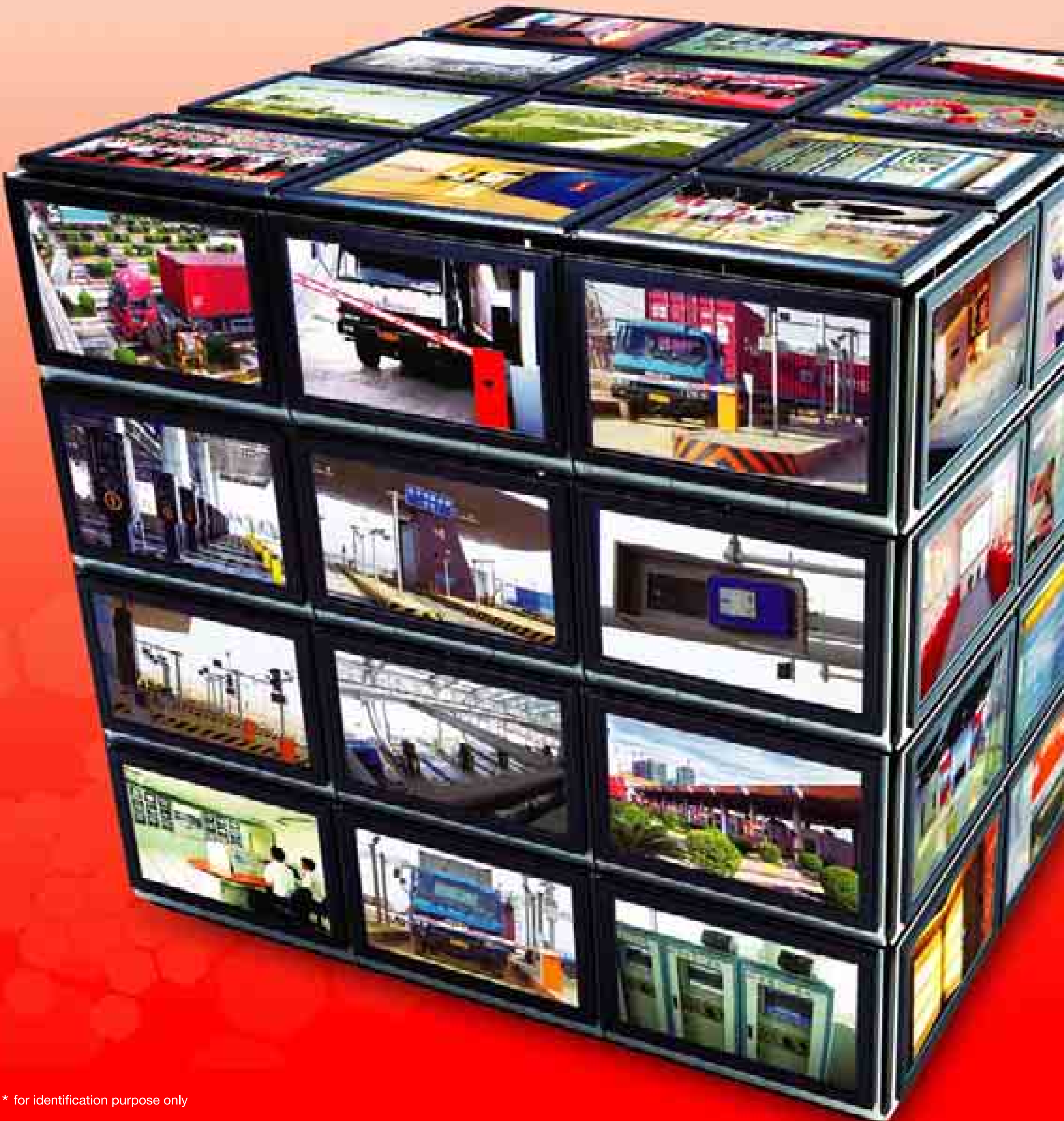
南京三寶科技股份有限公司
NANJING SAMPLE TECHNOLOGY COMPANY LIMITED*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

Stock Code : 8287

Annual Report 2008



* for identification purpose only

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This report, for which the directors (the "Directors") of Nanjing Sample Technology Company Limited (the "Company") collectively and individually accept responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market 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 enquires, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report 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 report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Sha Min (Chairman)
Mr. Chang Yong
(Chief Executive Officer)
Mr. Guo Ya Jun

NON-EXECUTIVE DIRECTOR

Mr. Ge Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

Mr. Qiu Xiang Yang
Mr. Sun Huai Dong
Mr. Dai Jian Jun

QUALIFIED ACCOUNTANT

Mr. Chan Chi Kei Ronald

COMPANY SECRETARY

Mr. Chan Chi Kei Ronald

AUDIT COMMITTEE

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

COMPLIANCE OFFICER

Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES

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Mr. Chan Chi Kei Ronald

AUDITOR

Shu Lun Pan Horwath Hong Kong
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Certified Public Accountants

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STOCK CODE

8287

Chairman's Statement

Mr. Sha Min *Chairman*

To all shareholders,

On behalf of the board of directors (the "Board") of Nanjing Sample Technology Company Limited (the "Company"), I hereby present the annual report of the Company (together with its subsidiaries referred to as the "Group") for the year ended 31 December 2008 (the "period under review") for your review and consideration.

Chairman's Statement

RESULTS

Turnover and profit attributable to equity holders of the Company for the 2008 financial year amounted to approximately RMB331,726,000 and RMB93,146,000 respectively (for the year ended 31 December 2007: RMB152,790,000 and RMB90,084,000), representing a growth of approximately 117.1% and 3.4% respectively, which was primarily attributed to the Group's focus on the cash-flow growth of our principal operations, expansion of highway operations in systems and increase in sales of key software products whilst upgrading the Group's key products and services.

DIVIDEND

An interim dividend of RMB0.1 was declared on 16 September 2008. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008 (2007: RMB0.10 per share).

BUSINESS AND OPERATION REVIEW

The Group's overall guiding concepts for development in 2008 were focused on the development model of business, cash-flows from principal operations, and setting up of standardised workflow and people-oriented system and culture. Evolving around such strategic objectives, the Company attained good results in the expansion of research and application of RFID technology, focusing on intelligent traffic sector, development of information service business and improvement of service quality in 2008 under the leadership of the Board.

Promoting Sample brand building and sustaining core competitiveness of principal operations

The Company's guiding concepts for operations in 2008 were focused on business development model and cash-flows from principal operations. In view of the sound opportunity for business in the domestic transport industry, the Company continued to optimise its business model, further expanded its business scope and completed its initial business framework based on urban transport, customs logistics, highway transport and RFID product technology during the year.

During the period under review, leveraging on its premier position and excellent reputation in the intelligent traffic and customs logistics sectors, the Company was honoured as a "key software enterprise within the State planning framework" and successful completed the upgrade of the computer information system integration competency. During the year, Jiangsu Intellitrans Company Limited ("Jiangsu Intellitrans"), a wholly-owned subsidiary of the Company, became one of the few enterprises in the industry with the capability to undertake large-scale highway mechanical and electrical ("M&E") engineering project having won the M&E projects for Xianju-Yongjia sections of Zhuyong Highway in Zhejiang Province with a tender price of RMB150 million. At the same time, Jiangsu Intellitrans became the sixth enterprises in Jiangsu Province to secure the "First class competency in computer information system integration" by passing the stringent examination and accreditation of the Ministry of Information Industry successfully. The acclaimed status of another subsidiary of the Company, Raifu Intelligent Tech. Co., Ltd., in the RFID industry was exemplified by its selection as the "the most influential enterprise in RFID of China". Meanwhile, it pushed the Company to drive the advance of RFID technology application and expansion gradually as well as the overall development of the PRC RFID industry to level its standing with international enterprises.

Emphasising human-oriented thinking and fortifying enterprise culture building

The Company has been adamant that "talents, personality and character" are the core of its three merits since its establishment. "Talents" is the most valuable treasure of the Company and the perennial consensus of the Company's management has been giving due respects to talents who are paid properly for their work. Talents and their nurtures as well as passing down of knowledge and culture are crucial to its development with the robust development of the Company. During the year, the Company has been actively building a solid training platform, cultivating a continuing learning environment, and adopting external recruitment and open lessons to provide two types of training services in management and technology in enhancing the vocational standard of employees and disseminating corporate culture. All staff, whether new or senior management, will be given opportunities to participate in re-educational training programmes that are suitable to the functions of their respective positions. Through mutual learning and exchange, staff will be able to develop themselves fully in effectively enhancing positivity, belonging and honesty, which would become the drive of the Company's sustainable development.

Assuming social responsibility positively and upgrading social influence

The Company has been advocating the culture of responsibility, in displaying the premier traditions of unity, friendship, assistance and relief continually. Following the Wenchuan earthquakes, the Company kick-started the campaign of giving donations and kind-heartedness to the earthquake disaster area in Sichuan immediately and obtained proactive rapports from all staff who displayed intense social responsibility and duty. Such action constituted an educational activity of love for your country and society.

The Company has high regards for the technology innovation and policy research of the Company's principal operations in advocating to systematise corporate management, standardise workflows, solidify effective division of labour and cooperation among positions which would procure effective development of sound operation and service. At the same time, we also focus on regular exchanges and cooperation with all government departments of the State, provinces and cities, and actively participate in numerous seminars and exhibitions within the industry to study and understand industry practices as well as displaying the Company's technical superiority, fortifying exchanges and cooperation with peers, accelerating strong bonding with international enterprises, which would foster the healthy and buoyant development of Sample Technology.

PROSPECTS

The economic development of China is now subject to stringent trial of the financial crisis. The Central Government launched the RMB4,000 billion investment plans at the right time together with matching investment plans at much larger scales by various local governments in succession. These plans include construction of major infrastructure facilities, such as ports, highways and airports, which will take up a significant proportion of the total investment plans, are closely associated with the principal operations of the Company. Induced by such opportunity, the Group will persist in having a transport framework with the trio of road, highway and port traffic as the main carrier by integrating relevant resources of our transport, logistics and highway operations, strengthening cooperation and complementing advantages in order to lay a solid foundation for all-out strikes on the building of systems for nationwide highway network and ports and harbours.

The guiding objectives for overall development of the Group in 2009 will be to put our focus on overall healthy and stable cash-flow position, upgrades in technology innovation capability, efficiency in converting information service operation, re-engineering of professional service and informational synergy and consolidating integration of principal operations.

Chairman's Statement

Meshing with internal organisation and warranting growth

In 2009, the Group will re-deploy our advantages in talents, technology, market and capital to warrant the steady growths in revenue and profit of the principal operations by capitalising on opportunities created as a result of rapid overall slowdowns of emerging markets and increasing efforts in shaping innovative systems for the Company. Through strengthening the planning of major projects and advisory capability for high-end customers, we will increase our commitments and efforts on new projects, fortify synergy and efficiency between technology and products, quality management standard of products, and appraisals of current and interim technology projects, enhance structural capability of core technology and products, and engineering and standardisation level of sales, production, project management and services, consolidate core competitiveness and safeguard the healthy and steady development of the Company.

The Group will continue to push traffic and logistics information services projects, enhance efficiency in converting information service operation and upgrade the sustainable development of the Company. Meanwhile, the Company will manifest its commitments in information management system and achieve total information for all staff and projects and upgrade synergy and efficiency in project implementation.

In 2009, the Group will be steadfast in its team building, with utmost recognition for team strengths, high regards for talents and selection for successors, practical protections for returns and advances in talents, moulding responsibility culture for being accountable to customers and team culture for being loyal to the team, so as to train a team of high quality and good character with cohesiveness for the development of the Company.

Stable development and safeguard returns

In 2009, the Group will continue to step up its risk management and control by means of such measures as building information system and emergency mechanism to prevent and control risks, and safeguard the stable development of the Company. Meanwhile, we will strengthen our cooperation with our peers in the industry whose businesses are closely associated with us through various means, such as strategic alliances and project partnership, to erect a sound communication platform and to better our communications and exchanges with governmental and scientific research organisations, in order to capitalise on directions of policy trends and scientific research and technology development.

Leveraging on the existing strengths of the Company, the principal operations of the Company will be developed as the first growing and harmonious enterprise in the country with specialties in the information services of the modern service sector.

On behalf of Sample Technology, I would like to extend my heart-felt gratitude to our suppliers, customers and shareholders for their unfailing support and faith, as well as the dedicated efforts from every staff, which enabled the Group to achieve another pinnacle of performance.

By Order of the Board
Sha Min
Chairman

Nanjing, China
23 March 2009

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.

Management Discussion and Analysis

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. RMB9,329,000 are pledged for projects bidding/projects in progress.

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.

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.

Management Discussion and Analysis

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.

Management Discussion and Analysis

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.

RFID Sector

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.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 44, an executive Director and Chairman of the Company. He is responsible for devising the Group's overall strategies and policies. Mr. Sha obtained a master's degree in engineering from Southeast University in 1990. Mr. Sha was conferred the honorary titles of "Jiangsu Province Outstanding Young Entrepreneur" and "Nanjing Ten Outstanding Young Entrepreneur" in 2000 and 2001 respectively. Mr. Sha was elected as a committee member of the Nanjing City Committee of the Chinese People's Political Consultative Conference in January 2003 and a committee member of the Jiangsu Province Committee of the Chinese People's Political Consultative Conference in December 2007. Mr. Sha was first appointed as a Director in December 1999 and is directly interested in 0.7% of the registered capital of the Company.

Mr. Chang Yong (常勇), aged 42, an executive Director and general manager of the Company. He is responsible for implementing the Group's strategies and business plans. He obtained a master's degree in computer application studies from Harbin Institute of Technology in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from 1990 to 1992. Mr. Chang became vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. He was appointed as an executive director and general manager of Sample System in December 1997. Mr. Chang was elected as a member of the Chinese People's Political Consultative Committee of Xuanwu District in Nanjing City in 1998. Mr. Chang was first appointed as a Director in December 1997.

Mr. Guo Ya Jun (郭亞軍), aged 49, an executive Director, vice general manager and financial controller of the Company. He is responsible for supervising the Company's accounting department and financial affairs. He graduated from Anhui Agricultural College in August 1982 with a bachelor's degree in agricultural economics. Mr. Guo also graduated from Southeast University in 2004 with a master's degree in business administration. Mr. Guo worked for the Finance Bureau of Lingbi County in Anhui Province from 1982 to 1992 and Nanjing Jintai Building Materials Development Company between 1993 and 1996. Mr. Guo was appointed as finance manager of Sample Group and Sample System in October 1996 and became the Company's financial controller and vice general manager in December 2000. He is currently mainly responsible for the financial and administrative management of the Group. He was first appointed as a Director in December 1999.

NON-EXECUTIVE DIRECTOR

Mr. Ge Jun (戈軍), aged 45, a non-executive Director of the Company. In 1984, he obtained his bachelor's degree from the College of Environmental Science and Engineering of Tongji University in Shanghai, majoring in Municipal Engineering (Water Supply and Sewage). From 1984 to 1994, he worked for Nanjing Professional College. In 1994, he graduated from the master's programme in Civil Engineering of Southeast University. From 1994 to 2003, he was employed by China Jiangsu International Economic Technical Corporation Corp. From 2003 to 2006, he worked for Jiangsu Su Jian Investment Management Consulting Company Limited. Mr. Ge is now an employee of Jiang Su Century Golden Ox Technology & Industry & Trade Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan (張展), aged 41, an independent non-executive Director of the Company. He obtained a bachelor's degree in computer science from Wuhan University in 1989. From 1989 to 1998, he worked for the Nanjing Branch of China Construction Bank. He was appointed as a Director of the Company in 2000. Mr. Zhang is currently general manager of the investment banking division of China Construction Bank Securities Investment Company Limited.

Mr. Wang Wei (王煒), aged 49, an independent non-executive Director of the Company. He obtained a bachelor's degree in road engineering in 1982, a master's degree in 1985 from Southeast University and taught at the university. Mr. Wang obtained a doctorate degree in Structural Engineering from Southeast University in 1990 and taught as a visiting professor at Ruhr-University, Germany in 1996. Mr. Wang was appointed as an independent Director of the Company in 2001. He is currently dean of transportation college of Southeast University and head of City Road Traffic Management (Clear Way Project) National Professional Group.

Mr. Lau Shek Yau John (劉石佑), aged 61, an independent non-executive director of the Company. He graduated from the University of Hong Kong in 1971. Mr. Lau was a director of Inchcape Export Buying Services from 1971 to 1983. Mr. Lau established United Distribution Services Far East Limited in 1985, Hoi Kong Container Services Company Limited in 1986 and Wide Shine Terminals Limited in 1990. He founded Cargo Services Far East Limited in 1991 and was appointed as a Director of the Company in 2003. Mr. Lau is a member of the Nanjing City Committee of the Chinese People's Political Consultative Committee.

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 53, a supervisor of the Company. Mr Qiu was an EMBA graduate. He is now a professor of the economics and management college of Southeast University. He is also executive director of the Institute for Urban Development in Jiangsu and vice president of the Nanjing Entrepreneur Club. From 1991 to 2004, he was appointed as deputy director and director of the economics and management college of Southeast University. In 1992, he was exceptionally promoted to Professor, and received the State's Sponsorship for Special Contribution. He is a veteran in the teaching and research of economics and management affairs. He has in-depth knowledge in corporate management and industrial development.

Mr. Sun Huai Dong (孫懷東), aged 41, a supervisor of the Company. He graduated from the department of radio engineering of Southeast University with a bachelor's degree in July 1990. He worked for the State-owned Factory No.772 from 1990 to 1992. Mr. Sun was appointed manager of the sales department and general manager of Sample Industry during the period from 1993 to 2002. Mr. Sun has been vice deputy general manager of Jiangsu Hai Te Man New Material Co., Ltd. since 2002. He was first appointed as a Supervisor in December 1999.

Mr. Dai Jian Jun (戴建軍), aged 38, a supervisor of the Company. He was educated in Jiangsu Public Security Professional School from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a Supervisor in August 2003.

SENIOR MANAGEMENT AND CORE TECHNICAL STAFF

Mr. Fu Yu Qing (富煜清), aged 70, chief technical officer of the Company. He graduated from Southeast University in August 1961 and obtained a doctorate degree in Philosophy from Laval University, Canada in 1984. Mr. Fu was an instructor from September 1961 to December 1979, associate professor, professor, director of teaching research group, director of research office and general engineer of the research institute of the faculty of wireless communications of Southeast University from January 1984 to July 1998. Mr. Fu joined Sample Group in September 1998. Mr. Fu joined the Company and was appointed as chief technical officer of the Company in December 2000.

Mr. Chen Rui Cai (陳瑞才), aged 46, a director of the Company's president office. He graduated from Chang'an University (Xi'an Highway College) in July 1987. He worked for the research institute under the Nanjing police's traffic control research department as deputy president in August 1987. Mr. Chen joined the Company in June 2003 and served as general manager of the Company's traffic department. He also served as director of the Company's president office in January 2008.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Zhu Xiang (朱翔), aged 32, secretary of the Board of the Directors and general manager of the investment centre. He graduated from Xi'an Jiaotong University in July 2000 and obtained a MBA degree from Nanjing University in June 2006. He joined the securities department of Hainan Airlines Company Limited in July 2000 as assistant to secretary of the board of directors. He joined the Company in March 2003 and served as senior manager of the Company's investment department, general manager of the investment centre and secretary to the Board of Directors.

Ms. Du Jin (杜瑾), aged 45. She obtained an MBA degree from Asia International Open University (Macau) in 2000. She formerly worked for Jiangsu Province Telecommunication Equipment Factory from December 1985 to August 1993 and Nabisco Food (Suzhou) Company Limited, Nanjing Branch from July 1996 to July 1998. She joined the Company in August 1998, and is manager of the Company's logistics affairs department.

Mr. Gu Jun (顧峻), aged 42, an assistant researcher. He graduated from the department of applied mathematics of the Information Engineering University of the People's Liberation Army in 1989. He also graduated from the postgraduate programme of corporate management of the school of economics and management at Southeast University. From 1989 to 2002, Mr. Gu worked at the Nanjing Military Area Command and has been programmer, system analyst, system architect, project leader and department head and discharged as a regiment commander in 2002. From 2002 to 2004, Mr. Gu worked at Linkage Technologies Co., Ltd in Nanjing as project manager and regional manager at the management centre. He joined the Company in 2006 as general manager at the engineering centre of the traffic affairs department, and then became general manager of the traffic affairs department in 2008.

Mr. Chen Wei (陳衛), aged 54. Mr. Chen graduated from Jiangsu Radio and TV University in 1982. He worked for Nanjing Electric Meter Factory from 1982 to 1992, and GPRO Group in Nanjing from 1992 to November 2000. Mr. Chen joined Intellitrans Company in December 2000, and was manager of engineering department, chief engineer, assistant to general manager and deputy general manager. Mr. Chen became general manager of Jiangsu Intellitrans Company Limited in January 2008.

Mr. Cao Yun Hai (曹宏海), aged 45, a senior engineer. Mr. Cao graduated from Southeast University with a master's degree in information systems in 1988. Mr. Cao is currently general manager of Jiangsu Raifu Intelligent Tech. Co., Ltd.

Report of the Directors

The Directors present the annual report and audited financial statements for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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 products and system solutions are currently designated for use in (i) traffic monitoring and control sector and (ii) customs logistics monitoring sector in the PRC.

RESULTS AND APPROPRIATIONS

The results and financial position of the Group for the year ended 31 December 2008 are set out on pages 30 to 73 of this annual report.

An interim dividend of RMB0.1 was declared on 16 September 2008. The Directors do not recommend the payment of a final dividend for the year ended 31 December 2008. (2007: RMB0.1 per share)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in the Note 14 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and Supervisors during the year and up to the date of this annual report were:

Executive Directors

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

Non-executive Director

Mr. Ge Jun

Independent Non-executive Directors

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

Supervisors

Mr. Qiu Xiang Yang
Mr. Sun Huai Dong
Mr. Dai Jian Jun

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.

INTERESTS OR SHORT POSITIONS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS OF THE DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICERS

Save as disclosed below, as at 31 December 2008, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.47 of the GEM Listing Rules.

Long Positions in Shares

Name of Directors	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Sha Min	1,350,000	Beneficial owner	0.7

Note: As Du Yu (杜予) is the spouse of Sha Min, Du Yu (杜予) is deemed to be interested in 1,350,000 domestic shares held by Sha Min pursuant to Part XV of the SFO.

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2008, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note)	58,950,000	Beneficial and corporate	30.47%
Jiang Su Century Golden Ox Technology & Industry & Trade Corporation ("Century Golden Ox")	22,455,000	Beneficial	11.60%
Active Gold Holding Limited	49,545,000	Beneficial and corporate	22.11%

Note: Sample Group directly holds 54,000,000 domestic shares and is also interested in 95.00% of the registered capital of Nanjing Sample Technology Commerce City Company Limited (南京三寶科技商城有限公司) ("Sample Commerce City"), which in turn is directly interested in 4,950,000 Domestic Shares. Pursuant to section 316 of the SFO, Sample Group is deemed to be interested in the 4,950,000 Domestic Shares held by Sample Commerce City.

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2008, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2008, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the year.

SHARE OPTION SCHEME

The details of the share option scheme of the Company are set out in note 30 to the financial statements.

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.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Turnover to the Group's five largest customers accounted for 36.8% (2007: 41.2%) of the total sales for the year and sales to the largest customer included therein amounted to 16.3% (2007: 21.3%).

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

Five Largest Suppliers

Purchase from the Group's five largest suppliers accounted for 5.6% (2007: 12.0%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 1.3% (2007: 3.1%).

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

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest individuals of the Group are set out in Note 9 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 74 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the Note 29 to the financial statements. Pursuant to the circular dated 5 September 2007 concerning the proposed placing of Placing Shares which have been duly passed by way of poll in the Extraordinary General Meeting dated 22 October 2007, the Company have obtained an approval from the China Securities Regulatory Commission ("CSRC") on 2 June 2008 documented the Zheng Jian Xu Ke [2008] No. 763, the Company is allowed to issue not more than 30,600,000 additional ordinary H shares with par value of RMB1 each.

RESERVES

Details of the movements of reserves of the Group during the year are set out on page 33 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2008, the Group's reserves available for distribution amounted to RMB125,084,000 (2007: RMB80,527,000).

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicity available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules, 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.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2008, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2008, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. Zhang Zhan, Mr. Wang Wei and Mr. Lau Shek Yau John a confirmation of their independence pursuant to rule 5.09 of the GEM Listing Rules and considers the independent non-executive Directors to be independent.

EMOLUMENT POLICY

The emolument policy of the employees and seniors management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme is set out in Note 30 to the financial statements.

Report of the Directors

CONNECTED TRANSACTIONS

Details of the connected transactions set out in Note 34(a) and Note 34(b) to the financial statements.

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.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting to appoint auditors and fix their remuneration.

On behalf of the Board
Sha Min
Chairman

Nanjing, the PRC
23 March 2009

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.

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.

BOARD OF DIRECTORS AND BOARD MEETING

As at 31 December 2008, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors as follows:

Executive Directors

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

Non-executive Director

Mr. Ge Jun

Independent Non-executive Directors

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

Each of the Directors has entered into a service contract with the Company. The service contracts will expire on 31 December 2009 and shall renew for another terms of three years subject to the approval at the forthcoming annual general meeting of the Company.

The Board's primary responsibilities are to direct and supervise the Company's business and affairs. The biographical details of the Directors and the relationship among the members of the Board are set out on pages 14 to 16 of this annual report. The board of Directors held a full Board meeting each quarter.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, non-executive Director and independent non-executive Directors bring a variety of experience and expertise to the Company.

Corporate Governance Report

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers all the independent non-executive Directors to be independent.

Apart from its statutory responsibilities, the Board of Directors approves the Group's strategic plan, annual budget, key operational initiatives, major investments and funding decisions. It also reviews the Group's financial performance, identifies principal risks of the Group's business and ensures implementation of appropriate systems to manage these risks.

The Board schedules four meetings a year at approximately quarterly intervals and will be met as necessary. During the year ended 31 December 2008, the Board held six meetings, four of which were regular meetings. The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given of a regular Board meeting to give all Directors an opportunity to attend. The following table shows the attendance of individual Directors at the meetings held during the year.

Number of Directors	**Number of attendance**
Executive Directors	
Mr. Sha Min *(Chairman)*	6/6
Mr. Chang Yong *(Chief Executive Officer)*	6/6
Mr. Guo Ya Jun	6/6
Non-executive Director	
Mr. Ge Jun	6/6
Independent Non-executive Directors	
Mr. Zhang Zhan	5/6
Mr. Wang Wei	5/6
Mr. Lau Shek Yau John	5/6

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

REMUNERATION COMMITTEE

In accordance with Code provision B1.1 to B1.5 of the Corporate Governance Practices, the appointment and the terms of reference of the Company's remuneration committee have been approved in the board meeting on 10 November 2005.

Members of the remuneration committee, with the majority consisting of independent non-executive Directors, comprise:

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

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

A meeting was held during the year by the remuneration committee to review the remuneration packages of executive Directors and the director's fees of the independent non-executive Directors. All members of the remuneration committee, namely Mr. Guo Ya Jun, Mr. Zhang Zhan and Mr. Wang Wei attended the said meeting. The remuneration committee plans to meet at least once a year in the coming year.

NOMINATION OF DIRECTORS

The Company's nomination committee was approved and established in the board meeting held on 25 August 2007.

Members of the nomination committee comprise:

Mr. Sha Min *(the Chairman of the nomination committee)*
Mr. Zhang Zhan
Mr. Guo Ya Jun

It is the board of Directors' responsibilities in relation to nomination of Directors (i) to review the structure, size and composition of the Board; (ii) identify individuals suitably qualified to become Board members; and (iii) to convene shareholders' meeting in relation to appointment and re-appointment of Directors of the Company.

A meeting was held during the year by the nomination committee. All members of the nomination committee, namely Mr. Sha Min, Mr. Zhang Zhan and Mr. Guo Ya Jun attended the said meeting.

AUDITORS' REMUNERATION

The remuneration in respect of the services provided by the Company's auditors is analysed as follows:

	2008 **HK$'000**	2007 HK$'000
Services rendered		
Audit services	**800**	520
Non-audit services	**–**	–
	800	520

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and provide advice and comments on the Company's draft annual reports and accounts, interim reports and quarterly reports to Directors.

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

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

	Number of attendance
Members of the Audit committee	
Mr. Zhang Zhan	3/4
Mr. Wang Wei	3/4
Mr. Lau Shek Yau John	4/4

During the year, the Group's unaudited quarterly and interim results for the year 2008 and annual audited results for the year ended 31 December 2008 have been reviewed by the audit committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure have been made.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is independent auditors' responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders. The responsibility of the independent auditors are set out in the independent auditor's report on page 28 to 29 of this annual report.

INTERNAL CONTROL

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

Report of the Supervisory Committee

To the shareholders,

For the year ended 31 December 2008, the supervisory committee of Nanjing Sample Technology Company Limited, in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company, took an active role to work reasonably and cautiously with the principle of good faith and due diligence to protect the interest of the Company's shareholders.

During the year under review, the supervisory committee performed supervisory duties faithfully in an active, pragmatic and prudent manner, and provided reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It also strictly and effectively supervised the Company's management in formulating significant policies and making decisions to ensure that they were in compliance with the laws and regulations of the PRC and the articles of association of the Company, and in the interests of the shareholders.

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

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

On behalf of the Supervisory Committee
Qiu Xiang Yang
Chairman

Nanjing, the PRC
23 March 2009

Independent Auditor's Report

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Certified Public Accountants
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Wanchai, Hong Kong
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Facsimile : (852) 2810 0502
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TO THE MEMBERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED
(established and reorganised into a joint stock limited company
in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Sample Technology Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 30 to 73, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

23 March 2009

Chan Kam Wing, Clement
Practising Certificate number P02038

Consolidated Income Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Turnover	4	**331,726**	152,790
Cost of sales		**(198,903)**	(50,679)
Gross profit		**132,823**	102,111
Other revenue	4	**26,198**	12,746
Distribution costs		**(14,725)**	(9,424)
Administrative expenses		**(38,898)**	(27,194)
Finance costs	6	**(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	7	**98,929**	89,672
Income tax (charge)/credit	8	**(5,530)**	533
Profit for the year		**93,399**	90,205
Attributable to:			
Equity holders of the parent	11	**93,146**	90,084
Minority interests		**253**	121
		93,399	90,205
Dividends	12		
— 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)	13	**0.48**	0.47

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	53,966	57,839
Prepaid lease payments	15	6,568	6,718
Intangible assets	16	18,083	—
Deferred tax assets	17	1,817	2,299
Deposit for acquisition of a subsidiary	19	—	30,028
		80,434	96,884
Current assets			
Inventories	20	1,856	3,654
Trade receivables	21	249,941	120,633
Other receivables and prepayments	22	84,913	20,821
Loans receivable	23	—	117,900
Prepaid lease payments	15	150	150
Amounts due from customers for contract work	24	90,377	38,155
Tax recoverable		1,041	—
Pledged bank deposits	25	19,329	10,680
Bank balances and cash		158,246	68,070
		605,853	380,063
Current liabilities			
Trade and other payables and receipts in advance	26	152,116	42,963
Short-term bank loans	27	142,000	109,000
Other loan payable	28	2,000	—
Tax payable		4,713	3,597
Dividends payable		7,200	—
		308,029	155,560
Net current assets		297,824	224,503
Total assets less current liabilities		378,258	321,387
Non-current liabilities			
Deferred tax liabilities	17	2,789	194
Net assets		375,469	321,193

Consolidated Balance Sheet

At 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
Equity			
Share capital	29	**193,500**	193,500
Reserves	31	**180,273**	126,250
Equity attributable to equity holders of the parent		**373,773**	319,750
Minority interests		**1,696**	1,443
Total equity		**375,469**	321,193

These financial statements on pages 30 to 73 were approved and authorised for issue by the Board of Directors on 23 March 2009 and are signed on its behalf by:

Sha Min	**Guo Ya Jun**
Director	Director

The accompanying notes form part of these financial statements.

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 declared	—	—	—	—	(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**

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**98,929**	89,672
Adjustments for:			
Finance costs		**6,469**	3,598
Interest income		**(3,493)**	(1,703)
Depreciation of property, plant and equipment		**6,627**	6,077
Amortisation of intangible assets		**2,583**	—
Recognition of prepaid lease payments		**150**	151
Loss on disposal of property, plant and equipment		**2**	3
Excess of interest in the net fair value of assets and liabilities of subsidiaries acquired over cost		**—**	(15,031)
Allowance for inventories		**—**	434
Allowance for doubtful debts		**1,816**	349
Provision for impairment losses		**6,732**	3,258
Operating cash flows before movements in working capital		**119,815**	86,808
Decrease in inventories		**2,389**	236
Increase in amounts due from customers for contract work		**(50,161)**	(7,028)
Increase in trade receivables		**(68,075)**	(51,841)
Decrease in other receivables and prepayments		**40,251**	10,984
Increase in trade and other payables and receipts in advance		**19,768**	8,518
Effect of foreign exchange rate changes		**(380)**	—
Cash generated from operations		**63,607**	47,677
PRC enterprise income tax paid		**(4,718)**	(3,658)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**58,889**	44,019

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Note	2008 RMB'000	2007 RMB'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries	32	**14,087**	(5,839)
Deposit for acquisition of a subsidiary		**—**	(30,028)
Loan advanced		**—**	(88,900)
Repayment of loan advanced		**29,000**	—
Returns on convertible note		**—**	1,000
Interest received		**1,791**	1,703
Proceeds from disposal of property, plant and equipment		**18**	7
Payments to acquire property, plant and equipment		**(1,948)**	(4,988)
Increase in pledged bank deposits		**(8,649)**	(10,319)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**34,299**	(137,364)
FINANCING ACTIVITIES			
Interest paid		**(6,469)**	(3,598)
Dividend paid		**(31,500)**	—
Repayment of bank loans		**(109,000)**	(46,000)
New other loan raised		**2,000**	—
New bank loans raised		**142,000**	90,000
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(2,969)**	40,402
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**90,219**	(52,943)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(43)**	—
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**68,070**	121,013
CASH AND CASH EQUIVALENTS AT END OF YEAR		**158,246**	68,070
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**158,246**	68,070

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. GENERAL

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited) (the "Company") was established in the 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 1 Huangzhuang Road, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC, respectively.

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

The books and records of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are maintained in Renminbi ("RMB"), the 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.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(b) Adoption of new and revised standards (continued)

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 13	Customer loyalty programmes (iv)
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded derivatives (iii)
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.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(c) Basis of consolidation

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

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

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

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

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

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition represents the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Subsidiary

A subsidiary is an enterprise in which the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(f) Joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control, that is when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

Where a group company undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant company and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

(g) Goodwill

Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is presented separately.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gain or loss on the disposal of a subsidiary includes the carrying amount of goodwill relating to the subsidiary.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

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

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

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

Buildings	30 years
Furniture, fixtures and equipment	5–10 years
Motor vehicles	5–10 years
Leasehold improvements	5–20 years

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

(i) Leasehold land

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets

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

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

Research and development costs

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

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

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

(k) Impairment of assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Installation contracts

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

When the outcome of a contract cannot be estimated reliably, contract costs are recognised as an expense in the period in which they are incurred. When it is probable that total contract costs will exceed total revenue, the expected loss is recognised as an expense immediately.

Construction contracts in progress at the balance sheet date are recorded in the balance sheet at the net amount of costs incurred plus recognised profit less recognised losses and progress billings, and are presented in the balance sheet as the "Gross amount due from/to customers for contract work". Progress billings not yet paid by the customers are included in the balance sheet date under "Trade receivables". Amount received before the related work is performed are included in the balance sheet, as a liability, as "Receipts in advance".

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and cost necessary to make the sale.

(n) Financial assets

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

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

i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivable and amounts due from customers for contract work) are carried at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial assets (continued)

ii) Impairment

Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exists, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included in trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial assets (continued)

iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(o) Financial liabilities and equity

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

i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

ii) Financial liabilities

Financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial liabilities (other than financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial liabilities are included in one category, other financial liabilities. Other financial liabilities including bank loans, trade and other payables, are subsequently measured at amortised cost, using the effective interest rate method.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(o) Financial liabilities and equity (continued)

iii) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(p) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) Leasing

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

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

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Taxation

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

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associated companies and joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(t) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Renminbi which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Renminbi using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's foreign currency translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

(u) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

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

(v) Retirement benefit cost

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(w) Borrowing costs

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

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

(x) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(y) Revenue recognition

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

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

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

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not be realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Useful lives of intangible assets

The Group's management determines the estimated useful lives and related amortisation charges for the Group's intangible assets. This estimate is based on the expected pattern of consumption of the future economic benefits embodied in the asset or, where appropriate, the contractual or other legal rights associated with the assets. The Group will revise the amortisation period and the amortisation method for an intangible asset where the useful life is different to that previously estimated.

(d) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(e) Construction contracts

As explained in policy Notes 2(l) and 2(y), revenue and profit recognition on an uncompleted project is dependent on estimating the total outcome of the construction contract, as well as work done to date. Based on the Group's recent experience and the nature of the construction activity undertaken by the Group, the Group makes estimates of the point at which it considers the work is sufficiently advanced such that the costs to complete and revenue can be reliably estimated. As a result, until this point is reached the amounts due from customers for contract work as disclosed in Note 24 will not include profit which the Group may eventually realise from the work done to date. In addition, actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the balance sheet date, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date.

4. 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

5. 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.

6. FINANCE COSTS

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

7. 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	2,566	948
	19,127	8,289
Less: Staff costs included in research and development costs	(1,863)	(522)
	17,264	7,767
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)	2,583	—
Allowance for inventories	—	434
Carrying amount of inventories sold	184,513	48,906
Amount of inventories recognised as expenses	184,513	49,340
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 (gains)/losses, net	(94)	1,009

8. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
PRC income tax	**4,790**	313
Deferred taxation (Note 17)		
— origination and reversal of timing difference	**266**	(786)
— resulting from a change in tax rate	**474**	(60)
Income tax charge/(credit)	**5,530**	(533)

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 is 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%.

8. INCOME TAX (CONTINUED)

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

	2008 RMB'000	2008 %	2007 RMB'000	2007 %
Profit before income tax	**98,929**		89,672	
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	**(81)**	**(0.1)**	(138)	(0.2)
Tax charge/(credit) and effective tax rate for the year	**5,530**	**5.6**	(533)	(0.2)

9. DIRECTORS' EMOLUMENTS

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

	2008				2007			
	Fees	Other emoluments		Total	Fees	Other emoluments		Total
		Salaries and other benefits	Contributions to retirement benefits/ pension scheme			Salaries and other benefits	Contributions to retirement benefits/ pension scheme	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Sha Min	31	270	26	327	20	252	13	285
Mr. Chang Yong	31	196	24	251	20	171	13	204
Mr. Guo Ya Jun	31	226	25	282	20	214	13	247
Sub-total	93	692	75	860	60	637	39	736
Non-executive directors								
Mr. Ge Jun (i)	10	–	–	10	–	–	–	–
Mr. Zhao Jing Chen (ii)	–	–	–	–	10	–	–	10
Mr. Zhang Yin Qian (ii)	–	–	–	–	10	–	–	10
Mr. Guo Shi Ping (ii)	–	–	–	–	10	–	–	10
Mr. Zhu De Xiang (ii)	–	–	–	–	10	–	–	10
Sub-total	10	–	–	10	40	–	–	40
Independent non-executive directors								
Mr. Zhang Zhan	10	–	–	10	10	–	–	10
Mr. Wang Wei	10	–	–	10	10	–	–	10
Mr. Lau Shek Yau, John	60	–	–	60	62	–	–	62
Sub-total	80	–	–	80	82	–	–	82
Supervisors								
Mr. Tian Tao (iii)	–	–	–	–	10	–	–	10
Mr. Sun Huai Dong	11	87	15	113	10	67	4	81
Ms. Du Jin (iii)	–	–	–	–	10	159	10	179
Mr. Dai Jian Jun	10	–	–	10	10	–	–	10
Sub-total	21	87	15	123	40	226	14	280
Independent supervisors								
Ms. Ma Lin Ping (iii)	–	–	–	–	10	–	–	10
Mr. Qiu Xiang Yang (i)	10	–	–	10	–	–	–	–
Sub-total	10	–	–	10	10	–	–	10
Total	214	779	90	1,083	232	863	53	1,148

9. DIRECTORS' EMOLUMENTS (CONTINUED)

(i) Appointed on 25 August 2007.

(ii) These directors resigned on 5 April 2007.

(iii) Resigned on 25 August 2007.

The emoluments of each of the Directors for both years were below HK$1,000,000 (equivalent to RMB889,000).

None of the directors waived or agreed to waive any emoluments during the year ended 31 December 2008 (2007: Nil). No emoluments were paid by the Company to the directors as an inducement to join or upon joining the Company or as compensation for loss of office during the year ended 31 December 2008 (2007: Nil).

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2007: three) were directors of the Company whose emoluments are included in the disclosures in Note 9 above. The emoluments of the remaining two (2007: two) individuals were as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**273**	330
Contributions to retirement benefit scheme	**34**	13
	307	343

Their emoluments were within the following band:

	2008 No. of employees	2007 No. of employees
Nil to HK$1,000,000 (Nil to RMB889,000)	**2**	2

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent includes a profit of RMB45,582,000 (2007: RMB75,040,000) which has been dealt with in the financial statements of the Company.

12. 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	**—**	19,350
	19,350	19,350

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	**19,350**	—

13. 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.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Furniture fixtures and equipment RMB'000	Motor vehicles RMB'000	Leasehold improvements RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2007	32,998	14,938	3,515	18,297	—	69,748
Acquisition of subsidiaries	—	1,558	—	—	54	1,612
Additions	—	3,631	667	690	—	4,988
Reclassification	1,100	—	—	(1,100)	—	—
Disposals	—	(80)	—	—	—	(80)
At 31 December 2007	34,098	20,047	4,182	17,887	54	76,268
Acquisition of a subsidiary	—	2,526	659	—	—	3,185
Additions	—	868	633	—	447	1,948
Disposals	—	(127)	(113)	—	—	(240)
Transfer	—	54	—	—	(54)	—
At 31 December 2008	34,098	23,368	5,361	17,887	447	81,161
ACCUMULATED DEPRECIATION						
At 1 January 2007	2,350	4,771	1,509	3,222	—	11,852
Acquisition of subsidiaries	—	570	—	—	—	570
Provided for the year	1,080	2,765	392	1,840	—	6,077
Reclassification	104	—	—	(104)	—	—
Eliminated on disposal	—	(70)	—	—	—	(70)
At 31 December 2007	3,534	8,036	1,901	4,958	—	18,429
Acquisition of a subsidiary	—	1,946	413	—	—	2,359
Provided for the year	1,080	3,110	597	1,840	—	6,627
Eliminated on disposal	—	(113)	(107)	—	—	(220)
At 31 December 2008	4,614	12,979	2,804	6,798	—	27,195
NET BOOK VALUE						
At 31 December 2008	29,484	10,389	2,557	11,089	447	53,966
At 31 December 2007	30,564	12,011	2,281	12,929	54	57,839

Note:

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

(b) On 9 April 2007, the Group entered into a co-operation agreement with an independent third party for joint operation of a RFID Technology research and exhibition centre for a term of 2 years. Upon expiry of the agreement, the Group will entitle to its share of the jointly controlled assets. As at 31 December 2008, the Group's share of the jointly controlled assets recognised in the financial statements is RMB2,015,000 (2007: RMB2,633,000).

15. PREPAID LEASE PAYMENTS

	2008 RMB'000	2007 RMB'000
Leasehold land in the PRC:		
— Medium term lease	**6,718**	6,868
Analysed for reporting purposes as:		
— Current asset	**150**	150
— Non-current asset	**6,568**	6,718
	6,718	6,868

16. INTANGIBLE ASSETS

	Technical know-how RMB'000
COST	
At 1 January 2007 and 31 December 2007	1,000
Acquisition of a subsidiary	20,666
At 31 December 2008	21,666
AMORTISATION	
At 1 January 2007 and 31 December 2007	1,000
Provided for the year	2,583
At 31 December 2008	3,583
CARRYING VALUE	
At 31 December 2008	18,083
At 31 December 2007	—

Technical know-how are amortised over their estimated useful lives of 8 years.

17. DEFERRED TAX

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

	Depreciation of property, plant and equipment	Amortisation of technical know-how	Recognition of intangible assets	Impairment loss on trade and other receivables	Impairment loss on inventories	Others	Tax loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	556	19	–	(65)	256	125	–	891
Credited/(charged) to profit or loss for the year (Note 8)	86	(15)	–	548	54	113	–	786
Effect of change in tax rate (Note 8)	–	(2)	–	–	–	62	–	60
Acquisition of subsidiaries	–	–	–	34	185	–	149	368
At 31 December 2007	642	2	–	517	495	300	149	2,105
Credited/(charged) to profit or loss for the year (Note 8)	46	(3)	–	566	(328)	(458)	(89)	(266)
Effect of change in tax rate (Note 8)	(214)	1	–	(175)	(143)	117	(60)	(474)
Acquisition of a subsidiary	–	–	(2,712)	207	–	168	–	(2,337)
At 31 December 2008	474	–	(2,712)	1,115	24	127	–	(972)

Deferred tax balances are presented in the consolidated balance sheet as follows:

	2008	2007
	RMB'000	RMB'000
Deferred tax assets	**1,817**	2,299
Deferred tax liabilities	**(2,789)**	(194)
	(972)	2,105

At 31 December 2008, the Group has unused tax losses of RMB2,521,000 (2007: RMB1,502,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The losses will expire since 2011.

18. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2008 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment	Place of operations	Issued and fully paid capital/ registered capital '000	Attributable equity interest held by the Company directly	Attributable equity interest held by the Company indirectly	Principal activities
南京三寶物流科技有限公司 (Nanjing Sample Logistic Company Limited)	11 March 2000 PRC	PRC	RMB6,000	95%	–	Provision of video security system solutions
南京三寶射頻技術研究有限公司 (Nanjing Sample RFID Technology Company Limited)	8 December 2006 PRC	PRC	RMB6,000	100%	–	Not yet commence business
江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Limited)	22 August 2000 PRC	PRC	RMB30,000	–	100%	Provision of intelligent transportation system construction services
Sample Technology (H.K.) Co., Limited	7 December 2006 Hong Kong	Hong Kong	HK$78	100%	–	Investment holding
Federal International Enterprise Limited	22 September 2006 Hong Kong	Hong Kong	HK$10	–	100%	Investment holding
江蘇瑞福智能科技有限公司 (Jiangsu Raifu Intelligent Tech. Co., Ltd.)	18 April 2003 PRC	PRC	RMB10,800	–	100%	Manufacture and trading of electronic products
湖南省利貞科技有限公司 (Hunan Li Zhen Technology Co., Ltd.)	28 August 2007 PRC	PRC	RMB30,000	–	100%	Not yet commence business

All the above companies are limited liability companies.

19. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

The balance represented a deposit paid by the Company for acquisition of the entire paid up capital of Jiangsu Intellitrans Company Limited ("Jiangsu Intellitrans"), at a consideration of RMB40 million.

The acquisition was approved by the shareholders of the Company and completed in January 2008. The details are disclosed in Note 32.

20. INVENTORIES

	2008 RMB'000	2007 RMB'000
Computer hardware products, equipment and software products	**1,856**	3,654

21. TRADE RECEIVABLES

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

(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 ageing analysis of trade receivables net of allowance for doubtful debts and provision for impairment losses at the balance sheet date:

	2008 RMB'000	2007 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
	249,941	120,633

21. TRADE RECEIVABLES (CONTINUED)

(c) The movements in the allowance for doubtful debts during the year are as follows:

	2008 RMB'000	2007 RMB'000
At beginning of year	1,536	1,187
Acquisition of a subsidiary	1,247	136
Impairment loss recognised	569	213
At end of year	3,352	1,536

This allowance has been determined by reference to past default experience. The Group does not hold any collateral over these balances.

(d) The movements in the provision for impairment losses during the year are as follows:

	2008 RMB'000	2007 RMB'000
At beginning of year	3,258	—
Interest income recognised	(1,702)	—
Impairment loss recognised	6,732	3,258
At end of year	8,288	3,258

This provision has been determined based on the estimated future cash flows discounted at appropriate rate. The Group does not hold any collateral over these balances.

(e) The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	563	52,647
Less than 6 months past due	123	33,785
	686	86,432

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

22. OTHER RECEIVABLES AND PREPAYMENTS

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

23. LOANS RECEIVABLE

	2008 RMB'000	2007 RMB'000
Advance to Jiangsu Intellitrans	–	88,900
Other loan	–	29,000
	–	117,900

(a) Advance to Jiangsu Intellitrans was unsecured, interest free and had no fixed repayment terms. On 12 January 2008, Jiangsu Intellitrans became a subsidiary of the Company.

(b) The other loan was unsecured and borne interest at floating bank borrowing rate. The loan was repaid during the year.

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2008 RMB'000	2007 RMB'000
Contract costs incurred to date	169,125	20,752
Recognised profits less recognised losses	165,078	26,762
	334,203	47,514
Less: Progress billing	(188,198)	(8,465)
Receipts from customers in advance	(55,628)	(894)
	90,377	38,155

25. PLEDGED BANK DEPOSITS

The bank deposits of RMB10,000,000 are pledged to a bank for granting a loan of RMB20,000,000 to the Group (Note 27). The remaining are pledged for projects bidding/projects in progress.

26. 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
	152,116	42,963

The following is an ageing 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
	89,654	5,847

27. SHORT-TERM BANK LOANS

	2008 RMB'000	2007 RMB'000
Secured bank loan — guaranteed by a related party and secured by bank deposits (Note (a))	**20,000**	20,000
Unsecured bank loans (Note (b))		
— guaranteed by Sample Group	**122,000**	79,000
— guaranteed by a third party	**—**	30,000
	142,000	109,000

(a) The bank loan is secured by bank deposits of RMB10,000,000 (Note 25) and guarantee RMB10,000,000 by related party, bears interest at 0.59% per month and repayable within one year.

(b) The bank loans are unsecured and repayable within one year with interest charged at range from 6.66% to 8.217% (2007: 6.73% to 8.02%) per annum.

The fair value of the above bank loans estimated by discounting their future cash flows at the prevailing market borrowing rates at 31 December 2008 approximates to the corresponding carrying amount.

28. OTHER LOAN PAYABLE

The other loan is unsecured, non-interest bearing and repayable on 31 January 2009.

29. SHARE CAPITAL

	Number of shares			Amount		
	Domestic shares	**H shares**	**Total**	**Domestic shares** RMB'000	**H shares** RMB'000	**Total** RMB'000
Registered, issued and fully paid, with par value of RMB1.0 each:						
At 1 January 2007	44,100,000	20,400,000	64,500,000	44,100	20,400	64,500
Bonus issue and capitalisation issue	88,200,000	40,800,000	129,000,000	88,200	40,800	129,000
At 31 December 2007 and 2008	132,300,000	61,200,000	193,500,000	132,300	61,200	193,500

29. SHARE CAPITAL (CONTINUED)

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

30. SHARE OPTION SCHEME

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

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

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

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

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

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

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

31. RESERVES

Statutory surplus reserve

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

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

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

Translation reserve

This reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy in Note 2(t).

32. ACQUISITION OF A SUBSIDIARY

In January 2008, the Group acquired 100% of the issued share capital of Jiangsu Intellitrans Company Limited for a consideration of RMB40,000,000. This transaction has been accounted for by the acquisition method of accounting.

The fair value of net assets of Jiangsu Intellitrans Company Limited at the date of acquisition is as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Fair value of net assets acquired:			
Property, plant and equipment	826	—	826
Deferred tax assets	375	—	375
Intangible assets	—	20,666	20,666
Inventories	591	—	591
Trade receivables	68,080	—	68,080
Other receivables and prepayments	104,342	—	104,342
Amount due from customers for contract work	2,061	—	2,061
Bank and cash balances	24,059	—	24,059
Trade and other payables	(174,615)	—	(174,615)
Deferred tax liabilities	—	(2,712)	(2,712)
Other tax payables	(3,670)	—	(3,670)
Tax payables	(3)	—	(3)
	22,046	17,954	40,000
Cash consideration			9,972
Deposit paid in 2007 for acquisition (Note 19)			30,028
Total consideration			40,000
Net cash inflow arising on acquisition:			
Cash consideration			(9,972)
Bank balances and cash acquired			24,059
			14,087

No pro forma financial information in respect of the combined group on an annualised basis is presented as this subsidiary was acquired at the beginning of the year.

33. RETIREMENT BENEFIT SCHEME

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

The total cost charged to profit or loss of RMB2,566,000 (2007: RMB948,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. All the contributions had been paid over to the scheme as at 31 December 2008.

34. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation. Details of transactions between the Group and other related parties are disclosed below.

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

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

Upon expiry of Supplemental Agreement and Option Agreement on 31 July 2008, the Company and Sample Group renewed Supplemental Agreement and Option Agreement and extended the effective period to 31 July 2018.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2008 RMB'000	2007 RMB'000
Guarantees given by Sample Group	**142,000**	79,000

(c) The remuneration of directors as disclosed in Note 9 and other members of key management during the year was as follows:

	2008 RMB'000	2007 RMB'000
Salaries and other benefits	**376**	1,149
Contributions to retirement benefit/pension scheme	**61**	50
	437	1,199

35. CAPITAL RISK MANAGEMENT

The Group's objective of managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce cost of capital.

The capital structure of the Group consists of debts, which includes the borrowings disclosed in Note 27 and Note 28, cash and cash equivalents and equity attributable to equity holders of the Company, comprising share capital, reserves and retained earnings.

The Group's risk management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The gearing ratio at the year end was as follows:

	2008 RMB'000	2007 RMB'000
Debts	**144,000**	109,000
Cash and cash equivalents	**(158,246)**	(68,070)
Net debt	**(14,246)**	40,930
Equity	**375,469**	322,221
Net debt to equity ratio	**N/A**	13%

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank loans, trade and other receivables, amounts due from customers for contract works, trade and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Credit risk

The Group's credit risk primarily relates to the Group's trade and other receivable and amounts due from customers for contract works. In order to minimise the risk, the management of the Group closely monitors overdue debts. Normally, the Group does not obtain collateral from customers. The recoverable amount of each individual debt is reviewed at each balance sheet date and adequate impairment for doubtful debts has been made for irrecoverable amounts. In this regard, the directors of the Group consider that credit risk associated with the Group's trade receivables and amounts due from customers for contract work is significantly reduced.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 7.2% (2007: 7.79%) and 23.49% (2007: 25.42%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note 21.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay.

	Carrying amount	Total contractual discounted cash flow	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008					
Trade and other payables	**142,607**	**142,607**	**142,607**	**—**	**—**
Short-term bank loans	**142,000**	**148,255**	**7,611**	**29,295**	**111,349**
Other loan payable	**2,000**	**2,000**	**2,000**	**—**	**—**
Dividends payable	**7,200**	**7,200**	**7,200**	**—**	**—**
	293,807	**300,062**	**159,418**	**29,295**	**111,349**
As at 31 December 2007					
Trade and other payables	38,963	38,963	38,963	—	—
Short-term bank loans	109,000	114,388	1,990	22,136	90,262
	147,963	153,351	40,953	22,136	90,262

(c) Market risk

(i) Interest rate risk

Interest bearing financial assets are mainly bank balances which are all short-term in nature. Interest bearing financial liabilities are mainly short-term bank loans with fixed interest rates which expose the Group to fair value interest rate risk. The interest rates and terms of repayment of the bank loans are disclosed in note 27 to the financial statements.

(ii) Foreign currency risk

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(iii) Price risk

The Group is not exposed to any equity price risk or commodity price risk.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2008 and 2007 may be categorised as follows:

	2008	2007
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)	**504,083**	334,764
Financial liabilities		
Financial liabilities measured at amortised cost	**293,807**	147,963

Five Year Financial Summary

RESULTS

	Year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**331,726**	152,790	131,614	88,314	77,439
Profit before taxation	**98,929**	89,672	58,860	25,056	20,616
Profit for the year	**93,399**	90,205	50,593	21,184	17,973
Minority interests	**253**	121	(550)	(82)	32
Profit attributable to equity holders of the Company	**93,146**	90,084	50,043	21,102	18,005
Earning per share — Basic (RMB)	**0.48**	0.47	0.78	0.33	0.32

ASSETS AND LIABILITIES

	At 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**80,434**	96,884	66,656	69,318	66,311
Current assets	**605,853**	380,063	248,225	204,215	184,759
Current liabilities	**308,029**	155,560	83,893	89,053	71,324
Net current assets	**297,824**	224,503	164,332	115,162	113,435
Equity attributable to equity holders of the Company	**373,773**	319,750	229,666	179,623	164,971
Total equity	**375,469**	321,193	230,988	184,480	169,746

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the "Annual General Meeting") of Nanjing Sample Technology Company Limited (the "Company") will be held at No.10 Maqun Avenue, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC on Friday, 15 May 2009 at 9:00 a.m. for the following purposes:

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

(1) To consider and approve the report of the directors of the Company for 2008;

(2) To consider and approve the report of the supervisory committee of the Company for 2008;

(3) To consider and approve the audited consolidated financial statements of the Group for 2008;

(4) To authorise the board of directors to appoint auditors and to fix their remuneration for the year ending 2009;

(5) To consider and approve the resolution for appropriation to statutory reserve fund for 2008;

(6) To consider and approve the authority of the Board to dispose of the entire equity interests of Hunan Li Zhen Technology Co., Limited*, a subsidiary of the Company;

(7) To consider and approve the merger by absorption of Nanjing Sample RFID Technology Company Limited*, a wholly-owned subsidiary, by the Company.

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

"That:

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

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

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

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

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

(f) for the purpose of this special resolution:

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

(i) the conclusion of the next annual general meeting of the Company following the passing of this resolution;

(ii) the expiration of the twelve-month period following the passing of this special resolution;

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

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

Nanjing, the PRC
24 March 2009