



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 RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008**

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

GEM has been positioned as a market designed to accommodate companies to which a high investment risk may be attached than other companies listed on the Stock Exchange. Prospective investor should be aware of the potential risk of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This announcement, for which the directors (the "Directors") of Nanjing Sample Technology Company Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief:- (1) the information contained in this announcement is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

FINANCIAL HIGHLIGHTS

The turnover of the Group for the year ended 31 December 2008 (the “Review Period”) amounted to approximately RMB331,726,000 representing a growth of approximately 117.1% as compared to the corresponding period of last year.

The profit attributable to equity holders of the parent for the year ended 31 December 2008 was RMB93,146,000, representing an increase of approximately 3.4% as compared to corresponding period of last year.

The basic earnings per share for the year ended 31 December 2008 was approximately RMB0.48 (2007: RMB0.47).

ANNUAL RESULTS

The board (the “Board”) of Directors of the Company is pleased to announce the audited results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2008 together with the comparative figures for the year ended 31 December 2007 as follows:

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	3	331,726	152,790
Cost of sales		(198,903)	(50,679)
Gross profit		132,823	102,111
Other revenue	3	26,198	12,746
Distribution costs		(14,725)	(9,424)
Administrative expenses		(38,898)	(27,194)
Finance costs	5	(6,469)	(3,598)
Excess of interest in the net fair value of assets and liabilities of subsidiaries acquired over cost		—	15,031
Profit before income tax	6	98,929	89,672
Income tax (charge)/credit	7	(5,530)	533
Profit for the year		93,399	90,205
Attributable to:			
Equity holders of the parent		93,146	90,084
Minority interests		253	121
		93,399	90,205
Dividends	8		
— Interim dividend declared during the year		19,350	—
— Final dividend proposed after the balance sheet date		—	19,350
		19,350	19,350
Earnings per share			
— Basic (RMB)	9	0.48	0.47

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment		53,966	57,839
Prepaid lease payments		6,568	6,718
Intangible assets		18,083	—
Deferred tax assets		1,817	2,299
Deposit for acquisition of a subsidiary		—	30,028
		<u>80,434</u>	<u>96,884</u>
Current assets			
Inventories		1,856	3,654
Trade receivables	10	249,941	120,633
Other receivables and prepayments	11	84,913	20,821
Loans receivable		—	117,900
Prepaid lease payments		150	150
Amounts due from customers for contract work		90,377	38,155
Tax recoverable		1,041	—
Pledged bank deposits		19,329	10,680
Bank balances and cash		158,246	68,070
		<u>605,853</u>	<u>380,063</u>
Current liabilities			
Trade and other payables and receipts in advance	12	152,116	42,963
Short-term bank loans		142,000	109,000
Other loan payable		2,000	—
Tax payable		4,713	3,597
Dividends payable		7,200	—
		<u>308,029</u>	<u>155,560</u>
Net current assets		<u>297,824</u>	<u>224,503</u>
Total assets less current liabilities		<u>378,258</u>	<u>321,387</u>
Non-current liabilities			
Deferred tax liabilities		2,789	194
Net assets		<u>375,469</u>	<u>321,193</u>
Equity			
Share capital		193,500	193,500
Reserves		180,273	126,250
Equity attributable to equity holders of the parent		373,773	319,750
Minority interests		1,696	1,443
Total equity		<u>375,469</u>	<u>321,193</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the parent							
	Share capital	Share premium	Statutory surplus reserve	Exchange translation reserve	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 2007	64,500	52,641	17,601	—	94,924	229,666	1,322	230,988
Profit for the year	—	—	—	—	90,084	90,084	121	90,205
Bonus issue and capitalisation issue	129,000	(32,250)	—	—	(96,750)	—	—	—
Profit appropriation	—	—	7,731	—	(7,731)	—	—	—
At 31 December 2007	193,500	20,391	25,332	—	80,527	319,750	1,443	321,193
Exchange difference arising on translation of foreign operations and recognised directly in equity	—	—	—	(423)	—	(423)	—	(423)
Profit for the year	—	—	—	—	93,146	93,146	253	93,399
Total recognised income and expenses for the year	—	—	—	(423)	93,146	92,723	253	92,976
Dividend paid	—	—	—	—	(38,700)	(38,700)	—	(38,700)
Profit appropriation	—	—	9,889	—	(9,889)	—	—	—
At 31 December 2008	193,500	20,391	35,221	(423)	125,084	373,773	1,696	375,469

I. GENERAL

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited) (the "Company") was established in the People's Republic of 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, sale of security system software 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 I 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 functional currency in which the majority of the Group's transactions is denominated.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public

Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong with the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM.

(b) Adoption of new and revised Standards

In the current year, the Group has adopted all of new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group’s accounting policies.

The adoption of HK(IFRIC) — Int 11 “HKFRS 2 — Group and treasury share transactions”, HK(IFRIC) — Int 12 “Service concession arrangements”, HK(IFRIC) — Int 14 “HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction” and HKAS 39 & HKFRS 7 Amendments “Reclassification of financial assets” has no impact on the financial statements.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Revised)	Presentation of financial statements ⁽ⁱ⁾
HKAS 23 (Revised)	Borrowing costs ⁽ⁱ⁾
HKAS 27 (Revised)	Consolidated and separate financial statements ⁽ⁱⁱ⁾
HKAS 28	Investments in associates — consequential amendments arising from amendments to HKFRS 3 ⁽ⁱⁱ⁾
HKAS 31	Investments in joint ventures — consequential amendments arising from amendments to HKFRS 3 ⁽ⁱⁱ⁾
HKAS 32, HKAS 39 & HKFRS 7 (Amendments)	Puttable financial instruments and obligations arising on liquidation ⁽ⁱ⁾
HKAS 39 (Amendment)	Eligible hedged items ⁽ⁱⁱ⁾
HKFRS 1 & HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate ⁽ⁱ⁾
HKFRS 2 (Amendment)	Vesting conditions and cancellation ⁽ⁱ⁾
HKFRS 3 (Revised)	Business combinations ⁽ⁱⁱ⁾
HKFRS 8	Operating segments ⁽ⁱ⁾
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded derivatives ⁽ⁱⁱⁱ⁾
HK(IFRIC) — Int 13	Customer loyalty programmes ^(iv)
HK(IFRIC) — Int 15	Agreements for the construction of real estates ⁽ⁱ⁾
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation ^(v)
HK(IFRIC) — Int 17	Distributions of non-cash assets to owners ⁽ⁱⁱ⁾
HK(IFRIC) — Int 18	Transfer of assets from customers ^(vi)
HKFRSs (Amendments)	Improvements to HKFRSs ^(vii)

⁽ⁱ⁾ Effective for annual periods beginning on or after 1 January 2009

⁽ⁱⁱ⁾ Effective for annual periods beginning on or after 1 July 2009

⁽ⁱⁱⁱ⁾ Effective for annual periods beginning on or after 30 June 2009

^(iv) Effective for annual periods beginning on or after 1 July 2008

^(v) Effective for annual periods beginning on or after 1 October 2008

^(vi) Effective for transfers on or after 1 July 2009

^(vii) Effective for annual period beginning on or after 1 January 2009 except for the amendments HKFRS 5, effective for annual period beginning on or after 1 July 2009

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of their initial application.

3. TURNOVER AND OTHER REVENUE

An analysis of the Group's turnover and other revenue for the year is analysed as follows:

	2008 RMB'000	2007 RMB'000
Provision of video security system solutions	307,830	153,109
Sales of security system software	22,356	655
Sales of material and parts	8,190	—
	338,376	153,764
Less: Business tax and other related taxes	(6,650)	(974)
Turnover	331,726	152,790
PRC value added tax refunded	10,044	4,588
Interest income from		
— bank deposits	807	1,647
— convertible loan receivable	—	56
— third party	984	—
— impaired trade receivables	1,702	—
Total interest income on financial assets not at fair value through profit or loss	3,493	1,703
Maintenance service income	10,237	6,459
Less: Cost incurred for maintenance services	(2,913)	(1,945)
Technical service income	3,111	—
Others	2,226	1,941
Other revenue	26,198	12,746
	357,924	165,536

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from security system business. Accordingly, no detailed analysis of the Group's business segments is 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.

5. FINANCE COSTS

	2008 RMB'000	2007 RMB'000
Interest on bank loans wholly repayable within five years	<u>6,469</u>	<u>3,598</u>

6. PROFIT BEFORE INCOME TAX

	2008 RMB'000	2007 RMB'000
Profit before income tax has been arrived at after charging/(crediting):		
Auditor's remuneration	800	520
Staff costs including directors' emoluments	16,561	7,341
Retirement benefits scheme contributions	<u>2,566</u>	<u>948</u>
	19,127	8,289
Less: Staff costs included in research and development costs	<u>(1,863)</u>	<u>(522)</u>
	<u>17,264</u>	<u>7,767</u>
Research and development costs	10,739	2,773
Depreciation of property, plant and equipment (included in administrative expenses)	6,627	6,077
Amortisation of intangible assets (included in cost of sales)	<u>2,583</u>	<u>—</u>
Allowance for inventories	—	434
Carrying amount of inventories sold	<u>184,513</u>	<u>48,906</u>
Amount of inventories recognised as expenses	<u>184,513</u>	<u>49,340</u>
Impairment loss on trade receivables	7,301	3,471
Operating lease rentals in respect of buildings	1,395	576
Operating lease rentals in respect of land	150	151
Exchange (gain)/losses	<u>(94)</u>	<u>1,009</u>

7. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2008	2007
	RMB'000	RMB'000
PRC income tax	4,790	313
Deferred taxation		
— origination and reversal of timing difference	266	(786)
— resulting from a change in tax rate	474	(60)
	<u>5,530</u>	<u>(533)</u>
Income tax charge/(credit)	<u>5,530</u>	<u>(533)</u>

PRC income tax is calculated at the rates prevailing under the relevant laws and regulations in the PRC. According to the new tax law promulgated by the National People's Congress on 16 March 2007, the standard enterprise tax rate for enterprises in the PRC will be reduced from 33% to 25%.

The Company is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. In February 2008, the Company was identified as an Important Enterprise. In March 2008, the Company obtained a tax concession from local tax authority in which the Company was fully exempted from PRC income tax for the fourth quarter of 2007, followed by a 50% reduction in the PRC income tax for the next 3 years.

Pursuant to the policies for encouraging development of software properties and integrated electrical circuit properties issued by the State Commission of the PRC, the Company was entitled to a preferential tax rate of 10% for the year ended 31 December 2008.

The Company's major subsidiary, Jiangsu Intellitrans Company Limited ("Jiangsu Intellitrans"), is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. In 2007, Jiangsu Intellitrans was qualified as a transformed scientific research entity and, pursuant to relevant tax policy, was fully exempted from PRC income tax for the period from 2002 to 2008.

Certain of the Company's subsidiaries are recognised as high-technology companies according to PRC tax regulations and are entitled to a preferential tax rate of 15%. The remaining are subject to PRC income tax rate of 25%.

(b) The tax charge/(credit) for the year can be reconciled to the profit before income tax per the income statement as follows:

	2008		2007	
	RMB'000	%	RMB'000	%
Profit before income tax	<u>98,929</u>		<u>89,672</u>	
Tax at the applicable tax rate of 15%	14,839	15.0	13,451	15.0
Tax effect of expenses not deductible for tax purpose	1,423	1.4	1,285	1.1
Tax effect of income not taxable for tax purpose	(3,383)	(3.4)	(2,605)	(2.9)
Effect of the different tax rates of subsidiaries	—	—	238	0.3
Effect of change in tax rate	694	0.7	(62)	—
Tax relief	(6,726)	(6.8)	(12,934)	(13.8)
Effect of tax loss not recognised	590	0.6	232	0.3
Overprovision in prior year	(1,826)	(1.8)	—	—
Others	<u>(81)</u>	<u>(0.1)</u>	<u>(138)</u>	<u>(0.2)</u>
Tax charge/(credit) and effective tax rate for the year	<u>5,530</u>	<u>5.6</u>	<u>(533)</u>	<u>(0.2)</u>

8. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year:

	2008 RMB'000	2007 RMB'000
Interim dividend declared of RMB0.1 (2007: Nil) per ordinary share	19,350	—
Final dividend proposed for 2007 after the balance sheet date of RMB0.1 per share	<u>—</u>	<u>19,350</u>
	<u>19,350</u>	<u>19,350</u>

On 16 September 2008, a dividend of RMB0.1 per share (total dividend RMB19,350,000) was declared to shareholders. The directors do not recommend the payment of a final dividend.

(b) Dividends payable to equity holders of the Company attributable to the previous year, approved and paid during the year:

	2008 RMB'000	2007 RMB'000
Final dividend in respect of the previous year, approved and paid during the year, of RMB0.1 per ordinary share	<u>19,350</u>	<u>—</u>

9. 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 RMB93,146,000 (2007: RMB90,084,000) and 193,500,000 (2007: 193,500,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as the Company has no potential dilutive ordinary shares outstanding for the two years ended 31 December 2008 and 2007.

10. TRADE RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Trade receivables from third parties	261,581	125,427
Less: Allowance for doubtful debts	(3,352)	(1,536)
Provision for impairment losses	(8,288)	(3,258)
	<u>249,941</u>	<u>120,633</u>

(a) 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.

(b) The following is an aged analysis of trade receivables net of allowance for doubtful debts and provision for impairment losses at the balance sheet date.

	2008	2007
	RMB'000	RMB'000
Aged:		
0–90 days	52,638	30,948
91–180 days	24,845	23,647
181–365 days	64,633	33,912
1–2 years	82,302	16,678
Over 2 years	25,523	15,448
	<u>249,941</u>	<u>120,633</u>

11. OTHER RECEIVABLES AND PREPAYMENTS

	2008	2007
	RMB'000	RMB'000
Other receivables	76,588	17,502
Less: Allowance for doubtful debts	(21)	(21)
Other receivables, net	<u>76,567</u>	<u>17,481</u>
Prepayments to suppliers	8,346	3,340
	<u>84,913</u>	<u>20,821</u>

12. TRADE AND OTHER PAYABLES AND RECEIPTS IN ADVANCE

	2008 RMB'000	2007 RMB'000
Trade payables	89,654	5,847
Other payables	29,288	15,448
Receipts in advance	9,509	2,730
Other tax payables	23,665	18,938
	<u>152,116</u>	<u>42,963</u>

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

	2008 RMB'000	2007 RMB'000
Aged:		
0-90 days	55,277	2,045
91-180 days	13,326	1,121
181-365 days	9,674	485
1-2 years	8,997	1,424
Over 2 years	2,380	772
	<u>89,654</u>	<u>5,847</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

Turnover of the Group for the year ended 31 December 2008 was approximately RMB331,726,000, an increase of approximately 117.1% over last year. The increase was mainly attributable to our recent acquisition of Jiangsu Intellitrans Company Limited, a wholly-owned subsidiary.

Gross Profit

Gross margin of the Group for the year ended 31 December 2008 was approximately 40.04%, a decrease of approximately 26.79% over last year. The decrease was mainly attributable to the rising prices of raw materials, and the gross margin of Jiangsu Intellitrans Company Limited, our new wholly-owned subsidiary, was lower than that of the Group, resulting in a decrease in the gross margin of the Group comparing with last year.

Other Revenue

Other revenue of the Group for the year ended 31 December 2008 was approximately RMB26,198,000, an increase of approximately 105.5% over last year. The increase was mainly attributable to the significant amount of maintenance service income and the PRC value added tax refunded for the year. Maintenance service income increased from approximately RMB6,459,000 in 2007 to approximately RMB10,237,000 in 2008, a growth of 58.5%.

Distribution Costs

Distribution costs of the Group for the year ended 31 December 2008 was approximately RMB14,725,000, an increase of approximately 56.3% over last year. The increase was mainly attributable to our recent acquisition of a wholly-owned subsidiary, Jiangsu Intellitrans Company Limited.

Administrative Expenses

Administrative expenses of the Group for the year ended 31 December 2008 was approximately RMB38,898,000, an increase of approximately 43% over last year. The increase was mainly attributable to the rise in staff costs and research and development costs.

Profit Attributable to Equity Holders of the Parent

Profit attributable to equity holders of the parent for the year ended 31 December 2008 was approximately RMB93,146,000, an increase of 3.4% over last year. The increase was mainly attributable to the growth of our results and the acquisition of a wholly-owned subsidiary, Jiangsu Intellitrans Company Limited.

Financial Resources and Liquidity

Equity attributable to equity holders of the parent for the year ended 31 December 2008 was approximately RMB373,773,000. Current assets were approximately RMB605,853,000, comprising cash and bank balances of approximately RMB158,246,000. Non-current liabilities were approximately RMB2,789,000. Current liabilities were approximately RMB308,029,000, comprising trade and other

payables and receipts in advance, short-term bank loans, other loan payable, tax payable and dividends payable. Net assets per share of the Group was approximately RMB1.94 (31 December 2007: RMB1.66). As at 31 December 2008, short-term bank loans of the Group were RMB142,000,000.

Pledge of Assets

As at 31 December 2008, the bank deposits of RMB10,000,000 are pledged to a bank for granting a loan of RMB20,000,000 to the Group.

Gearing Ratio

For the year ended 31 December 2008, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was approximately zero (31 December 2007: 12.8%). This was attributable to the sufficient cash and cash equivalents of the Group for the repayment of bank loans and long-term loans.

Foreign Currency Exposure

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

Substantial Acquisition and Significant Investment

In order to further expand its scope of business to cover the area of highway intelligent traffic, the Group completed the acquisition of Jiangsu Intellitrans Company Limited, thereby initially established its business framework based on urban transport, customs logistics and highway transport.

Capital Commitment

As at 31 December 2008, the Group had no significant capital commitment.

Contingent Liabilities

As at 31 December 2008, the Group had no significant contingent liabilities.

Employees and Remuneration Policies

As at 31 December 2008, total employees' remuneration of the Group was approximately RMB19,127,000 (2007: RMB8,289,000) and the number of employees was 411 (2007: 245). The Group remunerated its staff based on individual 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 contributions to the retirement scheme, medical scheme, unemployment insurance and housing allowances.

Segmental Information

Segmental information of the Group is set out in note 4 to the Announcement.

Business Review

Business Development

Traffic Sector

During the period under review, the business of the traffic sector of the Group has sustained stable development, with focuses being placed in acquiring clients in large, medium cities and enhancing the profitability of projects. Newly secured major projects in cities such as Fuzhou, Feicheng, Jiaozhou and Laiwu not only ensured the intensive utilisation of our manpower and resources, but also gave assurance to our after-sales services in future. In respect of geographical segments, the Group has been actively expanding to well-developed areas in the Southern China such as Fujian and Guangdong, consolidating its markets in Shandong and Jiangsu and striving to capture the markets in Zhejiang and Shanghai.

In enhancing the management of engineering projects, the Group significantly improved the responsiveness to projects and quality of operations through the training of skills by system projects. In establishing system of after-sales service assurance, the Group further improved the quality of after-sales services by operating more sophisticated client service centres, thereby gained considerable recognition from clients and consolidated the leadership of our traffic products in the market.

To enhance the Group's capability in business expansion on an ongoing basis, we have been strengthening the development of our marketing team and the innovation of our marketing models. In respect of project operations, strengths and resources have been focused on major projects of higher margin and influence, such as the marketing of provincial customs checkpoints intranet system in various provinces and municipalities.

Logistics Sector

During the period under review, the Group has been actively participating in the future development and planning of customs checkpoints intranet system of the General Customs Administration. On the basis of the regular maintenance of customs checkpoint system in the areas of Yangtze River Delta and Pearl River Delta, the Group has been actively promoting the release of specifications and standards for front-end equipment and data interfaces, expanding the co-ordination of cross-border express checkpoint crossing and promoting the application of the intranet of the seven customs checkpoints in the Pearl River Delta with the co-operation of the branch offices. In the meantime, the Group promoted specifications on workflow management and actively developed workflows for the pricing of works, business procurement and internal project monitoring.

During the period under review, the Group successfully bid the projects of Yangpu Bonded Harbour in Haikou and the intelligent customs checkpoint system of Haicang Bonded Harbour in Xiamen, of which the Yangpu Bonded Harbour was examined and accepted by the General Customs Administration and the Nine State Ministries and Commissions and officially commenced operations during the year. During the period under review, the Group completed the establishment of the customs monitoring system for the "Three-Area Integration" project in Dongdu, Xiamen, and achieved genuine collaboration of bonded zones and ports, and perfect connection. In the meantime, the Group also succeeded in leading the application of electronic vehicle license in China by bidding the projects of Beijing Air China electronic vehicle license and the modern airport logistics development.

Highway Sector

During the period under review, the Group's market share in highway mechanical and electrical engineering increased significantly over the previous year. We successfully bid major projects such as the mechanical and electrical project of Jinji highway in Shanxi and the traffic mechanical and electrical engineering project of the Zhuyong Highway in Zhejiang (Phase 2). The construction of communication pipeline for the highway connecting Shuifu and Maliu Bay in Yunnan has been examined, accepted and commenced operation. The mechanical and electrical engineering of the national key highway connecting Taiyuan and Macau, the highway connecting Jincheng and Jiyuan in Shanxi, the system reconstruction project of Chengle Road Monitoring Centre, the mechanical and electrical engineering project of the Zhuyong Highway JD-9, the power supply and distribution system and the ventilation and lighting for tunnels along Mengzi-Xinjie Expressway, and the Shuima project in Yunnan were also in full swing and expected to complete in the first half of 2009. In the meantime, the system of information management for the project of Taizhou Bridge has been completed. Through the development and operation of the system, the workflows for developing the Taizhou Bridge were specified. The model of intranet provided comprehensive, accurate and real-time information for the units of management, supervision, operation and design of the construction, thereby facilitated efficient management by all units on the core businesses.

RFID Sector

In recent years, competition in the RFID market has been intense and the growth of the ultra-high-frequency RFID market was rather slow. With emphases being placed on customs market, the Group has been launching products of different ranges with the aim of widening the price differentials and actively participating in market competition, and achieved satisfactory results during the period under review. As one of the sponsors of RFID technology standards for automatic identification industry in China, the Group launched a free monthly RFID training programme during the period under review and shared our experience in the application and development of RFID technologies with our clients, thereby enhanced the communication and co-operation of the companies in the industry and contributed to the industrialization the RFID products in China. At the same time, the Group also participated the National Exhibition of Automation Identification Technology held in Shanghai during the year and received the "New Leading Edge Products" award and was honoured as the "Outstanding Member of the Automatic Identification Association of China 2008".

Research and Development

Traffic Sector

With the development of technology, the traffic monitoring industry in China nowadays basically recognizes high-definition, high recognition and high identification rate as the directions of the technology development for the industry. The technical requirements and specifications of these "3Hs" have also been taken into consideration as the relevant standards of the PRC. During the period under review, the Group continued to increase investments and hire higher level talents in technology. The Group has developed high-definition customs checkpoint, high-definition ePolice, video high recognition rate ePolice and provincial intranet system for customs checkpoints. These series of products were recognized by the market and brought new drive to the Group in the area of traffic monitoring. On the basis of conventional technology, the Group was also actively conducting research on chip-level technology and strived to improve its existing products by adopting the DSP technology. This could enable the products of the Company to be more suitable to the traffic departments, bringing new sources of profit to the Group.

Logistics Sector

During the period under review, the integration of new models of customs checkpoints, application framework for customs logistics monitoring and automatic testing platforms have been the focuses of research and development in the logistics sector of the Group. The platform for operating electronic vehicle license and electronic customs lock developed by the Group during the year was widely used for supporting the operation of license and customs lock. In the meantime, the Group also completed development of a series of software for logistics platform, including the dual-command information issuing system for the logistics control platform of Dalian Customs, the advanced clearance logistics platform of Dongdu Checkpoint in Xiamen, the intranet platform of Nanjing Customs and the logistics platform of Changzhou Customs, whilst the intranet platform of the Nanjing Customs passed the testing and was well received by the Nanjing Customs. It is expected that the intranet platform would be promoted within the Jiangsu Province in near future.

Highway Sector

The Group further promoted the applications of the internet unitoll management system for open toll stations at the 3 tiers of provincial, municipal, county levels and the software for traffic industry, actively conducting the research on Electronic Toll Collections (ETC) and its actual application in the intelligent traffic segment. During the period under review, the Group participated in the research on ETC, such as the establishment of electronic toll collections in Nanjing on the basis of the RFID technology, the applications and research of RFID technology on urban congestion toll and rapid public transport system. The Group also participated in the development on the portal system of the Waterway Bureau of Jiangsu Province, effectively integrated various application systems and implemented functions of unified interface, single sign-on and integrated applications. Besides, the Group participated in the project of system management for the wiring project of the Taizhou Bridge, completed the design of system and the development of the major modules, and established a fully functional platform for managing the 4-tier participating units on the basis of the engineering management. In addition, the Group established a file synchronization system based on electronic management of original documents, thereby formed an all-directional, fully-functional, multi-level and multi-model integrated system of collaboration management.

RFID Sector

The businesses of RFID sector of the Group were principally the research and development of technology and products of UHF RFID. During the period under review, the Group developed three kinds of new readers that focused on the application of access control and production process control, of which two were ready for batch production. In the meantime, the Group also developed two theoretical prototypes of handheld readers. During the period under review, the Group successfully developed brand new RFS-2612 products which could meet the requirements of national standards of radio frequency parameter and electro-magnetic compatibility, and obtained model approval of the state. The products were well received by the market upon launch.

Prospects

Research and Development

Traffic Sector

In 2009, the Group will focus on improving its market competitiveness whilst actively developing new products on the basis of the research platforms of integrated system management. The major mission of the traffic sector will be the research and development of high-definition products, including high-definition customs checkpoints, high-definition ePolice and high-definition snapshot system of violation so as to enhance its market competitiveness through its product series.

Logistics Sector

In 2009, the Group will continue to increase investments in the research and development of its major products and to improve the capability of constructability, high-end consultation and technological innovation of its technology products. The Group will continue to enhance the integration of its technology and resources to develop a series of major entity-level projects and innovative new projects, such as the “electronic customs lock”, “remote control and management system”, “yard management system” and “platform of public testing”. In the meantime, the Group will engage external experts in customs technology and affairs, to improve its planning and commercialization for its products, and to develop series of products which can be applied to land, sea, lorries and container trucks, so as to ensure the rationalization of its systems.

Highway Sector

Apart from continuing the operations of the mechanical and electrical projects and the existing software products of the Company, the Group will also strive to develop the areas of intelligence by promoting the business of traffic information with emphasis on management software, e-government in the traffic sector and information for the traffic sector. In 2009, the Group will focus on the research and development of control and management system for highway intelligent network, platform for toll management and system for motor vehicle access management, thereby achieving network communications, data sharing, timely information update and enquiry among different levels of highway management, providing platforms which cover the interconnection of the monitoring of cities, highways and tunnel (groups), enhancing the control of information for the management and reflecting the idea of “better services to the public”.

RFID Sector

In addition to its existing products, the Group will continue to expand the ranges and applications of its products in order to meet the requirements of its middle and low-end clients. In the meantime, the Group will develop products of higher added-value and performance-price ratio so as to enhance the competitiveness of the products of the Company. Major research and development projects in 2009 will include the development of readers with functions of access control, wireless data transfer and automatic networking, high-gain (12dBi) antenna and high-speed-low-cost reader 6C. The Group will also co-ordinate large-scale projects and apply projects of development from the state.

Sales and Marketing

Traffic Sector

In 2009, the Group estimates that the traffic monitoring and controlling sector in the PRC will be little changed from last year. The market segments which are relevant to the Group will be those of high-definition customs checkpoints, high-definition ePolice and high-definition snapshot system of violation. In 2009, the Group will fully capitalize on the existing strengths of its brands on the solid foundation laid down by the single champion in Police Inspection and Reporting Post for the group's market explorations. The Group will also closely monitor the markets of local cities and provincial capitals and select prime clients and contracts so as to develop the traffic technology industry. The Group will insist on its role as a co-ordinator in the industry and fully deliver its services to the community. Through the integration of external technology resources and internal research and development, the Group will be gaining competitive advantage in future market competition.

Logistics Sector

As a chief network integrator of customs checkpoint systems, the Group will further create core competitiveness for its principal operations in 2009, thereby further strengthening its leading position in the industry. The Group will also promote the co-operation and communication with the Department of Supervision and Administration and the Department of Technology of the General Customs Administration, and grasp the trends and measures of policies in a timely manner. The Group will penetrate comprehensively in accordance with the customs checkpoint - platform - operation model, thereby developing the customs districts of Nanjing, Dalian and Xiamen as areas of project demonstration and strengthening the brand image of the Company. The Group will improve its capability in the planning of significant projects which are mainly the large-scale projects of supervision and control driven by the bonded harbours. In the meantime, the Group will improve the planning and high-end consultation of our major projects, thereby ensuring to achieve the objectives and growth of our principal operations. Besides, the Group will also focus on the development of its platform business and will enhance its sales of software.

In the meantime, the Group will further improve its efficiency of transformation in the logistics information services and fully promote the projects of electronic customs lock at the trial locations in the relevant customs districts. The Group will focus on Jiangsu, Zhejiang and Fujian in order to pursue breakthrough and establish demonstration spots for operations and to ultimately achieve actual application and promotion for its projects of electronic customs lock. The Group will actively promote its businesses and swiftly establish its systems of service so as to enhance its capabilities for sustainable development.

Highway Sector

In 2009, the investments in highways by the State will bring enormous opportunities to the development of the Group. On the one hand, the Company will enhance its marketing in the mechanical and electrical engineering markets of the traffic sector in Zhejiang, Anhui, Guizhou, Gansu, Chongqing, Chengdu, Shanxi and Xinjiang. Besides, the Group will utilize its own strengths and resources to focus on large-scale mechanical and electrical engineering projects. On the other hand, the Company will consolidate its market share by strategic alliances and through co-operation. In 2009, the Company will focus on 2 to 3 selected provinces as key markets for the promotion and application of its management software, e-government in the traffic sector and traffic information management software.

In 2009, the Group will enhance its marketing efforts and consolidate the market status of its existing products. In the meantime, the Group will rely on agents and major clients and continue to work on some major projects. The Group will focus on domestic market whilst actively respond to the demand overseas. In 2009, the Group plans to seek appropriate business partners in areas other than Shenzhen and Beijing and to geographically divide its markets. In the meantime, the Group will fully co-operate with its partners so as to actively support the crucial system integrators and complementary producers in the industry, thereby achieving parallel development of its own brand and OEM. At the same time, the Group will enhance the promotion of the access control industry on the internet and in professional exhibitions. It will also focus on the support to certain powerful clients in the industry, thereby increasing the support for industry solutions and expanding the client base and recognition of the Company.

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 2009 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.

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.

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' 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.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions as set out in the Code on Corporate Governance Practices (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.

The Company has complied with all the code provisions on Corporate Governance Practice as set out in the GEM Listing Rules to establish formal and transparent procedures to protect and maximize the interests of shareholders during the year.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed above and in this section of "Management Discussion and Analysis", the Directors do not have any future plans for material investment or capital assets.

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 2008.

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.

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

Nanjing, the PRC
23 March 2009

As at the date hereof, the executive Directors are Mr. Sha Min (Chairman), Mr. Chang Yong, Mr. Guo Ya Jun, the non-executive Directors is Mr. Ge Jun; and the independent non-executive Directors are Mr. Zhang Zhan, Mr. Wang Wei and Mr. Lau Shek Yau John.

This announcement will remain on the GEM website at <http://www.hkgem.com> on the "Latest Company Announcements" page for at least 7 days from the date of its posting.

* For identification purpose only