



# 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



INTERIM 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 Highlight

The revenue of the Company and its subsidiaries (“the Group”) for the six months ended 30 June 2006 amounted to approximately RMB50,846,000, representing an increase of approximately 61.96% as compared to the corresponding period of last year.

The profit attributable to equity holders of the parent for the six months ended 30 June 2006 was approximately RMB15,214,000, representing an increase of approximately 38.81% as compared to the corresponding period of last year.

The board of Directors (the “Board”) does not recommend the payment of an interim dividend for the six months ended 30 June 2006.

The Board is pleased to announce the unaudited condensed consolidated interim financial statements ("Interim Financial Statements") of the Group for the three months and the six months ended 30 June 2006 together with the unaudited comparative figures for the corresponding periods in 2005 as follows:

## Condensed Consolidated Income Statement

		Six months ended 30 June		Three months ended 30 June	
		2006 <b>RMB'000</b> <b>(Unaudited)</b>	2005 <i>RMB'000</i> <i>(Unaudited)</i>	2006 <b>RMB'000</b> <b>(Unaudited)</b>	2005 <i>RMB'000</i> <i>(Unaudited)</i>
Revenue	4	<b>50,846</b>	31,395	<b>40,357</b>	17,579
Cost of sales		<b>(26,664)</b>	(11,238)	<b>(19,191)</b>	(3,086)
Gross profit		<b>24,182</b>	20,157	<b>21,166</b>	14,493
Other income		<b>3,539</b>	5,473	<b>1,851</b>	4,378
Marketing and promotional expenses		<b>(3,191)</b>	(3,365)	<b>(2,039)</b>	(1,927)
Administrative expenses		<b>(6,490)</b>	(8,127)	<b>(3,968)</b>	(4,297)
Finance costs	5	<b>(1,301)</b>	(1,233)	<b>(668)</b>	(612)
Profit before tax		<b>16,739</b>	12,905	<b>16,342</b>	12,035
Income tax expenses	6	<b>(1,167)</b>	(1,968)	<b>(1,124)</b>	(1,854)
Net profit for the period	7	<b>15,572</b>	10,937	<b>15,218</b>	10,181
Attributable to:					
Equity holders of the parent		<b>15,214</b>	10,960	<b>14,833</b>	10,167
Minority interests		<b>358</b>	(23)	<b>385</b>	14
Net profit for the period		<b>15,572</b>	10,937	<b>15,218</b>	10,181
Earnings per share — Basic	9	<b>RMB23.59 cents</b>	RMB16.99 cents	<b>RMB23.00 cents</b>	RMB15.76 cents

Condensed Consolidated Balance Sheet

	Notes	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	60,389	60,892
Prepaid lease payments		6,943	7,019
Goodwill		271	271
Deferred tax assets		1,136	1,136
		<b>68,739</b>	69,318
Current assets			
Inventories		7,471	2,493
Trade and other receivables	11	42,080	33,499
Prepaid lease payments		150	150
Amounts due from customers for contract work		43,632	26,601
Restricted bank deposits		486	1,207
Bank balances and cash		119,862	140,265
		<b>213,681</b>	204,215
Current liabilities			
Trade and other payables	12	36,558	27,679
Construction cost payables		8,293	13,212
Taxation payable		1,517	2,162
Short-term bank loans		36,000	36,000
Long-term bank loans due within one year		—	10,000
		<b>82,368</b>	89,053
Net current assets		<b>131,313</b>	115,162
Total assets less current liabilities		<b>200,052</b>	184,480

		<b>At 30 June 2006 RMB'000 (Unaudited)</b>	<b>At 31 December 2005 RMB'000 (Audited)</b>
	<i>Notes</i>		
Non-current liabilities			
Long-term bank loans		—	—
		<b>200,052</b>	184,480
Capital and reserves			
Share capital	13	<b>64,500</b>	64,500
Reserves		<b>130,337</b>	115,123
Equity attributable to equity holders of the parent		<b>194,837</b>	179,623
Minority interests		<b>5,215</b>	4,857
		<b>200,052</b>	184,480

## Condensed Consolidated Statement of Changes in Equity

	Attributable to the equity holders of the parent							Total
	Share capital	Share premium	Statutory surplus reserve	Statutory welfare reserve	Retained profits	Total	Minority interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<b>At 1 January 2006</b>	<b>64,500</b>	<b>52,641</b>	<b>7,913</b>	<b>3,956</b>	<b>50,613</b>	<b>179,623</b>	<b>4,857</b>	<b>184,480</b>
<b>Net profit for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>15,214</b>	<b>15,214</b>	<b>358</b>	<b>15,572</b>
<b>At 30 June 2006</b>	<b>64,500</b>	<b>52,641</b>	<b>7,913</b>	<b>3,956</b>	<b>65,827</b>	<b>194,837</b>	<b>5,215</b>	<b>200,052</b>
<b>At 1 January 2005</b>	<b>64,500</b>	<b>52,641</b>	<b>6,010</b>	<b>3,005</b>	<b>38,815</b>	<b>164,971</b>	<b>4,775</b>	<b>169,746</b>
<b>Net profit for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>10,960</b>	<b>10,960</b>	<b>(23)</b>	<b>10,937</b>
<b>At 30 June 2005</b>	<b>64,500</b>	<b>52,641</b>	<b>6,010</b>	<b>3,005</b>	<b>49,775</b>	<b>175,931</b>	<b>4,752</b>	<b>180,683</b>



## Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2006 <i>RMB'000</i> <i>(Unaudited)</i>	2005 <i>RMB'000</i> <i>(Unaudited)</i>
Net cash outflow from operating activities	<b>(10,349)</b>	(21,551)
Net cash (outflow)/inflow from investing activities	<b>(54)</b>	82
Net cash outflow from financing activities	<b>(10,000)</b>	—
Decrease in cash and cash equivalents	<b>(20,403)</b>	(21,469)
Cash and cash equivalents at the beginning of the period	<b>140,265</b>	139,780
Cash and cash equivalents at the end of the period	<b>119,862</b>	118,311

### Notes to the Interim Financial Statements

#### 1. BACKGROUND OF THE CORPORATION

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

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

#### 2. BASIS OF PREPARATION

The Group's unaudited condensed consolidated results have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM ("GEM Listing Rules"). They are prepared under the historical cost convention.

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

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Provision of video security system solutions	50,846	31,395	40,357	17,579

## 5. FINANCE COSTS

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Interest on bank borrowings wholly repayable within five years	1,301	1,233	668	612

## 6. INCOME TAX EXPENSES

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
The charge comprises: PRC income tax	1,167	1,968	1,124	1,854

PRC income tax is calculated at the rates prevailing under the relevant laws and regulations in the PRC.

The Company is recognized 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\* (南京金龍軟件有限公司), being a qualified PRC software enterprise, which is entitled to exemption from PRC income tax for two years commencing from its first profit-making year of operation and thereafter it will be entitled to a 50% relief from PRC income tax for the following three years. This subsidiary is entitled to 50% relief in 2004, 2005 and 2006.

## 7. NET PROFIT FOR THE PERIOD

	Six months ended 30 June		Three months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
The Group's profit from operations has been arrived at after charging:				
Amortisation of goodwill included in administrative expenses	—	67	—	34
Cost of inventories recognized as expenses	20,925	8,243	14,298	2,142
Depreciation and amortization of property, plant and equipment	1,809	1,978	822	542
Operating lease rentals in respect of land right and buildings	50	42	12	21
Staff costs (including Directors' remuneration)	3,805	3,556	2,173	1,691
And after crediting:				
Government grant	500	495	—	—
Interest income	580	405	245	284
PRC value added tax refunded	1,093	770	482	291

## 8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: NIL).

## 9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the three months and six months ended 30 June 2006 is based on the profit attributable to equity holders of the parent of respectively approximately RMB14,833,000 and RMB15,214,000 and on the weighted average number of 64,500,000 ordinary shares in issue for the periods.

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

No diluted earnings per share have been presented for the three months and six months ended 30 June 2006 and 2005 as no potential dilution of ordinary shares was in existence during the relevant periods.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB691,000 and RMB664,000 for the acquisition of property, plant and equipment and additions to construction in progress respectively.

## 11. TRADE AND OTHER RECEIVABLES

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Trade receivables from third parties	32,349	27,488
Trade receivables from a related party	—	600
Other receivables	7,557	3,358
Prepayments to suppliers	2,771	2,669
	42,677	34,115
Less: accumulated impairments	(597)	(616)
	42,080	33,499

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 aging analysis of trade receivables net of impairment losses:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Age		
0 to 90 days	13,588	14,882
91 to 180 days	1,151	3,339
181 to 365 days	8,274	8,610
1 to 2 years	8,910	831
	31,923	27,662

## 12. TRADE AND OTHER PAYABLES

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Trade payables	22,977	17,720
Other payables	13,581	9,959
	36,558	27,679

The following is an aging analysis of trade payables:

	At 30 June 2006 RMB'000 (Unaudited)	At 31 December 2005 RMB'000 (Audited)
Age		
0 to 30 days	6,814	5,701
31 to 60 days	7,436	2,132
61 to 90 days	1,438	2,870
Over 90 days	7,289	7,017
	22,977	17,720

### 13. SHARE CAPITAL

	Number of shares		Amount	
	At 30 June 2006 '000	At 31 December 2005 '000	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Registered issued and fully paid:				
Domestic shares with par value of RMB1.00 each	44,100	44,100	44,100	44,100
H shares with per value of RMB1.00 each	20,400	20,400	20,400	20,400
	64,500	64,500	64,500	64,500

During the review period, the Board proposed a share subdivision scheme that each of the domestic shares and H shares of RMB1.00 each be subdivided respectively into ten subdivided domestic shares and subdivided H shares of RMB0.10 each. The Board believes that the reduced amount for investing in a board lot of the subdivided H shares as a result of the proposed share subdivision will improve the liquidity of the H shares and helps to widen its investor base.

The share subdivision scheme is conditional upon (a) the passing of a special resolution by the holders of the domestic and H shares of the Company at a special general meeting relating to the proposed share subdivision and amendment to the Articles of Association of the Company; (b) approval issued by the CSRC regarding the proposed Share Subdivision; and (c) the Listing Committee of Stock Exchange granting the listing of and permission to deal in the subdivided H shares arising from the share subdivision.

### 14. RESERVES

Movements of the reserves for the six months ended 30 June 2006 and 2005 are shown in the condensed consolidated statement of changes in equity.



## Financial Review

For the six months ended 30 June 2006 (the “Review Period”), the revenue of the Group reached approximately RMB50,846,000, representing an increase of approximately 61.96% over that of the corresponding period of last year. The gross profit margin for the Review Period decreased by 16.64% to 47.56% as compared with the corresponding period of last year. The decrease in gross profit margin was attributable to the change in sales mix of the Group. During the Review Period, the Group mainly engaged in system integrated projects and resulted in an increasing consumption of raw materials; and, sales of software products only represented approximately 16.81% of the Group’s revenue, while in the corresponding period of last year, approximately 34.53% of the Group’s revenue come from sales of software products which led to higher profit as development expenses have already been absorbed in prior years.

For the six months ended 30 June 2006, other income of the Group decreased by approximately RMB1,934,000 as compared with the corresponding period of last year as the Group concluded relatively less sales of software products other than security system during the Review Period.

Marketing and promotional expenses recorded a slight decrease of 5.17% as compared with the corresponding period of last year. The administrative expenses decreased from approximately RMB8,127,000 to approximately RMB6,490,000 in the corresponding period of last year. The decrease was resulted from (i) decrease in payments of professional expenses approximately RMB700,000 and (ii) decrease in research and development expenses of approximately RMB307,000.

## Liquidity and Financial Resources

The Group adopted stringent financial management policies and maintained a healthy financial condition. The net current assets as at 30 June 2006 was approximately RMB131,313,000 (At 31 December 2005: approximately RMB115,162,000).

As at 30 June 2006, the cash on hand and bank deposits of the Group amounted to approximately RMB119,862,000 (At 31 December 2005: approximately RMB140,265,000)

### **Capital Structure**

As at 30 June 2006, the total bank borrowings of the Group was RMB36,000,000 (At 31 December 2005: RMB46,000,000) with fixed annual interest rates ranging from 5.73% to 5.49%, which are repayable within one year.

### **Pledge of Assets of the Group**

As at 30 June 2006, the short-term bank borrowings of RMB36,000,000 were unsecured. The long-term bank borrowing of RMB10,000,000 was fully repaid during the Review Period.

### **Employees**

As at 30 June 2006, the Group has an aggregate of 195 employees. During the Review Period, the staff costs (including directors' and supervisors' remuneration) was approximately RMB3,805,000 (corresponding period of 2005: approximately RMB3,556,000).

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

### **Gearing Ratio**

The gearing ratio (calculated as total debts divided by total assets) of the Group as at 30 June 2006 decreased to approximately 12.75% (At 31 December 2005: 16.82%), resulting from the repayment of the long-term bank borrowing of RMB10,000,000.

**Risk in Foreign Exchange**

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

**Significant Investment Held**

The Group did not have significant investment held as at 30 June 2006.

**Material Acquisition and Disposal**

The Company entered into a share transfer agreement dated 14 July 2006 and a supplemental agreement dated 24 July 2006 with Nanjing Taiheng Zhineng System Company Limited\* (南京市泰亨智能系統有限公司) ("Taiheng Zhineng"), pursuant to which the Company agreed to transfer 80% equity interests in Nanjing Sample Information System Engineering Company Limited\* (南京三寶信息系統工程有限公司) ("Sample Information") to Taiheng Zhineng. The disposal of Sample Information is conditional upon the passing of an ordinary resolution by the shareholders of the Company at a special general meeting.

Save as above, no other material acquisition or disposal of subsidiaries and associated companies was entered by the Group during the Review Period.

**Future Plans Relating to Material Investment or Capital Asset**

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

**Contingent Liabilities**

As at 30 June 2006, the Group did not have any material contingent liabilities.

### Business Review and Prospect

It is believed that the next three years will be the most critical period for the development of the traffic monitoring and control business and the customs logistics monitoring business. With an increasing demand in these two areas from various cities in the PRC, many newly-developed products are being launched into the market under fierce competition among the industry players. Through product diversification, it is expected that these sectors will be characterized by product innovation in an ever-changing environment with an increasing market share in future.

Apart from upgrading the existing product technology and the continuous introduction of newly-developed products that can suit the needs of the public security as well as the traffic monitoring and controlling businesses for the coming three to five years, the Company has to establish a new operating model in order to maintain its competitiveness in the market. In light of developing social benefits and economic effectiveness, the offering of the jointly-established operating model to the public security and the traffic monitoring and controlling business will certainly help to bring a stable source of income, long-term benefits, and to solve the mismatch of the demand and supply with the rapid expansion of market shares to enterprises. The completion of Yizheng project construction, Jintan special project and Rugao project under construction are all successful examples to demonstrate our proven records and competitiveness on exploring and promoting new and innovative products. In addition, this operating model also helps to foster business expansion and investment prospect for the Group.

In the first half of 2006, the Company has developed its own "Centralized Monitoring System", which can effectively control the use of resources through customs gates. By rolling out road-shows, the Company's software has gained strong recognition and has been applied throughout China after being upgraded for the General Administration of Customs of the People's Republic of China ("General Customs Administrations"). Currently, the development on

information management has been completed, while the equipment management to be developed in Guangzhou is expected to be completed in September this year.

The “Inter-regional Site Connection Platform Software”, jointly developed by the Company and Nanjing Customs District Information Branch, gives inter-regional site connection within different ports and depots, agencies and transportation sites monitored by the customs. It has accomplished the goal of information sharing and provided strict monitoring services. Through the expansion of business, it is believed that the provision of information value-added services through this platform will be made by the end of this year in order to meet the needs of the fast-changing business.

Currently the Centralized Monitoring System has been implemented successfully in Shenzhen Yantiang Bonded Logistics Zone and has brought a seamless connection to the logistics platform for China Electronics Customs. With strenuous efforts made by our team of research expertise, the Company has made a great leap forward towards the future development on its customs gate information services.

## **Market Prospect for New Products**

### *Off-Site Violation Penalty System:*

“Off-Site Violation Penalty System” is a new software product focused on the requirements of public security traffic system. The system is used by the public security traffic system users. By adopting the popular B/S Architectural State, it can process penalty of vehicles for violation of regulations and provide an interface between the transportation management system and pilot management system.

The functions of “Off-Site Violation Penalty System” include information filtration, information examination, announcement, penalty, comprehensive inquiry, statistical report and data import.

The features of “Off-Site Violation Penalty System” are as follows:

1. Carrying out development based on the advanced Microsoft .NET framework and adopting advanced Oracle9i database platform in the industry to support substantial business information.
2. Based on the B/S Architectural State, users can complete all the operations on any computer of the public security network. Statistical reports and penalty notices can be easily printed out in web format.
3. The system can process front-end collected data of various businesses, such as ePolice, Mobile ePolice, Security Gates/Inspection and Reporting Post. All data and figures can be easily input manually or mass import into the system.
4. The system is closely connected with Motor Vehicle Management Information System and the information can be effectively shared with other users.
5. The system consists of a proper user authorized management which is safe and reliable.
6. The system can be easily upgraded, which effectively minimizes the workload of user in system maintenance.

### *Customs Inter-regional Site Application System Project*

“Inter-regional Site Application System” is an important component of Customs logistics monitoring information management system, which enables instant exchange of information between the computer internet of customs and regulatory bodies, tally companies and port authorities, thereby collecting logistics information effectively. The system integrates with the logistics monitoring equipment to track all cargos monitored by the customs. The

relevant electronic orders of the customs will be sent to the person in charge of the regulatory bodies and transportation. The system ensures strict monitoring of import and export cargos and smooth logistics process.

“Inter-regional Site Application System” (“System”) exchanges data of internet and intranet of customs through China Electronics Customs Data Branch and sets up search engine and corporate user port through internet to provide subscription of and to release corporate data and customs information. The system also builds up web management through intranet to provide timely status of the import and export cargo and risks for the customs.

The implementation of “Inter-regional Site Application System” has adopted several technologies, such as data transfer with MQ, Biztalk-based data exchange platform, CA-based client certificate, COM+ Component Services and workload balance of components. These technologies can raise the reliability and flexibility of the system.

The System is currently at system coding stage. It is expected the research and development of the system will be completed and an on-site trial operation will be carried out by October this year.

### **Comparison of Business Progress with Business Objectives**

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

### Product Development and Upgrade

	<b>Business objectives stated in the Prospectus</b>	<b>Actual progress during the Review Period</b>
Traffic monitoring and control sector	Integrated Digital ePolice (using CCD chips and lens developed by the Company, with high identification rate)	The technology has completed the final testing and user testing stages. The Company is considering batch production upon the result from the user testing.
	Product: Taxi Safety Protection System	The project was suspended due to market factors.
Customs logistics monitoring sector	Customs Passage Monitoring and Control Centre System (an integrated system solution that enable automation of monitoring and control over the passages of customs)	This system is the sole chief network integrator of the customs intelligence gates in China and a principal product of the Group. The project is now at system coordination stage in Jiangsu Province.

### Sales and Marketing

	<b>Business objectives stated in the Prospectus</b>	<b>Actual progress during the Review Period</b>
Traffic monitoring and control sector	Target on 110 public security command centres all over the country, promote the Group's products according to the requirements of city security system	The Company is promoting and negotiating with the Public Security Department of various provinces.
Customs logistics monitoring sector	Hold seminars/briefing sessions on the Group's products for the customs of major cities of the country	The Company has successfully arranged products seminars in major customs ports such as Shanghai, Shenzhen and Tianjin



### Use of Proceeds from the Placing

The Company was listed on the GEM by placing 20,400,000 H shares on 9 June 2004. The aggregate net proceeds from the placing amounted to approximately HK\$68,058,000 (i.e. RMB72,141,000). The breakdown of the use of proceeds by the Group and the estimated costs for the period ended 30 June 2006 is set out below:

	<b>Proposed fundings required for the period (HK\$)</b>	<b>Actual fundings utilized during the period (HK\$)</b>
Research and development and upgrading of system solutions		
— Traffic monitoring and control sector	1,800,000	1,760,000
— Customs logistics monitoring sector	500,000	550,000
Construction of information platform		
— Traffic monitoring and control sector	1,000,000	960,000
— Customs logistics monitoring sector	300,000	300,000
Launching of new system solutions		
— Traffic monitoring and control sector	600,000	560,000
— Customs logistics monitoring sector	100,000	100,000
Purchase of additional equipment and facilities for the commercialization of system solutions	1,800,000	1,500,000
Expansion of sales and distribution network	1,200,000	1,180,000
Sub-total	7,300,000	6,910,000
Working capital	1,100,000	1,100,000
Total	8,400,000	8,010,000

### Interests or Short Positions in the Share Capital of the Company and its Associated Corporations of the Directors, Supervisors and Chief Executive Officers

As at 30 June 2006, the interests or short position of the Directors, supervisors and chief executive officers of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept pursuant to Section 352 of the SFO, or which were otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules are as follows:

#### Long positions in shares of the Company:

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

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

### Interests Discloseable under the SFO and Substantial Shareholders

So far to the knowledge of the Directors, as at 30 June 2006, the following shareholders (other than the Directors, supervisors or chief executive officers of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

#### Long positions in shares of the Company:

Name of Shareholders	Number of domestic shares	Nature of interest	Approximate percentage of the registered capital of the Company (%)
Nanjing Sample Technology Group Company Limited* (南京三寶科技集團有限公司) ("Sample Group") (Note 1)	19,650,000	Beneficial owner and corporate	30.47
Nanjing Zhongbei (Group) Company Limited* (南京中北(集團)股份有限公司) ("Nanjing Zhongbei")	12,000,000	Beneficial owner	18.60
Nanjing Huadong Electronics Information & Technology Company Limited* (南京華東電子信息科技股份有限公司) ("Huadong Technology")	12,000,000	Beneficial owner	18.60
Nanjing Huadong Electronics Group Company Limited* (南京華東電子集團股份有限公司) ("Huadong Electronics") (Note 2)	12,000,000	Corporate	18.60

### Notes:

1. Sample Group directly holds 18,000,000 domestic shares and is also interested in 95.00% of the registered capital of Nanjing Sample Technology Commerce City Company Limited ("Sample Commerce City"), which in turn is directly interested in 1,650,000 domestic shares. Pursuant to Section 316 of the SFO, Sample Group is deemed to be interested in the 1,650,000 domestic shares held by Sample Commerce City.
2. Pursuant to section 316 of the SFO, Huadong Electronics is deemed to be interested in 12,000,000 domestic shares held by Huadong Technology, as Huadong Electronics is interested in 45.20% of registered capital of Huadong Technology.

### Directors' and Supervisors' Interests in Underlying Shares by Derivatives

Save as disclosed above, as at 30 June 2006, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 30 June 2006, none of the Directors or supervisors of the Company or any of their spouses or children under eighteen years of age has any right to subscribe any H shares of the Company or has exercised any such right during the period.

### Share Option Scheme

The principle terms and conditions of the share option scheme ("Share Option Scheme"), which was conditionally approved by a resolution of the shareholders of the Company dated 24 April 2004, are set out in the section "Summary of the terms and conditions of Share Option Scheme" in Appendix VII to the Prospectus. As at 30 June 2006, no options is granted under the Share Option Scheme.

### Competing Business and Conflicts of Interests

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

### Compliance Adviser's Interest

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

### Code of Conduct for Securities Transactions by Directors

The code of conduct for securities transactions by Directors adopted by the Company is on terms no less exacting than the required standard of dealings in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any circumstances that the Directors did not comply with the required standards of dealings and the code of conduct for securities transactions by Directors throughout the six months ended 30 June 2006.

### Audit Committee

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to supervise the financial reporting process and internal control of the Company.

The audit committee comprises three independent non-executive directors, namely Mr. Zhang Zhan (the chairman of the audit committee), Mr. Wang Wei and Mr. Lau Shek Yau John. The audit committee of the Company has reviewed the unaudited results of the Group for the Review Period and has provided advice and comments thereon.

### Code on Corporate Governance Practices

For the six months ended 30 June, 2006, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 15 to the GEM Listing Rules.

### Purchase, Redemption or Sales 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*

10 August 2006  
Nanjing, the PRC

\* for identification purpose only