



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

A large collage of various photographs showing different aspects of the company's operations, including industrial machinery, laboratory equipment, and office environments, arranged in a grid pattern on a red background.

Third Quarterly Report 2010

Characteristics of the Growth Enterprise Market (“Gem”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)

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

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

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This report, for which the directors (the “Directors”) of Nanjing Sample Technology Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

Financial Highlights

The turnover of Nanjing Sample Technology Company Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the nine months ended 30 September 2010 amounted to approximately RMB418,566,000, representing an increase of approximately 15.6% as compared to the corresponding period of last year.

The profit attributable to owners of the Company for the nine months ended 30 September 2010 was approximately RMB83,606,000, representing an increase of approximately 17.3% as compared to the corresponding period of last year.

The board of directors (the “Board”) does not recommend the payment of an interim dividend for the nine months ended 30 September 2010.

Financial Information

UNAUDITED QUARTERLY RESULTS

The Board of the Company would like to present the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2010 together with the comparative unaudited figures for the corresponding period ending 30 September 2009, prepared in accordance with Hong Kong Financial Reporting Standards and generally accepted accounting principles in Hong Kong, as follows. The unaudited results have not been audited by the Company's auditors but have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | Notes | Nine months ended 30 September | | Three months ended 30 September | |
|--|-------|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Turnover | 3 | 418,566 | 361,972 | 111,644 | 85,288 |
| Cost of sales | | (303,079) | (262,315) | (76,508) | (63,231) |
| Gross profit | | 115,487 | 99,657 | 35,136 | 22,057 |
| Other income | | 12,873 | 19,379 | 4,070 | 3,573 |
| Distribution costs | | (7,789) | (8,131) | (3,534) | (3,934) |
| Administrative expenses | | (20,207) | (21,520) | (8,417) | (7,306) |
| Finance costs | 4 | (6,421) | (7,398) | (2,003) | (2,965) |
| Share of results of a jointly-controlled entity | | 1,726 | - | 1,726 | - |
| Profit before tax | | 95,669 | 81,987 | 26,978 | 11,425 |
| Income tax (charge) credit | 5 | (12,063) | (10,733) | (2,414) | 2,244 |
| Profit for the period | 6 | 83,606 | 71,254 | 24,564 | 13,669 |
| Attributable to: | | | | | |
| Owners of the Company | | 83,606 | 71,254 | 24,564 | 13,669 |
| Non-controlling interests | | - | - | - | - |
| | | 83,606 | 71,254 | 24,564 | 13,669 |
| Earnings per share attributable to the owners of the Company - Basic (RMB cents) | 8 | 37.31 | 34.54 | 10.96 | 6.10 |

Financial Information

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

| | Nine months ended 30 September | | Three months ended 30 September | |
|--|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Profit for the period | 83,606 | 71,254 | 24,564 | 13,669 |
| Other comprehensive income: | | | | |
| Exchange difference arising on translation of foreign operations | 24 | (10) | (70) | (4) |
| Total comprehensive income for the period | 83,630 | 71,244 | 24,494 | 13,665 |
| Total comprehensive income for the period attributable to: | | | | |
| Owners of the Company | 83,630 | 71,244 | 24,494 | 13,665 |
| Non-controlling interests | - | - | - | - |
| | 83,630 | 71,244 | 24,494 | 13,665 |

Financial Information

NOTES TO THE THIRD QUARTERLY RESULTS

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. Its products and system solutions are currently designated for use in (i) urban traffic monitoring and control sector; (ii) customs logistics monitoring sector; and (iii) expressway monitoring sector in the PRC. 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 No. 10 Maqun Avenue, 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 (the “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. BASIS OF PREPARATION

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 GEM.

The accounting policies adopted in the preparation of this financial statements are consistent with those adopted in preparing the audited financial statements for the year ended 31 December 2009.

Financial Information

3. TURNOVER

Turnover represents net proceeds received and receivable from security system business.

An analysis of the Group's turnover is as follows:

| | Nine months ended 30 September | | Three months ended 30 September | |
|--|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Urban traffic monitoring and control sector | 31,430 | 18,484 | 10,491 | 8,195 |
| Customs logistics monitoring sector | 54,076 | 35,834 | 5,220 | 14,679 |
| Expressway monitoring sector | 329,956 | 289,006 | 92,829 | 43,766 |
| Other | 3,104 | 18,648 | 3,104 | 18,648 |
| Total | 418,566 | 361,972 | 111,644 | 85,288 |

4. FINANCE COSTS

| | Nine months ended 30 September | | Three months ended 30 September | |
|---|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Interest on bank borrowings wholly repayable within five years | 6,421 | 7,398 | 2,003 | 2,965 |

Financial Information

5. INCOME TAX (CHARGE) CREDIT

| | Nine months ended 30 September | | Three months ended 30 September | |
|-----------------------------------|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| The (charge) credit comprises: | | | | |
| PRC income tax | (12,063) | (10,733) | (2,414) | 2,244 |

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

The Company is recognized as a national high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. Meanwhile, the Company was identified as a key software enterprise falling within the State's Planned Arrangement. Pursuant to the policies for encouraging development of software industry and integrated electrical circuit industry issued by the State Council of the PRC, the Company was entitled to a preferential tax rate of 10%.

6. PROFIT FOR THE PERIOD

| | Nine months ended 30 September | | Three months ended 30 September | |
|--|-----------------------------------|--------------------------------|------------------------------------|--------------------------------|
| | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 | 2010 (Unaudited) RMB'000 | 2009 (Unaudited) RMB'000 |
| Profit for the period has been arrived at after charging crediting): | | | | |
| Amount of inventory recognized as expense | 270,963 | 260,340 | 45,959 | 62,835 |
| Research and development costs | 7,991 | 8,302 | 3,859 | 2,829 |
| Depreciation of property, plant and equipment | 3,780 | 4,223 | 1,262 | 1,263 |
| Operating lease rentals in respect of land use rights | 378 | 416 | 71 | 139 |
| Staff costs (including directors' emoluments) | 14,708 | 6,620 | 4,128 | 472 |
| Interest income | (716) | (742) | (123) | (351) |
| PRC value added tax refunded | (6,344) | (9,772) | (845) | (2,328) |

Financial Information

7. DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 30 September 2010 (2009: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the nine months ended 30 September 2010 and 2009 is based on the profit attributable to owners of the Company approximately RMB83,606,000 and RMB71,254,000 respectively and on the weighted average number of 224,100,000 (2009: 206,278,022) ordinary shares in issue during the respective periods.

The calculation of the basic earnings per share for the three months ended 30 September 2010 and 2009 is based on the profit attributable to owners of the Company approximately RMB24,564,000 and RMB13,669,000 respectively and on the weighted average number of 224,100,000 (2009: 224,100,000) ordinary shares in issue during the respective periods.

No diluted earnings per share has been presented for the nine months and the three months ended 30 September 2010 and 2009 as the Company has no potential dilutive ordinary shares outstanding during the relevant periods.

Financial Information

9. CHANGES IN EQUITY

| | Attributable to owners of the Company | | | | | | Non-controlling | |
|--|---------------------------------------|---------------|-----------------|------------------------------|------------------|----------------|-----------------|----------------|
| | Share capital | Share premium | Statutory | | Retained profits | Total | interests | Total |
| | | | surplus reserve | exchange translation reserve | | | | |
| (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | |
| At 1 January 2010 | 224,100 | 96,217 | 49,673 | (431) | 200,171 | 569,730 | - | 569,730 |
| Dividend declared | - | - | - | - | (22,410) | (22,410) | - | (22,410) |
| Profit appropriation | - | - | 8,108 | - | (8,108) | - | - | - |
| Total comprehensive income for the period | - | - | - | 24 | 83,606 | 83,630 | - | 83,630 |
| At 30 September 2010 | <u>224,100</u> | <u>96,217</u> | <u>57,781</u> | <u>(407)</u> | <u>253,259</u> | <u>630,950</u> | <u>-</u> | <u>630,950</u> |
| At 1 January 2009 | 193,500 | 20,391 | 35,221 | (423) | 125,084 | 373,773 | 1,696 | 375,469 |
| Issue of shares by placement | 30,600 | 91,800 | - | - | - | 122,400 | - | 122,400 |
| Issue expense | - | (15,974) | - | - | - | (15,974) | - | (15,974) |
| Total comprehensive income for the period | - | - | - | (10) | 71,254 | 71,244 | - | 71,244 |
| Reduction in non-controlling interests on acquisition of additional interest in a subsidiary | - | - | 84 | - | - | 84 | (1,696) | (1,612) |
| Profit appropriation | - | - | 23,383 | - | (23,383) | - | - | - |
| At 30 September 2009 | <u>224,100</u> | <u>96,217</u> | <u>58,688</u> | <u>(433)</u> | <u>172,955</u> | <u>551,527</u> | <u>-</u> | <u>551,527</u> |

10. 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 borrowings, cash and cash equivalents and equity attributable to owners of the Company, comprising share capital and reserves and retained earnings.

The Group's risks management reviews the capital structure on a semi-annual basis. The overall strategy of the Group remained unchanged during the two periods ended 30 September 2010 and 2009.

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

The Group's turnover for the nine months ended 30 September 2010 (the "Review Period") amounted to approximately RMB418,566,000, representing an increase of approximately 15.6% over that of the corresponding period of last year. The growth was mainly attributable to the active business promotion and marketing during the Review Period.

Sales and gross profit margin

Since 2008, the sales derived from expressway sector represented approximately 60% of the total sales of the Group in 2008 and 2009, which further increased to 80% in the nine months ended 30 September 2010. Although these projects provided greater contract value, they took a much longer time span to complete (one year or more), bill the customers for contract work done and recognise the revenue. They also generated lower profit margin due to higher raw materials cost (electric cable and steel tube) required. The level of prepayment for raw materials also increased. As such, the Company recorded significant amounts due from customers for contract work (being the contract work incurred to date plus recognised profit/loss less progress billings), increase in prepayments, and declining profit margin since 2008. The breakdown of sales and gross profit margin for the major sectors of the Group for the three years ended 31 December 2009 and the nine months ended 30 September 2010 are extracted from the management account as follow for analysis purpose. The sales and gross profit margin figures for the three-year ended 31 December 2009 have been extracted from the annual report of the Group:

Management Discussion and Analysis

| | 2007 | | For the year ended 31 December | | | | For the nine months ended | |
|---|---------------|--------------|--------------------------------|--------------|---------------|--------------|---------------------------|--------------|
| | | | 2008 | | 2009 | | 30 September 2010 | |
| | Sales | Gross profit | Sales | Gross profit | Sales | Gross profit | Sales | Gross profit |
| | (Audited) | margin | (Audited) | margin | (Audited) | margin | (Unaudited) | margin |
| | (RMB million) | (%) | (RMB million) | (%) | (RMB million) | (%) | (RMB million) | (%) |
| Urban traffic monitoring and control sector | 114.5 | 67% | 67.3 | 63% | 39.9 | 30% | 31.4 | 30% |
| Customs logistic monitoring sector | 38.3 | 67% | 56.8 | 64% | 89.4 | 46% | 54.1 | 46% |
| Expressway monitoring sector | - | - | 199.4 | 24% | 273.6 | 14% | 330.0 | 24% |
| Other | - | - | 8.2 | 67% | 54.0 | 28% | 3.1 | 74% |
| Total | 152.8 | 67% | 331.7 | 40% | 456.9 | 23% | 418.6 | 28% |

Due to the mechanical and electrical engineering projects in order to implement technology solution for expressway, significant input in the cost of raw materials (including electric cable and steel tube) is required. The relative portion for software element in expressway monitoring sector is significantly smaller than urban traffic monitoring and control sector and customs logistic monitoring sector. The combined effect led to the decline in gross profit margin in 2008. Though the gross profit margin of expressway monitoring sector is relatively smaller than that in other sectors, with the significant investment in expressway by the PRC government, the Directors believe that the prospect of intelligent expressway services is huge. With the continuous effort made by the Company to control the costs of raw materials through entering into bulk purchase contracts in connection with major materials used by the Company with the relevant suppliers, the Directors believe that the gross profit margin can be maintained.

During the Review Period, the gross profit margin of the Group was approximately 27.6% which is in line with that of approximately 27.5% of the corresponding period last year.

Management Discussion and Analysis

Distribution costs

The distribution costs for the nine months ended 30 September 2010 was approximately RMB7,789,000, a decrease of approximately 4.2% as compared to the corresponding period of last year. The decrease was mainly attributable to the improved core competitiveness of the Company's products as well as the decrease of after-sale maintenance costs.

Administrative expenses

The administrative expenses decreased by 6.1% from approximately RMB21,520,000 in the corresponding period of last year to approximately RMB20,207,000 in the Review Period. The decrease was mainly contributed by effective cost control measures taken.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by approximately 17.3% from approximately RMB71,254,000 of the corresponding period of last year to approximately RMB83,606,000 for the Review Period.

Customers

Major customers of the Group include the government authorities in various provinces in China. For urban traffic sector and customs logistic monitoring sector, the major customers are public security bureau and traffic management bureau; and General Administration of Customs, respectively. For the expressway monitoring sector, expressway administration bureau is the main customer.

The amounts due from customers for contract work represents the sum of (i) contract costs incurred to date and (ii) net recognised profit or loss, exceeding progress billings. Revenue is measured at the fair value of consideration received or receivable. When the outcome of a contract 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.

Management Discussion and Analysis

The account receivables and the amounts due from customers for contract work have been increasing since 2008. It is in line with the significant increase in turnover for the expressway sector, where its normal contract size is significantly larger and its normal contract term (approximately one year to one year and half) is slightly longer than those in urban traffic and custom logistic sectors (approximately six months to one year). The settlement term for each project is different based on the contract terms and the progress of the project. In general, the settlement process involves four stages: (1) after contract signing, down payment of 10% to 20% of contract sum; (2) on equipment arrival, billing of 20% to 30% of contract sum; (3) on completion, billing of 40% to 45% of contract sum; and (4) after guarantee period (one to two years for urban traffic and custom logistic sectors; and two to three years for expressway sector), settlement of remaining balances. The Group offers the state-owned enterprises (including government authorities) in all sectors with good credit history longer credit terms of six to nine months for stages 2 and 3 of settlement process. With the continuous monitoring of the project progress and communicating with the customers, the Directors believe that the account receivables balances and the amounts due from customers for contract work are recoverable in view of the prior recoverability record of the Group and the background of the customers. Approximately 75% of the trade receivables as at 30 September 2010 has been settled and the remaining balance of the trade receivables are within the credit period under contract.

Other receivables and prepayment

| | At 31 December 2009 (Unaudited) RMB million | At 30 September 2010 (Unaudited) RMB million |
|--|--|---|
| Deposits paid to suppliers (<i>Note 1</i>) | 120.5 | 132.27 |
| Guarantee deposit and performance deposit | 66.1 | 79.23 |
| Others | 30.7 | 2.17 |
| | <u>217.3</u> | <u>213.67</u> |

Note 1: With the significant increase in expressway projects, the cost of raw materials (including electric cable and steel tube) has continuously increased since 2009. With the general nature of the transactions, the Group has agreed with some of the major suppliers to implement bulk purchase arrangement to fix the maximum annual unit purchase price payable by the Group. Under such arrangement, certain amount of deposit based on the contract sum is paid to the suppliers in advance and purchase cost will be deducted upon the actual purchase.

Management Discussion and Analysis

Other investment

As at 30 September 2010, the balance of RMB140 million of other investment mainly represents: (1) the investment in RMB Trust Financial Products of aggregate amount of RMB100 million; and (2) the entrusted loan of RMB40 million assigned to bank for management with a view to have a relatively higher return for idle fund of the Group.

BUSINESS REVIEW AND DEVELOPMENT

The Group is principally engaged in the provision of video security system solutions, sale of security system software and sales of related computer products targeting in the intelligent monitoring market for logistic, traffic and expressway management.

Urban traffic monitoring and control sector

The operation of urban traffic monitoring and control sector mainly tailors for traffic departments and public security bureaus in China. Due to increasing competition, the Group has recorded declining profit margin for its principal product, standard-definition ePolice video system, since 2008. The Group decided to gradually replace this with a more advanced product, RFID-based high-definition ePolice system, since December 2009 which provides a higher profit margin.

During the period under review, the Group was successfully short-listed in the road monitoring system front-end equipments procurement project of the Public Security Bureau of Jiangsu Province, and ranked second in terms of comprehensive strength among all the 12 short-listed enterprises. This will provide the Company further advantages in the continuous development in the market of provincial traffic checkpoints in Jiangsu Province.

Customs logistic monitoring sector

The customs logistic monitoring sector of the Group targets on the General Customs Administration and customs authorities at various levels in China for different logistic systems. The Group has actively participated in the custom-related planning and construction, maintenance, upgrade and development. This includes the equipment integration of customs checkpoint, customs checkpoints intranet system and coordination of cross-border express checkpoint crossing.

Management Discussion and Analysis

During the period under review, the Group continued to push forward the logistics monitoring project in Nanjing Customs, launched the formal operation of the import sea transportation at Long Tan Port and Zhangjiagang and planned to launch the operation in Lianyungang by the end of the year. We will extend the project to all the water transport terminals under Nanjing Customs next year. During the period under review, the Group actively promoted the electronic customs lock pilot project in Nanjing Customs and the application of the Hangzhou-Ningbo electronic customs lock, completed the installation and deployment of frontline and background software at the port area of Zhangjiagang, completed the connection and adjustment works with the unified logistics monitoring platform in Nanjing Customs, and will start the electronic customs lock pilot project at Long Tan Port in the fourth quarter. At the same time, the Group and Fuzhou Customs reached an agreement to carry out a 4-lane midway electronic customs lock pilot testing at Fuzhou Bonded Logistics Park and PSA Terminal, the equipment installations of which have been completed. The checkpoints and backstage coordination and adjustment works will be finished in the fourth quarter, and electronic customs locks are expected to be fully applied in Fuzhou Bonded Logistics Port for midway monitoring next year. In the fourth quarter, the Group's pilot testing of electronic customs locks at Fuzhou Customs and Nanjing Customs will be completed for establishing the intelligent secure lock projects at corporate level.

Expressway monitoring sector

Expressway sector can be divided into two categories – physical infrastructure (involving construction of expressway) and information technology system for communication, surveillance and tolling. The Group focuses on information technology system for expressway which supplement to the current business of the Group and does not involve in physical infrastructure.

In January 2008, the Group acquired 100% of the issued share capital of Jiangsu Intellitrans Company Limited to undertake large-scale mechanical and electrical engineering projects for expressway information system. This information technology system provides for data collection and analysis for expressway management. The Company provides solutions in communication, surveillance and tolling. Since then, the sales of the Group in intelligent expressway information system has been increased significantly.

Management Discussion and Analysis

With the investment strategy on national expressway of the PRC, the turnover and profit growth of the Group can be substantiated through the continuous development in the expressway monitoring sector since 2008. The contract size and contract sum is significant for these projects. Based on the contract terms, the Group will bill the corresponding customer based on the project progress and cost incurred.

During the period under review, competition was exceptionally fierce in the electrical and mechanical engineering market of the traffic sector across the country. With our own competitive advantages, the Group successfully won the contracts for projects like Sujiahang Expressway, Mohei-Simao Expressway in Yunnan and Suzhou Raocheng Expressway. During the period under review, the Group actively implemented the various significant electrical and mechanical engineering projects, in which: Zhejiang Zhuyong Expressway project and Guangxi Guanghe Expressway project were completed and opened for traffic, the auditing of the Yunnan Mengxin project was completed, construction work of the major parts of the Guizhou Oil small project was finished, good progress was made in the Sichuan Yagu project which is expected to be completed and commenced operation by the end of the year. For the next stage, the Group will strengthen teamwork, further enhancing our overall capability, and do our best in bidding major projects in regions such as Zhejiang, Shandong and Yunnan.

In addition, the Group actively promoted its business in the highway software market. Projects completed and accepted include the expansion project of the integrated management system for Nanjing-Shanghai Expressway, the integrated information management project for Xiandai Investment in Hunan, the quality supervision and management system for the supervision authority in Jiangsu Province, the management system for Taizhou Bridge project, the Wuxi metro project, the engineering project consultation for the Communication Engineering Construction Bureau of Jiangsu Province, the project management system of Taizhou City as well as the project management system for the reclamation in Lianyungang.

Management Discussion and Analysis

Future development

Our Group is engaged in the intelligent transportation market utilizing RFID technology. With the significant urge of development on internet-of-thing in the PRC in 2009, the Group has continuously researched and commercialized its RFID core technology in pharmaceutical supply chain management and food safety industry. This ensures that the Group to capture these newly developed markets at an early stage. For the food safety industry, the Group successfully bid the “Safe Meat” projects in Nanjing City and Yangzhou City in June 2010. To better equip for the future development of the Group, the Company has employed further research and development staff for application of our core technology. The research and development work for both the food safety industry and computerization of logistic systems for medical business is still undergoing.

During the period under review, the Group was engaged in three major sectors: intelligent transportation, intelligent logistics and intelligent pharmaceuticals. We carried out follow-up and research work and implemented our findings on the projects within such sectors. We actively engaged in the development of major projects of the IOT, and conducted the design and optimization of the application solutions of two major intelligence fields: intelligent transportation and food safety (“Safe Meat” project), in which: the “Safe Meat” projects in Nanjing City and Yangzhou City are basically completed and implementation has been started. They are expected to be inspected and accepted within the year. At the same time, the application of the information tracing and management system for the flow of vegetables and the processes of food processing are being studied, further improving the safe vegetable project.

The Group also actively pushed forward the study on the application of IOT technology in the field of urban intelligent transportation. This includes the implementation plans, choice of equipments and testings for intelligent transportation. Meanwhile, the Group was actively engaged in the implementation of intelligent pharmaceuticals projects. We carried out specific analysis on the formation of an “integrated supply chain platform for pharmaceutical services, order integration, on-site sales and quick dispensing”, actively developing the business mode with pharmaceutical services and order integration as the core, and as a result building up a new e-commerce model for pharmaceutical and health products.

Management Discussion and Analysis

During the period under review, the Group took part in a number of international technological exchanges and collaborations, finished the research with Microsoft SAAS platform and the project has been inspected and accepted. Meanwhile, the Group participated in the key pilot project of 3-network convergence in Nanjing City and launched the strategic research project of the building of PaaS information service platform. During the period under review, the Group continued to conduct research to optimize the functions of UHF readers, carried out analysis and made recommendations for improvement on the model, packaging and function optimization of UHF readers with reference to factors like customer opinions, products of our counterparts and applications in the industry. At the same time, the Group conducted research on the application of RFID under different circumstances, and finished the 2008-2012 Chinese RFID market research and industry investment analysis and forecast report. During the period under review, the Group launched the fifth generation of 16-port ultra high-end RFID reader, which was an upgraded version in the application of IOT technology on asset management. Meanwhile, we launched the application of RFID technology on special equipments for inspection and monitoring with the quality supervision authority in Nanjing City, and conducted research on the application of UHFRFID on buses in Hangzhou.

PROPOSED TRANSFER OF LISTING TO THE MAIN BOARD

On 5 July 2010, the Company has received formal approval from the CSRC on the transfer of listing from GEM to the Main Board. On 30 July 2010, the Company has submitted a formal application to the Stock Exchange for the transfer of listing from GEM to the Main Board. As at the date of this Third Quarterly Report, the relevant application for transfer of listing is still in progress.

Other Information

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

As at 30 September 2010, the interest and short positions of the Directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required (i) to 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); (ii) to be recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO; or (iii) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Long positions in shares of the Company:

| Name of Director | Number of domestic shares | Nature of interests | Approximate percentage of the registered capital of the Company (%) |
|------------------|---------------------------|------------------------------------|---|
| Sha Min | 1,350,000 | Beneficial owner | 0.6 |
| | 65,720,000 | Interest of controlled corporation | 29.33 |

Note: Mr. Sha Min ("Mr. Sha") directly holds 1,350,000 domestic shares of the Company and is interested in 47.91% of equity interest of Nanjing Sample Technology Group Company Limited which in turn owns 65,720,000 domestic shares of the Company. Under SFO, Mr. Sha is deemed to be interested in all 67,070,000 domestic shares of the Company. Du Yu (杜予) is the spouse of Mr. Sha. Under SFO, Du Yu is also deemed to be interested in 67,070,000 domestic share of the Company in which Mr. Sha is interested.

Other Information

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far to the knowledge of the Directors, as at 30 September 2010, the following shareholders (other than the Directors, supervisors or chief executive officers of the Company) had interests or short positions in the shares, underlying shares or debentures of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO:

(a) Long positions in domestic shares of the Company:

| Name of Shareholders | Number of domestic shares | Nature of interests | Approximate percentage of the registered capital of the Company (%) |
|---|---------------------------|--------------------------------|---|
| Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1) | 65,720,000 | Beneficial owner/ corporate | 29.33 |
| Jiangsu Red Stone Technology Corporation ("Jiangsu Red Stone") | 15,685,000 | Beneficial owner/ corporate | 7.00 |
| Active Gold Holding Limited | 49,545,000 | Beneficial owner/ corporate | 22.11 |

Note:

1. Sample Group directly holds 60,770,000 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. As such, Sample Group is the substantial and the single largest of shareholders of the Company. As at 30 September 2010, Mr. Sha Min, the Chairman of the Company, held 47.91% of equity interest of Sample Group, together with parties acting in concert with him (including 2% held by Mr. Qi Tong Lin, 9.5% held by Mr. Sun Huai Dong, 4.67% held by Mr. Chang Yong, an executive director of the Company, and 2.27% held by Mr. Guo Ya Jun, an executive director of the Company) held an aggregate of 66.37% of equity interest of Sample Group.

Other Information

(b) Long positions in the H shares of the Company:

| Name of Shareholders | Number of H shares | Nature of interests | Approximate percentage of the registered capital of the Company (%) |
|--|--------------------|------------------------------------|---|
| Atlantis Investment Management Ltd. (Note 1) | 19,000,000 | Investment Manager | 8.48 |
| Liu Yang (Note 1) | 19,000,000 | Investment Manager | 8.48 |
| Golden Meditech Company Limited | 12,097,000 | Interest of controlled corporation | 5.40 |

Note:

1. Liu Yang reported that he owns 40% of Atlantis Investment Limited and 90% of Atlantis Investment Management (Hong Kong) Limited.

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 30 September 2010, none of the Directors or supervisors of the Company is authorised to subscribe any H shares of the Company. As at 30 September 2010, none of the Directors or supervisors of the Company or any of their spouses or children under eighteen years of age has any right to subscribe any H shares of the Company or has exercised any such right during the Review Period.

SHARE OPTION SCHEME

A share option scheme ("Share Option Scheme") was conditionally adopted by a resolution of the shareholders of the Company on 24 April 2004. As at 30 September 2010, none of the options is granted under the Share Option Scheme.

Other Information

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The code of conduct for securities transactions by Directors adopted by the Company is on terms no less exacting than the required standard of dealings in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any circumstances that the Directors did not comply with the required standards of dealings and the code of conduct for securities transactions by Directors throughout the nine months ended 30 September 2010.

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 duty of the audit committee is to supervise the financial reporting process and internal control of the Company.

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

Other Information

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

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

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

12 November 2010
Nanjing, the PRC

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

* for identification purpose only