



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

FIRST QUARTERLY REPORT | 2006

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

** For identification purpose only*

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Financial Highlights

The revenue of the Group for the three months ended 31 March 2006 (the "Review Period") amounted to approximately RMB10,489,000, representing a decrease of approximately 24.08% as compared to the corresponding period of last year.

The profit attributable to equity holders of the parent for the three months ended 31 March 2006 was approximately RMB381,000, representing a drop of approximately 51.95% as compared to the corresponding period of last year.

The board does not recommend the payment of an interim dividend for the three months ended 31 March 2006.

The board (the “Board”) of Directors of the Company is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the three months ended 31 March 2006 together with the unaudited comparative figures for the corresponding period in 2005 as follows:

Condensed Consolidated Income Statement

		Three months ended 31 March	
	Notes	2006 RMB'000	2005 RMB'000
Revenue	4	10,489	13,816
Costs of sales		(7,473)	(8,152)
Gross profit		3,016	5,664
Other income		1,688	1,095
Distribution costs		(1,152)	(1,438)
Administrative expenses		(2,522)	(3,830)
Finance costs	5	(633)	(621)
Profit before tax		397	870
Income tax expenses	6	(43)	(114)
Profit for the period	7	354	756
Attributable to:			
Equity holders of the parent		381	793
Minority interests		(27)	(37)
Profit for the period	10	354	756
Earnings per share			
— Basic (RMB cents)	9	0.60	1.23

Notes:

1. BACKGROUND OF THE CORPORATION

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

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

2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated results have been prepared in accordance with the new Hong Kong Financial Reporting Standards (HKFRSs) and Hong Kong Accounting Standards (HKASs) and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The unaudited condensed consolidated results have been prepared on the historical cost basis. The accounting policies adopted in preparing the unaudited condensed consolidated results for the three months ended 31 March 2006 and 2005 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

3. 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.

4. REVENUE

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

5. FINANCE COSTS

	Three months ended 31 March	
	2006 RMB'000	2005 RMB'000
Interest on bank borrowings wholly repayable within five years	633	621

6. INCOME TAX EXPENSES

	Three months ended 31 March	
	2006 RMB'000	2005 RMB'000
The charge comprises:		
PRC income tax	43	114

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.

7. PROFIT FOR THE PERIOD

	Three months ended 31 March	
	2006 <i>RMB'000</i>	2005 <i>RMB'000</i>
The Group's profit for the period is arrived at after charging:		
Cost of inventory recognised as expenses	6,627	6,101
Research and development expenses	613	780
Depreciation of property, plant and equipment	987	1,436
Amortisation of goodwill included in administrative expenses	—	33
Operating lease rental in respect of land use rights	38	38
Staff costs (including Directors' remuneration)	1,632	1,865
and crediting:		
Interest income	335	121
PRC value added tax refunded	611	479
Government grant	500	495

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2006 (2005: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months ended 31 March 2006 is based on the profit attributable to equity holders of the parent of approximately RMB381,000 (2005: RMB793,000) and on the weighted average number of 64,500,000 (2005: 64,500,000) ordinary shares in issue for the periods.

No diluted earnings per share have been presented for the three months ended 31 March 2006 and 2005 as no potential dilution of ordinary shares was in existence during the relevant periods.

10. RESERVES

	Attributable to equity holders of the parent						
	Share	Statutory	Statutory	Retained	Total	Minority	Total
	premium	surplus	welfare	profits			
	reserve	reserve					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	52,641	7,913	3,956	50,613	115,123	4,857	119,980
Profit for the period	—	—	—	381	381	(27)	354
At 31 March 2006	52,641	7,913	3,956	50,994	115,504	4,830	120,334
At 1 January 2005	52,641	6,010	3,005	38,815	100,471	4,775	105,246
Profit for the period	—	—	—	793	793	(37)	756
At 31 March 2005	52,641	6,010	3,005	39,608	101,264	4,738	106,002

Management Discussion and Analysis

Financial Review

Revenue

The Group's revenue for the three months ended 31 March 2006 amounted to approximately RMB10,489,000, representing a decrease of approximately 24.08% over that of the corresponding period of last year.

Gross profit

The Group's gross profit of approximately RMB3,016,000 in the review period decreased by approximately 46.75% as compared with approximately RMB5,664,000 of the corresponding period of last year. The decrease was main related to the completion of sales of software products relating to security system that having a high profit margin in the corresponding period of last year. However, the Group concentrated in provision of video security system solutions in traffic monitoring and control sector during the review period and achieved a relatively lower margin.

Other income

The Group's other income increased from approximately RMB1,095,000 for the three months ended 31 March 2005 to approximately RMB1,688,000 in the review period, experiencing an increase of 54.16%. An aggregate increase in interest income, PRC value added tax refunded and government grant amounted to approximately RMB351,000.

Distribution costs

The distribution costs to revenue for the three months ended 31 March 2006 was 10.98%, remaining stable as compared to approximately 10.41% in the corresponding period in last year.

Administrative expenses

The Group's administrative expenses dropped from approximately RMB3,830,000 for the three months ended 31 March 2005 to approximately RMB2,522,000 in the review period, representing a decrease of 34.15%. The drop was mainly related to the payment of professional expenses after the listing of the Company and decrease in staff costs of approximately RMB1,000,000 in the corresponding period in last year. Other than that, there is no significant fluctuation for other administrative expenses.

Net profit

The profit attributable to the equity holders of the parent decreased from approximately RMB793,000 in the corresponding period of last year to approximately RMB381,000 in the review period, representing a drop of 51.95%.

Business Review

During the period under review, the Group focused on the provision of the video security system solution services in the traffic monitoring industry in the PRC. Despite the keen competition in the industry, there is still room for expansion for the Group as the demand of the public transport supervising organization for video security is on the increase. In addition, as the time for the old equipment to get replaced has come, the Group enjoys continuous business opportunities.

As a result of the fierce competition in the video security system, the overall gross profit of the Group dropped. The Group is now consolidating its existing business while seeking better modes of operation so as to improve its operation efficiency.

Outlook

On 20 December 2005, the General Administration of Custom announced that the Group was the chief network integrator for the custom gates in the custom gates work meeting. During the period under review, the technological department (科技發展司), supervision department (監管司) and resource purchasing center (物資採購中心) of the General Administration jointly signed a memorandum with the Group, hereby laying a solid foundation for the Group's development in the custom and logistic industry. During the first quarter, the Group consolidated its position in the market and its businesses were developing rapidly. The Group also took the initiative to explore new markets, especially new markets in the coastal area. It is expected that there will be breakthroughs in the second quarter.

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 March 2006, none of the Directors, supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they 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 5.67 of the GEM Listing Rules.

Long positions in shares:

Name of director	Number of shares	Nature of interest	Approximate percentage of the registered capital of the Company (%)
Sha Min	450,000	Beneficial owner	0.7

Note: As Du Yu is the spouse of Sha Min, Du Yu is deemed to be interested in 450,000 domestic shares held by Sha Min pursuant to Part XV of the SFO.

Shares Discloseable under the SFO and Substantial Shareholders

So far to the knowledge of the Directors, as at 31 March 2006, the following shareholders (other than the Directors, supervisors or chief executive officers of the Company) had interests or 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 positions 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 owned and corporate	30.47
Nanjing Zhongbei (Group) Company Limited ("Nanjing Zhongbei")	12,000,000	Beneficial owned	18.60
Nanjing Huadong Electronics Information & Technology Company Limited ("Huadong Technology")	12,000,000	Beneficial owned	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 ("Sample Commerce City"), which in turn is directly interested in 1,650,000 domestic shares. Pursuant to section 316 of the SFO, Sample Group is deemed to be interested in the 1,650,000 domestic shares held by Sample Commerce City.
2. Pursuant to section 316 of the SFO, Huadong Electronics is deemed to be interested in 12,000,000 domestic shares held by Huadong Technology, as Huadong Electronics is interested in 45.20% of registered capital of Huadong Technology.

Directors' and Supervisors' Interests in Underlying Shares by Derivatives

Save as disclosed above, as at 31 March 2006, none of the Directors or supervisors of the Company is authorised to subscribe for any H shares of the Company. As at 31 March 2006, none of the Directors or supervisors of the Company or any of their associates 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 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 of the Company dated 2 June 2004. As at 31 March 2006, no options had been granted under the shares option scheme.

Competing Business and Conflicts of Interest

None of the Directors, management shareholders or substantial shareholders of the Company or any of their respective associates (as defined in the GEM Listing Rules) is engaged in any business which competes or is likely to compete with the business of the Group, and none of them has other conflicts of interests with the Group.

Compliance Adviser's Interest

As at 31 March 2006, 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 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 unaudited results of the Group for the Review Period and has provided advice and comments thereon.

Purchase, Redemption or Sale of Listed Securities of the Company

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

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

Nanjing, the PRC
27 April 2006

* for identification purpose only