTS	**485**	75,406
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**139,780**	64,374
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**140,265**	139,780

1. GENERAL

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

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

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented.

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated, details of which are set out in note 3.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Financial instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods.

Owner-occupied leasehold interest in land

In previous years, leasehold land was included in property, plant and equipment and amortised to write off its cost, over the period of the right using the straight line method commencing from the date of acquisition of the certificate of land use rights. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively, details of which are set out in note 3. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 above on the results for the current and prior year are as follows:

	2005 ***RMB'000***	2004 *RMB'000*
THE GROUP		
Non-amortisation of goodwill	**135**	—
Increase in profit for the year	**135**	—

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) RMB'000	Adjustments RMB'000	As at 31 December 2004 (restated) RMB'000	Adjustment RMB'000	**As at 1 January 2005 (restated) RMB'000**
Balance sheet items					
THE GROUP					
Impact of HKAS 17					
Property, plant and equipment	65,347	(7,319)	58,028	—	**58,028**
Prepaid lease payments	—	7,319	7,319	—	**7,319**
Total effects on assets	65,347	—	65,347	—	**65,347**

The Group has not early applied the following new standards that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease[2]
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment[3]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on acquisitions prior to 1 January 2005

Goodwill arising on an acquisition of a subsidiary for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary at the date of acquisition.

For previously capitalised goodwill arising on acquisitions after 1 January 2001, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet.

The Group has no goodwill arising on acquisitions on or after 1 January 2005.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair of consideration received or receivable.

When the outcome of a contract for the installation of network systems can be estimated reliably, revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion that costs incurred to date bear to estimated total costs for each contract. When the outcome of a contract cannot be estimated reliably, revenue is recognised to the extent of contract costs incurred that it is probable that they are recoverable.

Sales of goods are recognised when goods are delivered and title has passed while service income is recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the deposits to their net carrying amounts.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment

Construction in progress is stated at cost which includes all construction costs, borrowing costs capitalised in accordance with the Group's accounting policy and other direct costs attributable to such projects. It is not depreciated until completion of construction. Costs of completed construction works are transferred to the appropriate category of property, plant and equipment.

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method. The expected useful lives of the assets are as follows:

Buildings	30 years
Furniture, fixtures and equipment	5–10 years
Motor vehicles	5 years
Leasehold improvements	5–10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

Leasehold land

When the leasehold land are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term.

Installation contracts

When the outcome of a contract for the installation of network systems can be estimated reliably, contract costs are charged to the income statement with reference to the stage of completion of the contract activity at the balance sheet date as measured by reference to the proportion that costs incurred to date bear to estimated costs for each contract.

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the income statement and are deducted in reporting the related expense. Where the government grant exceed the expenses incurred and there is no further obligation attached to the government grant, the excess of the government grant over the related expense is recognised as "other income" immediately.

Retirement benefit cost

Retirement benefit cost, which represents the amount payable in accordance with the regulation promulgated by the local PRC government, is charged to the income statement as incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

On initial recognition, intangible assets acquired separately is recognised at cost. After initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost loss subsequent accumulated amortisation and any accumulated impartment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit and loss in the period in which it is incurred.

Impairment

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policies in respect of impairment losses for tangible and intangible assets below).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognized on the balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

(a) ***Financial assets***

The Group's financial assets are included one category, loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, and amounts due from customers for contract work are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

(b) *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank loans, trade and other payables, construction cost payables are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Impairment losses for tangible and intangible assets (other than goodwill)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

5. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following judgments and estimates that have the most significant effect on the amounts recognised in the financial statements.

Inventories

Note 4 describes that inventories are stated at the lower of cost and net realisable value. Net realisation value is the estimated selling price in the ordinary course of business, less the estimated costs of selling expenses.

The management exercise their judgement in estimating the net realisable value of inventories.

Loans and receivables

Note 4 describes that loans and receivables are carried at amortised cost using the effective interest method, less any impairment losses. Appropriate allowances for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

The management exercise their judgement in estimating the amount of impairment loss on loans and receivables.

Depreciation

Note 4 describes that depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using straight line method.

The management exercises their judgement in estimating the useful lives of the depreciable assets.

Goodwill

Note 4 describes that capitalised goodwill arising on acquisitions after 1 January 2001 discontinued amortisation from 1 January 2005 onwards, and is tested for impairment annually.

The management exercises their judgement in estimating the growth rate and the gross margin of the subsidiary.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank loans, trade and other receivables, prepayment to suppliers, amounts due from customers for contract works, trade and other payables, construction cost payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Interest rate risk

Interest bearing financial assets are mainly bank balances which are all short-term in nature. Interest bearing financial liabilities are mainly short-term bank loans with fixed interest rates. Therefore, any future variations in interest rates will not have a significant impact on the results of the Group.

Credit risk

The Group's credit risk primarily relates to the Group's trade and other receivables, amounts due from customers for contract works. In order to minimise the risk, the management of the Group closely monitors overdue debts. The recoverable amount of each individual debt is reviewed at each balance sheet date and adequate impairment for doubtful debts have been made for irrecoverable amounts. In this regard, the directors of the Group consider that credit risk associated with the Group's trade receivables and amounts due from customers for contract works is significantly reduced.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet.

Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group carries out majority of its transactions in RMB and accordingly, the Group is not exposed to any significant foreign currency risk.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

7. REVENUE

An analysis of the Group's revenue for the year is summarised as follows:

	2005 RMB'000	2004 RMB'000
Provision of video security system solutions	**87,154**	78,237
Sales of related computer products	**1,655**	—
	88,809	78,237
Less: Business tax and other related taxes	**(495)**	(798)
	88,314	77,439

8. BUSINESS AND GEOGRAPHICAL SEGMENTS

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.

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank borrowings wholly repayable within five years	**2,516**	1,941
Less: Amounts capitalised	**—**	(734)
	2,516	1,207

10. INCOME TAX EXPENSE

	2005 *RMB'000*	2004 *RMB'000*
The charge comprises:		
PRC income tax	**4,165**	2,716
Deferred taxation credit (note 30)	**(293)**	(73)
	3,872	2,643

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 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 (the "Tax Relief"). This subsidiary is entitled to the 50% relief in 2004 and 2005 respectively.

The tax charge for the year can be reconciled to the profit per the income statement as follows:

	2005 *RMB'000*	 %	2004 *RMB'000*	 %
Profit before tax	**25,056**		20,616	
Tax at the domestic income tax rate of 15%	**3,758**	**15.0**	3,092	15.0
Tax effect of expenses not deductible for tax purpose	**535**	**2.1**	662	3.2
Tax effect of income not taxable for tax purpose	**(480)**	**(1.9)**	(1,125)	(5.5)
Effect of the different tax rates of subsidiaries	**59**	**0.2**	14	0.1
Tax charge and effective tax rate for the year	**3,872**	**15.4**	2,643	12.8

11. PROFIT FOR THE YEAR

	2005 *RMB'000*	2004 *RMB'000*
Profit for the year has been arrived at after charging:		
Auditors' remuneration	**520**	400
Staff costs including directors' emoluments	**7,854**	7,679
Retirement benefits scheme contributions	**344**	254
	8,198	7,933
Less: Staff costs included in research and development costs	**(1,827)**	(2,283)
	6,371	5,650
Research and development costs	**4,373**	6,324
Less: Government grants received	**(1,259)**	(4,262)
	3,114	2,062
Depreciation of property, plant and equipment	**5,195**	1,973
Amortisation of goodwill (included in administrative expenses)	**—**	135
Amortisation of other intangible assets (included in administrative expenses)	**—**	1,633
Total depreciation and amortisation	**5,195**	3,741
Loss on disposal of property, plant and equipment	**—**	2
Allowance for inventories	**783**	170
Cost of inventories recognised as expenses	**35,696**	37,440
Operating lease rentals in respect of buildings	**155**	604
Operating lease rentals in respect of land use rights	**150**	151
and after crediting:		
Government grants	**300**	—
Interest income	**1,157**	1,969
PRC value added tax refunded	**2,902**	4,656
Gain on disposal of property, plant and equipment	**4**	—

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to the Company's Directors were as follows:

	2005				2004			
	Fees	Other emoluments		Total	Fees	Other emoluments		Total
		Salaries and other benefits	Contributions to retirement benefits/ pension schemes			Salaries and other benefits	Contributions to retirement benefits/ pension schemes	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors								
Mr. Sha Min	**17**	**141**	**7**	**165**	10	141	7	158
Mr. Chang Yong	**17**	**128**	**7**	**152**	10	128	7	145
Mr. Guo Ya Jun	**17**	**114**	**7**	**138**	10	110	7	127
Sub-total	**51**	**383**	**21**	**455**	30	379	21	430
Non-executive directors								
Mr. Zhao Jing Chen	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Zhang Yin Qian	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Guo Shi Ping	**10**	**—**	**—**	**10**	—	—	—	—
Mr. Zhu De Xiang	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Zhao Wen	**—**	**—**	**—**	**—**	10	—	—	10
Sub-total	**40**	**—**	**—**	**40**	40	—	—	40
Independent non-executive directors								
Mr. Zhang Zhan	**20**	**—**	**—**	**20**	10	—	—	10
Mr. Wang Wei	**10**	**—**	**—**	**10**	20	—	—	20
Mr. Lau Shek Yau, John	**62**	**—**	**—**	**62**	64	—	—	64
Sub-total	**92**	**—**	**—**	**92**	94	—	—	94
Total	**183**	**383**	**21**	**587**	164	379	21	564

During the year, Mr Zhao Wen resigned and Mr. Guo Shi Ping was appointed as non-executive director of the Company.

In the year ended 31 December 2005, three directors waived emoluments of RMB149,000.

The emoluments of each of the Directors for both years were below HK$1,000,000 (equivalent to RMB1,040,000).

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two (2004: two) individuals were as follows:

	2005	2004
	RMB'000	*RMB'000*
Salaries and other benefits	**210**	206
Contributions to retirement benefits scheme	**—**	5
	210	211

Their emoluments were within the following bands:

	2005	2004
	No. of employees	*No. of employees*
Nit to HK$1,000,000 (Nil to RMB 1,040,000)	**2**	2

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors, supervisors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

	2005	2004
	RMB'000	*RMB'000*
Ordinary Shares: Final, proposed — Nil per share (2004: RMB0.10)	—	6,450

No final dividend for the year ended 31 December 2005 (2004: RMB0.10 per share) has been proposed by the directors.

15. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year attributable to the equity holders of the parent of RMB21,102,000 (2004: RMB18,005,000) and 64,500,000 (2004: 55,922,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential ordinary shares outstanding for the two years ended 31 December 2005.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings *RMB'000*	Furniture, fixtures and equipment *RMB'000*	Motor vehicles *RMB'000*	Leasehold improvements *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
THE GROUP						
COST						
At 1 January 2004	8,620	2,699	2,251	—	11,484	25,054
Prior year adjustment (note 3)	—	—	—	—	(7,470)	(7,470)
As restated	8,620	2,699	2,251	—	4,014	17,584
Additions	—	542	520	—	44,491	45,553
Transfers	12,351	13,284	—	16,109	(41,744)	—
Disposals	—	—	(119)	—	—	(119)
At 31 December 2004	20,971	16,525	2,652	16,109	6,761	63,018
Adjustments (below note a)	—	(1,601)	—	(968)	—	(2,569)
Additions	—	150	—	—	10,480	10,630
Transfers	6,538	58	1,370	—	(7,966)	—
Disposals	—	(3)	(89)	—	—	(92)
At 31 December 2005	27,509	15,129	3,933	15,141	9,275	70,987
DEPRECIATION AND AMORTISATION						
At 1 January 2004	50	1,692	1,382	—	—	3,124
Provided for the year	199	793	291	690	—	1,973
Eliminated on disposals	—	—	(107)	—	—	(107)
At 31 December 2004	249	2,485	1,566	690	—	4,990
Adjustments (below note a)	—	(40)	—	(48)	—	(88)
Provided for the year	806	2,099	364	2,014	—	5,283
Eliminated on disposals	—	(2)	(88)	—	—	(90)
At 31 December 2005	1,055	4,542	1,842	2,656	—	10,095
NET BOOK VALUES						
At 31 December 2005	26,454	10,587	2,091	12,485	9,275	60,892
At 31 December 2004	20,722	14,040	1,086	15,419	6,761	58,028

Note:

(a) During the year, through negotiation with the contractors, the Group was able to reduce the contracted price of certain renovation works undertaken on the Group's principal place of business. Accordingly such price reduction was refunded to the Group and was recorded as adjustments in the current year.

(b) The Group's buildings are situated in the PRC and held under medium-term land use rights.

(c) At 31 December 2005, government grants of Nil (2004: RMB600,000) has been deducted from the cost of buildings. Also, included in cost of buildings is net interest capitalised of Nil (2004: RMB734,000).

17. PREPAID LEASE PAYMENTS

Prepaid lease payments comprise:

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Leasehold land in the PRC:		
Medium-term lease	**7,169**	7,319
Analysed for reporting purposes as:		
Current asset	**150**	150
Non-current asset	**7,019**	7,169
	7,169	7,319

18. GOODWILL

	RMB'000
THE GROUP	
COST	
At 1 January 2004 and 31 December 2004	676
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 3)	(405)
At 31 December 2005	271
AMORTISATION	
At 1 January 2004	270
Amortised for the year	135
At 31 December 2004	405
Elimination of accumulated amortisation upon the application of HKFRS 3 (see note 3)	(405)
At 31 December 2005	—
CARRYING VALUE	
At 31 December 2005	271
At 31 December 2004	271

Prior to 1 January 2005, goodwill was amortised over its estimated useful life of five years. No amortisation was made on goodwill from 1 January 2005 in accordance with the Group's accounting policies as set out in note 4.

18. GOODWILL (CONTINUED)

Impairment testing on goodwill

As explained in note 8, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out above has been allocated to an individual cash generating unit ("CGU"), including a subsidiary engaged in provision of video security system solutions ("Unit S")

During the year ended 31 December 2005, management of the Group determines that there are no impairments of the CGU containing goodwill.

The basis of the recoverable amount of the above CGU and its major underlying assumptions are summarised below:

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 6%. Unit S's cash flows beyond the 5-year period are extrapolated using a steady 5% growth rate. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit S to exceed the aggregate recoverable amount of Unit S.

19. OTHER INTANGIBLE ASSETS

	RMB'000
THE GROUP	
Technical know-how	
COST	
At 1 January 2004, 31 December 2004 and 31 December 2005	8,000
AMORTISATION	
At 1 January 2004	6,367
Amortised for the year	1,633
At 31 December 2004	8,000
Amortised for the year	—
At 31 December 2005	8,000
CARRYING VALUE	
At 31 December 2005	—
At 31 December 2004	—

20. SUBSIDIARIES

Details of the Company's subsidiaries, both of which are established and operated as limited liability companies in the PRC, directly held by the Company and engaged in the provision of video security system solutions, at 31 December 2005 are as follows:

Name of subsidiary	Date of establishment	Fully paid registered capital	Proportion of nominal value of registered capital
南京三寶信息系統工程有限公司 (Nanjing Sample Information System Engineering Company Limited)	11 March 2000	RMB22,000,000	80%
南京金龍軟件有限公司 (Nanjing Golden Dragon Software Company Limited)	7 November 2001	RMB6,000,000	95%

21. INVENTORIES

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Computer hardware products, equipment and software products	**2,493**	1,762

22. TRADE AND OTHER RECEIVABLES

	2005 RMB'000	2004 RMB'000
THE GROUP		
Trade receivables from third parties	**27,488**	29,765
Trade receivables from a related party (note 34(b))	**600**	—
Other receivables	**3,358**	3,817
Prepayments to suppliers	**2,669**	912
	34,115	34,494
Less: accumulated impairments	**(616)**	(616)
	33,499	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 net of impairment losses of RMB426,000 (2004: RMB426,000) at the reporting date:

	2005 RMB'000	2004 RMB'000
THE GROUP		
Aged:		
0–90 days	**14,882**	22,200
91–180 days	**3,339**	6,708
181–365 days	**8,610**	431
1–2 years	**831**	—
	27,662	29,339

The fair value of the Group's trade and other receivables at the balance sheet date, determined based on the present value of the estimated cash flows discounted at the prevailing market rate at the balance sheet date, approximates to their corresponding carrying amounts.

23. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2005 *RMB'000*	2004 *RMB'000*
THE GROUP		
Contract costs incurred to date	**96,520**	59,352
Recognised profits less recognised losses	**58,753**	26,916
	155,273	86,268
Less: Progress billings	**(128,672)**	(80,001)
	26,601	6,267

At 31 December 2005, included in amounts due from customers for contract work was RMB212,000 (2004: nil) in relation to Nanjing Wuzhou Refrigeration Co., Ltd. ("Nanjing Wuzhou"), a related company as explained in note 34.

24. TRADE AND OTHER PAYABLES

	2005 *RMB'000*	2004 *RMB'000*
THE GROUP		
Trade payables	**17,720**	17,104
Other payables	**9,959**	9,232
	27,679	26,336

24. TRADE AND OTHER PAYABLES (CONTINUED)

The following is an aged analysis of trade payables at the balances sheet date:

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Aged:		
0–30 days	**5,701**	8,766
31–60 days	**2,132**	2,379
61–90 days	**2,870**	1,551
Over 90 days	**7,017**	4,408
	17,720	17,104

The fair value of the Group's trade and other payables at 31 December 2005 approximates to their corresponding carrying amounts.

25. SHORT-TERM BANK LOANS

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Unsecured bank loans	**36,000**	30,000

The bank loans are unsecured and repayable within one year with interest charged at 5.31%–5.58% per annum. The fair value of the above bank loans estimated by discounting their future cash flows at the prevailing market borrowing rates at 31 December 2005 approximates to the corresponding carrying amount.

26. LONG-TERM BANK LOANS

The bank loans carry interest at the prevailing market rates and are repayable as follows:

	2005 *RMB'000*	2004 *RMB'000*
THE GROUP		
Within one year	**10,000**	5,000
Between one to two years	**—**	10,000
	10,000	15,000
Less: Amount due within one year shown under current liabilities	**(10,000)**	(5,000)
Amount due after one year	**—**	10,000

The bank loans of RMB10,000,000 are repayable in June 2006 (2004: RMB10,000,000 repayable in June 2006 and RMB5,000,000 repayable in October 2005), are unsecured, carry interest at 5.49% per annum. The fair value of the above bank loans estimated by discounting their future cash flows at the prevailing market borrowing rates at 31 December 2005 approximates to the corresponding carrying amount.

27. SHARE CAPITAL

	Number of shares			Amount		
	Domestic shares	H shares	Total	Domestic shares	H shares	Total
				RMB'000	*RMB'000*	*RMB'000*
Registered, issued and fully paid, with par value of RMB1.0 each:						
At 1 January 2004	45,000,000	—	45,000,000	45,000	—	45,000
Issue of new H shares upon listing on the GEM on 9 June 2004	—	19,500,000	19,500,000	—	19,500	19,500
Conversion of certain state-owned domestic shares to H shares	(900,000)	900,000	—	(900)	900	—
At 31 December 2004 and 31 December 2005	44,100,000	20,400,000	64,500,000	44,100	20,400	64,500

Domestic shares and H shares are both ordinary shares in the share capital of the Company. However, H shares may only be subscribed for by, and traded in Hong Kong dollars between legal or natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC. Domestic shares, on the other hand, may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong , Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

28. SHARE BASED PAYMENT TRANSACTIONS

Pursuant to the Company's share option scheme approved by a resolution of the shareholders of the Company dated 24 April 2004 (the "Share Option Scheme") , the Company may grant options to any full-time employees, directors (including non-executive directors and independent non-executive directors) and part-time employees with weekly working hours of 10 hours and above of the Group and any advisor (professional or otherwise) or professional consultant, distributors, suppliers, agents, customers, joint venture partners, service providers which, in the opinion of the Company's board of directors (the "Board"), has or had made contribution to the Group the option to subscribe for the H shares in the Company for a consideration of HK$1 for each lot of share options granted.

The Share Option Scheme will remain valid for a period of ten years commencing on 24 April 2004. Option granted are exercisable at any time during a period to be notified by the Board to each grantee provided that the period within which the option must be exercised from the date of grant of the option to not more than ten years from the date of grant of the option.

The subscription price for H shares under the Share Option Scheme will not be less than the higher of (i) the closing price of the H shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the H shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a H share.

However, for the participants who are PRC nationals or enterprises established in the PRC and have taken up any options to subscribe for H shares, they shall not be entitled to exercise the options until:

(i) The current restrictions imposed by the relevant PRC laws and regulations restricting PRC nationals or enterprises established in the PRC from subscribing for and dealing in H shares or any laws and regulations with similar effects have been abolished or diminished; and

(ii) The China Securities Regulatory Commission or other relevant government authorities in the PRC have approved the issue of new H shares upon the exercise of any options which may be granted under the Share Option Scheme.

No options have been granted by the Company under the Share Option Scheme since its adoption.

29. RESERVES

As stipulated by the relevant laws and regulations in the PRC, the Company and its subsidiaries are required to set aside 10% of its profit after taxation for the statutory surplus reserve (except where the reserve has reached 50% of the entity's registered capital) and 5% to 10% of its profit after taxation for the statutory welfare fund.

According to the Articles of Association of the Company and its subsidiaries, statutory surplus reserve can be used to (i) make up prior year losses; (ii) convert into capital, provided such conversion is approved by a resolution at a shareholders' meeting and the balance of the statutory surplus reserve does not fall below 25% of registered capital of the Company or its subsidiaries; or (iii) expand production operation.

The statutory welfare fund, which is to be used for the welfare of the staff and workers of the Company, is of a capital nature.

In accordance with the Company's Articles of Association, the profit after taxation for the purpose of appropriation will be deemed to be the lesser of the amounts determined in accordance with (i) PRC accounting standards and regulations and (ii) either International Financial Reporting Standards or overseas accounting standards of the place in which the Company's shares are listed.

30. DEFERRED TAX ASSETS

The followings are the major deferred tax assets recognised by the Group and movements thereon during the year:

	Amortisation of technical know-how	Pre-operating expenses	Impairment loss on trade and other receivables	Impairment loss on inventories	Accrued expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
THE GROUP						
At 1 January 2004	555	54	93	68	—	770
Credit (charge) to income for the year	58	(10)	—	25	—	73
At 31 December 2004	613	44	93	93	—	843
Credit (charge) to income for the year	(120)	(35)	—	117	331	293
At 31 December 2005	493	9	93	210	331	1,136

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Within one year	**16**	85

32. CAPITAL COMMITMENTS

	2005	2004
	RMB'000	*RMB'000*
THE GROUP		
Capital expenditure contracted for but not provided in the financial statements in respect of the acquisition of property, plant and equipment	**—**	7,590

33. RETIREMENT BENEFITS SCHEME

The employees of the Group are members of the state-managed retirement benefits scheme operated by the PRC government. The Group is required to contribute a certain percentage of its payroll to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contributions under the scheme.

The total cost charged to income of RMB344,000 (2004: RMB254,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. All the contributions had been paid over to the scheme as at 31 December 2005.

34. RELATED PARTY TRANSACTIONS

a) During the year, the Group has the following significant transactions with related companies:

Name of related companies	Nature of transactions	**2005** *RMB'000*	2004 *RMB'000*
THE GROUP			
Shareholder:			
Nanjing Sample Technology Group Company Limited ("Sample Group")	Interest income received, net of 5% PRC business tax (note i)	**—**	799
A company with a common director:			
Nanjing Wuzhou	Provision of video security system solutions (note ii)	**1,155**	—

Notes:

i. Interest income is calculated with reference to the principal outstanding and at the prevailing market rate.

ii. The transaction was carried out on terms mutually agreed between the Group and the related company.

b) At the balance sheet, the Group has trade receivable from a related party as follows:

	2005 *RMB'000*	2004 *RMB'000*
Nanjing Wuzhou	**600**	—

The amount is unsecured, interest free and repayable within one year.

c) Amount due from a related party

	2005 *RMB'000*	2004 *RMB'000*
Sample Group	**—**	841

At 31 December 2004, the amount represented interest receivable from Sample Group arising on a current account with Sample Group. The current account bore interest at 5.22% per annum and was fully settled in 2004.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

d) The Company and Sample Group entered into a licence agreement on 1 January 2001 pursuant to which Sample Group agreed to grant a licence to the Company for the use of the trademarks “ ” and “神保” at nil consideration with effect from 1 January 2001. Pursuant to a supplemental agreement to the licence agreement dated 2 April 2004 (“Supplemental Agreement”), Sample Group irrevocably agreed to grant a licence to the Company for (i) the use of the trademark “ ”; and (ii) the exclusive use of the trademark “神保” in connection with the services included in class 42, which includes computer rental, computer programming, computer software design, updating of computer software, rental of computer software, consultancy in the field of computer hardware, leasing access time to computer database, at nil consideration. The licence period for (i) commences retrospectively on 1 January 2001 until 31 July 2008 whilst the licence period for (ii) commences retrospectively on 1 January 2001 until the earlier of (a) 31 July 2008; and (b) the date when the necessary procedures for the transfer of the trademark have been completed pursuant to the exercise of the option under the trademark option agreement dated 1 August 2003. Under the Supplemental Agreement, Sample Group retains the right to use the trademark “ ” in connection with services included in class 42 and the Company was granted a pre-emptive right to acquire the trademarks “ ” and “神保” should Sample Group intend to transfer the same to third parties under the same terms and conditions after the expiry of the Supplementary Agreement.

In addition, the Company and Sample Group entered into a trademark option agreement dated 1 August 2003 pursuant to which an option was granted to the Company by Sample Group exercisable from the date of the trademark option agreement to 31 July 2008 (“Option Period”). During the Option Period, the Company may, by written notice, request Sample Group to transfer the trademark “神保” to the Company at nil consideration.

e) At the balance sheet date, certain of the Group’s short-term bank loans are secured by guarantees given by related companies:

	THE GROUP	
	2005	2004
	RMB’000	*RMB’000*
Guarantees given by Sample Group	**36,000**	20,000

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Annual General Meeting") of Nanjing Sample Technology Company Limited* (the "Company") will be held at Conference Room 1304, 1 Huangzhuang Road, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC on Thursday, 18 May, 2006 at 9:00 a.m. for the following purposes:

I. To consider and, if thought fit, pass the following ordinary resolutions:

(1) To consider and approve the report of the directors of the Company for 2005;

(2) To consider and approve the report of the supervisory committee of the Company for 2005;

(3) To consider and approve the audited financial statements of the Company for 2005;

(4) To consider and approve the proposal for re-appointment of Deloitte Touche Tohmatsu CPA Ltd. as the Company's auditors for the year ending 2006 and authorization of the Board to determine their remuneration;

II. To consider and, if thought fit, pass with or without amendment, the special resolutions in respect of the general mandate to issue additional new shares by the Board:

"**That**:

(a) conditional on paragraphs (c), (d) and (e) below, the exercise by the Board of the Company during the Relevant Period (as defined in paragraph (f)) of all powers of the Company to severally or jointly allot, issue and deal with the domestic shares in the capital of the Company and/or the overseas-listed foreign shares (H shares) in the capital of the Company be and is hereby generally and unconditionally approved;

(b) the approval in paragraph (a) above shall authorize the Board to make or grant offers, agreements or options during the Relevant Period which would or might require the allotment and issue of domestic shares and/H shares during or after the end of the Relevant Period;

(c) the aggregate nominal amount of the domestic shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approvals in paragraphs (a) and (b) above, shall not exceed 20% of the aggregate nominal amount of the domestic shares in issue as at the date of the passing of this resolution;

(d) the aggregate nominal amount of the H shares allotted and issued or agreed to be allotted and issued (whether pursuant to an option or otherwise) by the Board pursuant to the approvals in paragraphs (a) and (b) above, shall not exceed 20% of the aggregate nominal amount of the H shares in issue as at the date of the passing of this resolution;

(e) the approval in paragraph (a) above shall be exercised pursuant to the Company Law of the PRC and shall be subject to the approval of China Securities Regulatory Commission and/or other relevant authorities of the PRC and/or Growth Enterprise Market of the Stock Exchange of Hong Kong Limited;

(f) for the purpose of this special resolution:

"Relevant Period" means the period from the date of this special resolution until whichever is the earliest of:

I. the conclusion of the next annual general meeting of the Company after the passing of this resolution;

II. the expiration of the twelve-month period after the passing of this special resolution;

III. the date on which the authority sets out in this resolution is revoked or varied by the members of the Company by a special resolution in general meeting.

By Order of the Board
Nanjing Sample Technology Company Limited*
Sha Min
Chairman

Nanjing, the PRC
23 March 2006

* *for identification purpose only*