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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. Ma Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Su Ming
Mr. Li Hai Feng
Mr. Shum Shing Kei

SUPERVISORS

Mr. Qiu Xiang Yang
Mr. Dai Jian Jun
Mr. Li Gang

COMPANY SECRETARY

Ms. Wong Lai Yuk

AUDIT COMMITTEE

Mr. Shum Shing Kei (Chairman)
Mr. Xu Su Ming
Mr. Li Hai Feng

REMUNERATION COMMITTEE

Mr. Xu Su Ming (Chairman)
Mr. Guo Ya Jun
Mr. Shum Shing Kei

NOMINATION COMMITTEE

Mr. Xu Su Ming (Chairman)
Mr. Li Hai Feng
Mr. Chang Yong

COMPLIANCE OFFICER

Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES

Mr. Guo Ya Jun
Ms. Wong Lai Yuk

AUDITOR

BDO China
Shu Lun Pan Certified Public Accountants (LLP)
Room 1603, Taihu Peral Development Mansion,
No.1890, Taihu West Avenue,
Wuxi City,
Jiangsu Province,
the People's Republic of China

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Limited
(Nanjing Xinjiekou Branch)
95 Hanzhong Road, Nanjing City,
Jiangsu Province,
the People's Republic of China

HONG KONG H SHARES REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

LEGAL ADVISER

Keith Lam Lau & Chan
5th-7th Floors,
The Chinese Club Building,
21-22 Connaught Road Central,
Hong Kong

COMPLIANCE ADVISER

China Merchants Securities (HK) Co., Limited
48th Floor
One Exchange Square
Central
Hong Kong

REGISTERED OFFICE

Building No. 1,
Ruan Jian Chuang Ye Zhong Xin,
High and New Technology Industrial Development Zone,
Nanjing City, Jiangsu Province,
the People's Republic of China

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA

No. 10 Maqun Avenue, Maqun Technology Park,
Qixia District, Nanjing City,
Jiangsu Province,
the People's Republic of China

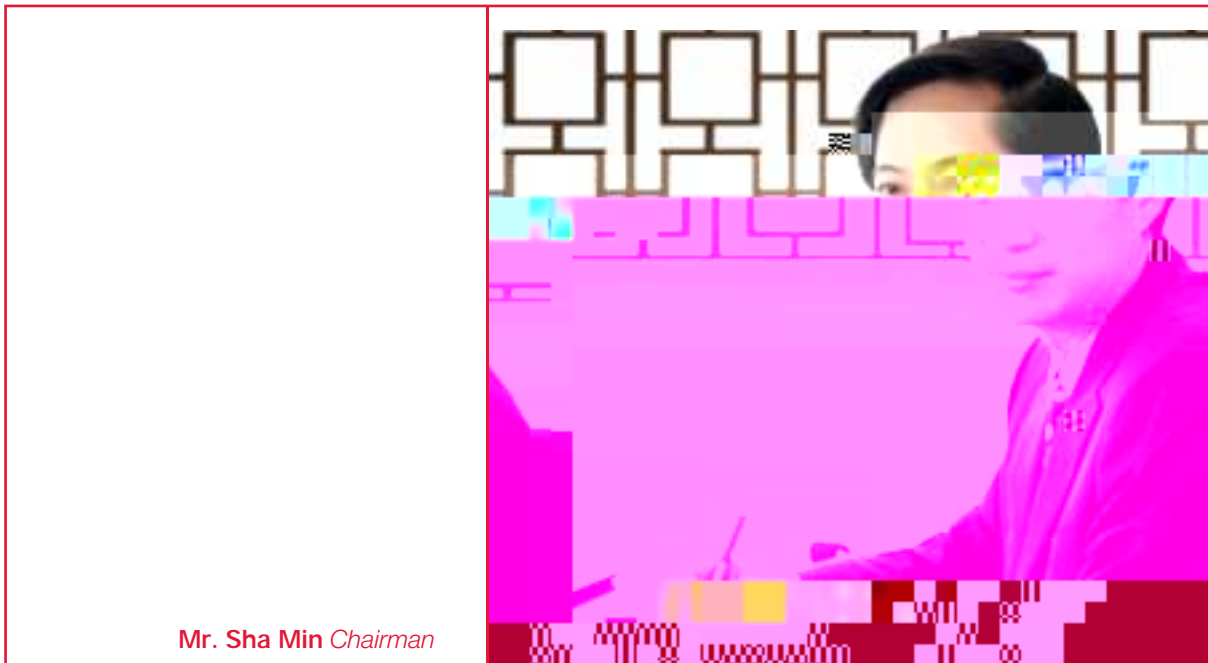
PRINCIPAL PLACE OF BUSINESS IN HONG KONG

3112A, 31/F,
Shun Tak Centre
168-200 Connaught Road Central,
Central, Hong Kong

STOCK CODE

1708

Chairman's Statement



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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 2011 (the "period under review") for your review and consideration.

//

Chairman's Statement

RESULTS

Total operating income and the net profit attributable to shareholders of the Company for the 2011 financial year amounted to RMB542,388,738 and RMB146,054,063, respectively (for the year ended 31 December 2010: RMB508,016,094 and RMB111,532,031), representing a growth of approximately 6.8% and 31%, respectively. The increase was mainly attributable to the fact that the Group proactively promoted the development of internet of things (IOT) business and proactively developed various businesses during the period under review.

DIVIDEND

During the period under review, the Board recommended the payment of a final dividend of RMB0.1 per share for the year ended 31 December 2011.

BUSINESS AND OPERATION REVIEW

The guiding objectives for overall development of the Group in 2011 were focused on the upgrading and development of the Company's integration of internet of things (IOT), speeding up of its development of IOT service business, increase of the proportion of data operations and information service in the principal operations of the Company, rapid enhancement in the seven key abilities of IOT and the implementation of talents strategy and the lift in the happiness index of the staff. With such strategic objectives, the Company achieved good results in strengthening technological innovation, promotion of the application of cognitive sectors, expansion of information service business and the transformation of business mode and other aspects in 2011 under the leadership of the Board.

Enhancing the comprehensive level of technological innovation to build up our core competitiveness

2011 is the first year of the "Twelfth Five-Year" Plan implemented by the Chinese government, and also a crucial year for the fast development of the IOT business of the Group. The Company seized the development opportunities proactively, continued to encourage and press ahead with innovation, actively enhanced the level of technological innovation and supported technical renovations, perfected the Company's self-cycled technical progress mechanism, looked for new breakthroughs in product innovation, information service innovation and business innovation, and arranged special funds to invest in the technology upgrade projects that were in line with the industrial policies and development plans of the Company, which further improved our core competitiveness and kept the high quality and growth in principal operations of the Company.

During the period under review, by leveraging on its continuously innovative technological strengths, the Company again was honored "Key Software Enterprise within Jiangsu Province Planning Framework for Year 2011" (2011年度江蘇省規劃佈局內重點軟件企業). During the period under review, the RFID standards working group which was established and approved by the Science and Technology Department under Ministry of Information Industry formally granted the Group full membership for the year 2011. It was the fourth year the Group received such award, and the Company will actively participate in the setting up of standard systems in the area of RFID technology in our country.

Chairman's Statement Nanjing Sample Technology Company

Chairman's Statement

The development target of the Group in the next five years: become a leading IOT enterprise in China that has core IOT technologies, offers users with IOT system solutions and be able to implement IOT value-added services which are highly recognized in the capital market of China and abroad.

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

22 March 2012

Management Discussion and Analysis

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2011, bank deposits of RMB42,575,000 were pledged to the bank for projects in progress (2010: RMB15,216,000).

GEARING RATIO

For the year ended 31 December 2011, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was approximately zero (2010: zero). This was attributable to the sufficient cash and cash equivalents of the Group for the repayment of bank 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

On 12 August 2011, the Company has entered into the agreements with 南京三寶科技集團有限公司

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2011, total employees' remuneration of the Group was approximately RMB29,080,000 (2010: RMB20,068,000) and the number of employees was 368 (2010: 353). The Group remunerated its staffs based on individual performance, educational background and experience and with reference to market price. The Group would grant discretionary bonus to the staffs based on individual 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

Urban Traffic Monitoring and Control Sector

During the period under review, the Group inherited the qualification, client resources, series products and other high quality assets in the field of intelligent transportation science and technology, established and improved the transportation science and technology high-definition monitor products line, and provided a full set of application system solutions. During the period under review, the Group successfully won the bid for Nanjing intelligent transportation foundation platform construction project, undertook and actively carried out the implementation works for the first phase of environment protection E-card base station and intelligent foundation platform construction projects. During the period under review, the Group has undertaken and actively carried out the Nanjing 3-20 project issued for motor vehicles during the year. The 3-20 project was based on road monitoring, integrated video surveillance, positioning system and other resources, abounded in the content of intelligence platform, aiming at construction of command scheduling comprehensive platform relying on the police geographic information system ("PGIS"), so as to meet the needs of practical situations for horizontal command of level 3 command police response systems, major cases, incidents, disasters and accidents, vertically and horizontally patrolling and visiting. The implementation of the project greatly improved the level of management and security control of the public safety organs, leading the reform and innovation in mechanism concerning police affairs.

Customs Logistic Monitoring Sector

During the period under review, the Group cooperated with Nanjing Custom to jointly promote the internet of things ("IOT") application in customs, and carried out pilot trial of the good items with intellectual property rights and bonded goods; we cooperated with the data center, improved the credibility and safety of the data collected through the application of CA. Meanwhile, the Group achieved progress in such projects as storage platform business, real-time acquisition of vessel information, dock yard information 3D simulation and video linkage technology, which greatly enriched and expanded the Company's product line and business scopes.

During the period under review, the national standards for secure intelligent lock was jointly drafted by the Group and General Administration of Customs, and have already been evaluated and approved by Technical Examination of National Standards Committee. The intelligent secured lock was integrated into the application in various projects such as the zone-port interaction of Fuzhou Bonded Port, Suzhou Industrial Park and Zhengzhou Airport.

Management Discussion and Analysis

During the period under review, the Group made remarkable achievements in the logistics platform construction. The Fuzhou Bonded Port platform project has passed the final inspection by eleven Ministries under the State Council in December and entered into trial running. The project of Dalian logistics monitoring platform has completed its research and development works for newly changed requirements, and was connected with 25 sites of Dalian Customs Surveillance Zones and realized the true ideas of customs logistics regulation. XinShengWei intelligent command center has already smoothly passed the first stage of inspection, mainly realized the supervised visualization at many supervision places in XinShengWei Customs and the functions of vessel freight management in the customs. The research and development ("R&D") works for the Xiamen Haicang Bonded Port have 7gs q -47leted itsd was ingge obealanyarchnt. I ths expd withthany

Management Discussion and Analysis

with professional peer companies by means of merger or deep cooperation to broaden our business models; we will strengthen construction of service brand for promoting the depth and reputation of customer services steadily.

In 2012, the Group will leverage on the advantage in funding, qualification and resources to realize the innovation and transformation in the traditional business management model, cooperate with government to promote the model, legal results and technology solutions, thereby form the technical protection city program with the industry leading level, boost our technological strength for implementation of technology financial project; we will continue to lay the highest stress on marketing, strengthen the ability of business expansion, emphasis on development of first hand customer resources, and value the strategic cooperation in the industry; as for the new business sector, we will broaden the acquisition channels of projects by making full use of the technology and financial measures, so as to increase profit margins of the projects; we will continue to prepare well in quality and efficiency for bidding and tendering documents, and to raise the level of project management and enhance the capacity of project implementation.

In 2012, the Group will seize the opportunities arising from the market and state policies, increase our market share so as to further enhance our core competitiveness, and strengthen the impact on the industry; we will seize the key markets, resources and projects for unified operation to ensure the projects will be acquired and implemented in high quality; we will pay much attention on after sales services, intensify customer service awareness and gain further reputation in the industry.

Product supply

In 2012, the Group will actively cooperate with system integrators and distributors in other industries based on the original marketing mode and channel. We will supply the Nanjing intelligence transportation equipments and labels with self-owned products and promote IOT technologies products, strive to achieve new sales growth based on the main products of self-owned ultra high frequency ("UHF") reader; Meanwhile, we will focus on building the IOT product trade platform which aims at the layout strategic of IOT so as to effect in the promotion of application of relevant IOT. The specific measures include: focus on target commodity and reduce the labelling cost to its lowest possible level; carry out the R&D of RFID and enrich the Company's IOT technical product line and with more promotional support develop the product system for IOT technical products at consumption level, further improve the whole structure, functionality and performance of the IOT product system so as to fully present the Company's core competitiveness and price advantages of its technical products when promoting the implementation of intelligence traffic model and IOT environmental application in future.

Information services

In 2012, the Group will further carry out the construction of technical platform, build up certain platform systems including supporting platform for operation, internet portal display platform and vehicle-mounted 4e paand projecthe depthm

Management Discussion and Analysis

we will set up the business operation system integrating purchase and sale processes, put forward the classification management among suppliers and products, improve the procurement and settlement rules and make innovation in channel management services so as to raise fully its level of business; we will make great effort to develop electronic business, try to achieve business transformation to form the networking of the business, and vertical search of supply chain service platform and industry; we will consolidate and deepen the results for electronic ordering and online display trading platform.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 47, received postgraduate education, is 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. In November 2010, Mr. Sha was awarded in Nanjing a title of "Individual with active contribution to the construction of China's famous software city". Mr. Sha joined the Company in December 1997 and was first appointed as an executive Director in December 1999.

Mr. Chang Yong (常勇), aged 45, received postgraduate education, is 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. Mr. Chang joined the Company and was first appointed as an executive director and general manager of the Company 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. Guo Ya Jun (郭亞軍), aged 52, received postgraduate education, is 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 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 joined the Company in December 1997 and was first appointed as an executive Director in December 1999.

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun (馬俊), aged 47, is a non-executive Director of the Company. He graduated from Nanjing University in economic management in 1995. He worked for 南京福申房地產開發有限責任公司 in 1998. He is currently the chairman and general manager of 南京福申房地產開發有限責任公司.

Biographical Details of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Su Ming (許蘇明), aged 55, holds a Master Degree and is also a Doctor of Philosophy in Law. He graduated and received his bachelor degree from Southeast University in January 1982, and later graduated and received his Doctor of Philosophy in Law from Nanjing University. He is currently the professor, tutor for doctoral candidates of the Southeast University as well as a Standing Committee Member of the Chinese People's Political Consultative Conference of Nanjing City, a member of the Legislation Consultative Committee of the Chinese People's Political Consultative Conference of Nanjing City, a member of the Committee for Social and Legal Affairs of the Chinese People's Political Consultative Conference of Nanjing City and the executive council member of Nanjing Federation of Social Sciences. Mr. Xu is currently an independent director of both Jilin Guanghua Holding Group Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 000546) and Jiangsu JieJie Microelectronics Co., Ltd.

Mr. Li Hai Feng (李海峰), aged 41, is a Ph.D. and a Senior Engineer. He received his Bachelor Degree in theoretical mechanics from Lanzhou University in 1994, and received his Ph.D. Degree in transportation planning from Melbourne University, Australia in 2002. He worked with Road Research Laboratory of Xinjiang Transportation Research Institute from 1994 to 1998, Rapid Retrieval of Australia in 2000 and Strategic Planning, Department of Infrastructure of Victoria in Australia from 2000 to 2002. From 2002 to 2011, he worked as Senior Engineer of Institute of Road Planning of Transport Planning and Research Institute (TPRI) of Ministry of Transport, Deputy Head of Institute of Information of TPRI of Ministry of Transport, Deputy Director of Research Center for Transport Analogue and Decision-Making Support of TPRI of Ministry of Transport and director of the Institute of Information Technology of China Academy of Transportation Sciences. He is currently Deputy Chief Engineer and Senior Engineer of China Academy of Transportation Sciences, a member of the 3rd Young Experts Committee of China Highway & Transportation Society, and Deputy Secretary General of Intelligence Professional Committee of China Communications and Transportation Association. He is also Deputy Director and Secretary General of the First Technology Committee on Geographic Information System for Transportation of China, Executive Member of the Union of Technological Innovation for RFID Industry of China, review expert in the field of transport in 863 Program of Ministry of Science and Technology and National Key Technology R&D Program, a member of Central Science and Technology Committee of the China Zhi Gong Party, Deputy Director of Science and Technology Committee of China Zhi Gong Party Beijing Committee, and a member of the 10th Committee of Beijing Youth Federation.

Mr. Shum Shing Kei (沈成基), aged 41, holds a Master Degree. Mr. Shum graduated from the Hong Kong Polytechnic University and majored in accountancy. He obtained a master degree in financial management from the University of London, the United Kingdom. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. From August 1993 to February 2002, he worked as auditing manager of Ernst & Young, Group Chief Financial Officer and Company Secretary of China Data Broadcasting Holdings Limited from March 2002 to July 2005 and qualified accountant consultant to Great Wall Motor Company Limited from September 2004 to September 2008. Mr. Shum is currently a practising partner of a certified public accountant firm in Hong Kong, mainly providing business advisory service and auditing service. He has a wealth of experience in accounting services for listed companies in Hong Kong and companies intended to be listed on the Stock Exchange of Hong Kong.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 56, is a supervisor of the Company. Mr Qiu was an EMBA graduate. He

Biographical Details of Directors, Supervisors and Senior Management

Ms. Du Jin (杜瑾), aged 48, received postgraduate education, is vice president and manager of the Company's logistic affairs department. 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 vice president and manager of the Company's logistics affairs department.

Mr. Wang Yue Ping (王躍平), aged 56, received postgraduate education, is general manager of Jiangsu Raifu Intelligent Tech. Co. Ltd. He graduated from the University of Manitoba in Canada in 1992 and obtained a doctoral degree in civil engineering, and worked on a postdoctoral research in mechanical engineering at Stanford University in U.S. in September 1994. He formerly worked for Singapore National Institute of Information Science (

Report of the Directors

The Directors present the annual report and audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of visual identification and RFID technologies based full solutions to intelligent traffic, customs logistics and health care and other application areas.

RESULTS AND APPROPRIATIONS

The results and financial position of the Group for the year ended 31 December 2011 are set out on pages 37 to 159 of this annual report.

The Directors recommended the payment of a final dividend of RMB0.14 (to M1/ the0:nded the payment

Report of the Directors

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 2012 and the further renewal of a term of 3 years shall be subject to the approval at the annual general meeting of the Company.

Save as disclosed above, no Director or Supervisor has a service contract with the Company 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 2011, 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 the required standard of dealings as set out in Appendix 10 of the 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	0.6%
	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 the SFO, Mr. Sha is deemed to be interested in all 67,070,000 domestic shares of the Company. Du Yu (杜宇) is the spouse of Mr. Sha. Under the SFO, Du Yu is also deemed to be interested in 67,070,000 domestic share of the Company in which Mr. Sha is interested.

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2011, 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.

Report of the Directors

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

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 1)	65,720,000 Domestic Shares	Bene cial owner/corporate	29.33%
Jiang Su Red Stone Technology Corporation ("Red Stone")	685,000 Domestic Shares	Bene cial owner/corporate	0.31%
Jiangsu Ruihua Investment Holding Group Company Ltd. ("Jiangsu Winfast") (Note 2)	15,000,000 Domestic Shares	Bene cial owner/corporate	6.69%
Active Gold Holding Limited	49,545,000 Domestic Shares	Bene cial owner/corporate	22.11%
Atlantis Capital Holdings Limited (Note 3)	28,889,000 H Shares	Interest of controlled corporation	12.89%
Liu Yang (Note 3)	28,889,000 H Shares	Interest of controlled corporation	12.89%
Golden Meditech Holdings Limited (Note 4)	12,097,000 H Shares	Interest of controlled corporation	5.40%
Manygain Global Limited	10,000,000 H Shares	Bene cial owner	4.46%
GE Asset Management Incorporated	9,074,000 H Shares	Investment manager	4.05%
JP Morgan Chase & Co.	7,000,000 H Shares	Interest of controlled corporation/ Custodian corporation/approved lending agent	3.12%
Norges Bank	7,000,000 H Shares	Bene cial owner	3.12%

Note:

- (1) Sample Group directly holds 60,770,000 Domestic Shares. Sample Group is also interested in 100% of the registered capital of Nanjing Sample Technology Commerce City Company Limited* (

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2011, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2011, 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

A share option scheme ("Share Option Scheme") was conditionally adopted by a resolution of the shareholders of the Company on 24 April 2004. On 30 December 2011, the shareholders of the Company had resolved by a special resolution to terminate the Share Option Scheme. No option has been granted under the Share Option Scheme since its adoption.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

On 12 August 2011, the Company had purchased from 南京三寶科技集團有限公司 (Nanjing Sample Technology Group Co. Ltd.) ("Nanjing Sample Group"), a substantial shareholder of the Company, a land use right of a piece of land situated in 馬群科技園 (Maqun Technology Park), Qixia District, Nanjing City, Jiangsu Province of the PRC and a building erected on this land at a total consideration of RMB16,835,400, which constituted a connected transaction for the Company under Chapter 14A of the Listing Rules. Each of Mr. Sha Min, Mr. Chang Yong and Mr. Guo Ya Jun is an executive Director who holds certain equity interest in the Nanjing Sample Group and is therefore regarded as having a material interest in the connected transaction. Save as disclosed above, 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 50.63% (2010: 52.26%) of the total sales for the year and sales to the largest customer included therein amounted to 14.27% (2010: 19.47%). To the best of 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 40.33% (2010: 26.56%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 16.89% (2010: 8.97%). To the best of 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.

Report of the Directors

CONNECTED TRANSACTIONS

Save as the connected transaction disclosed in “Directors’ and supervisors’ interests in contracts” of this report, related party transactions entered by the Group during the year ended 31 December 2011, which do not constitute connected transactions in accordance with the requirements of the Listing Rules, are disclosed in Note VI to the consolidated financial statements.

PROPOSED ISSUE OF A SHARES

On 18 October 2011, the Company announced that the Company will apply with to the relevant regulatory departments in PRC in accordance with the PRC laws and regulations, and subject to other regulatory requirements, for the issue of not more than 73,900,000 A shares of RMB1.00 per share to the natural persons, legal persons and other institutional investors (other than those who were prohibited from subscribing for A shares pursuant to the relevant PRC laws, regulations and other regulatory requirements) with A share accounts at the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, and will apply to the Shenzhen Stock Exchange for the listing of and dealing in those A shares. The proposed issue of A shares has been approved at the extraordinary general meeting of the Company (“EGM”) and at the class meeting for holders of H shares and domestic shares held on 30 December 2011, with effect for 12 months starting from 30 December 2011. As at the date of this announcement, the Company has not yet formally submitted the application to the China Securities Regulatory Commission (“CSRC”) for the approval of the proposed issue of A shares. Further announcement will be made by the Company as necessary or appropriate to notify the shareholders and potential investors of the Company in respect of the progress of the issue of A shares.

Please refer to the circular of the Company dated 14 November 2011 in relation to the proposed issue of A Shares.

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”) as set out in Appendix 14 of the Listing Rules. 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 applicable code provisions of the Code to establish formal and

Report of the Directors

AUDITOR

The consolidated financial report of the Group for the year ended 31 December 2010 of the Group was audited by BDO Limited. A resolution has been passed at the class meeting on 30 December 2011 to appoint BDO China Shu Lun Pan Certified Public Accountants LLP as the Company's auditors for the auditing of the consolidated financial report for the year ended 31 December 2011 for a term commencing from 30 December 2011 to next annual general meeting. A resolution will be submitted to the forthcoming annual general meeting to re-appoint the auditors and fix their remuneration.

On behalf of the Board

Sha Min

Chairman

Nanjing, the PRC
22 March 2012

Corporate Governance Report

Corporate Governance Report

Each of the Directors has entered into a service contract with the Company. The service contracts will be expired on 31 December 2012 and the further renewal for another terms of three years shall be subject to the approval at the annual general meeting of the Company.

The Board takes responsibility to oversee all major matters of the Company, including the formulation and

Corporate Governance Report

Name of Directors	Number of attendance
Executive Directors	
Mr. Sha Min (<i>Chairman</i>)	7/7
Mr. Chang Yong (<i>Chief Executive Officer</i>)	7/7
Mr. Guo Ya Jun	7/7
Non-executive Director	
Mr. Ma Jun	7/7
Independent Non-executive Directors	
Mr. Zhang Zhan (Resigned on 23 May 2011)	1/1
Mr. Wang Wei (Resigned on 23 May 2011)	1/1
Mr. Lau Shek Yau John (Resigned on 23 May 2011)	1/1
Mr. Xu Su Ming (Appointed on 23 May 2011)	6/6
Mr. Li Hai Feng (Appointed on 23 May 2011)	5/6
Mr. Shum Shing Kei (Appointed on 23 May 2011)	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

The Company's remuneration committee has been approved in the board meeting on 10 November 2005 and the terms of references is in compliance with the Code provision B.1.1 to B.1.3 of the Corporate Governance Practices. Members of the remuneration committee, with the majority consisting of independent non-executive Directors. During the year, the remuneration committee comprised of:

- Mr. Xu Su Ming (Appointed as member of remuneration committee on 23 May 2011 and re-designated as chairman of remuneration committee on 30 December 2011) (chairman of remuneration committee)
- Mr. Shum Shing Kei (Appointed on 30 December 2011)
- Mr. Guo Ya Jun (being chairman of remuneration committee until 30 December 2011 on which he has been re-designated as member of remuneration committee)
- Mr. Li Hai Feng (Appointed on 23 May 2011 as member of remuneration committee and resigned on 30 December 2011)
- Mr. Zhang Zhan (Resigned on 23 May 2011)
- Mr. Wang Wei (Resigned on 23 May 2011)

Corporate Governance Report

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.

One 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 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. The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis and where necessary, to make recommendations to the Board on matters relating to the appointment or re-appointment of Directors and succession plan for Directors. Members of the nomination committee comprise:

Mr. Xu Su Ming (Appointed as member of nomination committee on 23 May 2011 and re-designated as chairman of nomination committee on 30 December 2011) (Chairman of nomination committee)
Mr. Li Hai Feng (Appointed on 30 December 2011)
Mr. Chang Yong (Appointed on 30 December 2011)
Mr. Sha Min (Resigned on 30 December 2011)
Mr. Zhang Zhan (Resigned on 23 May 2011)
Mr. Guo Ya Jun (Resigned on 30 December 2011)

One meeting was held during the year by the nomination committee. All members of the nomination committee attended the said meeting.

Corporate Governance Report

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2011 were performed by BDO China Shu Lun Pan Certified Public Accountants LLP. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the year ended 31 December 2011 are set out below:

	2011 RMB'000	2010 RMB'000
Services rendered		
Audit services		
– BDO China Shu Lun Pan Certified Public Accountants LLP	750	–
– BDO Limited	–	920
Non-audit services	–	55

Corporate Governance Report

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

	Number of attendance
Mr. Xu Su Ming (Appointed on 23 May 2011)	1/1
Mr. Li Hai Feng (Appointed on 23 May 2011)	1/1
Mr. Shum Shing Kei (Appointed on 23 May 2011)	1/1
Mr. Zhang Zhan (Resigned on 23 May 2011)	1/1
Mr. Wang Wei (Resigned on 23 May 2011)	1/1
Mr. Lau Shek Yau John (Resigned on 23 May 2011)	1/1

During the year, the Group's unaudited interim results for the year 2011 and annual audited results for the year ended 31 December 2011 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 auditor's 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 35 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 2011 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 BDO China Shu Lun Pan Certified Public Accountants LLP, to be proposed by the Board and agreed that it truly and fully reflects 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 the interests of its shareholders and employees,

Auditor's Report

TO THE SHAREHOLDERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED:

We have audited the accompanying financial statements of Nanjing Sample Technology Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of the Company is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

II. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 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 management, 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.

Auditor's Report

III. OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2011, and its operating results and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

BDO China Shu Lun Pan Certified
Public Accountants LLP

Chinese Certified Public Accountant: **Yang Xiong**

Chinese Certified Public Accountant: **Zhao Huan Qi**

Shanghai, the People's Republic of China

22 March 2012

Consolidated Balance Sheet

31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note V	2011	2010 (restated)
Current assets:			
Cash at bank and on hand	(I)	457,625,077.68	325,375,009.04
Notes receivable	(II)	856,348.50	1,314,288.57
Accounts receivable	(III)	321,076,498.92	147,919,996.59
Prepayments	(V)	3,193,664.28	10,767,840.82
Other receivables	(IV)	88,932,996.33	102,213,898.69
Inventories	(VI)	277,749,254.36	228,002,694.87
Other current assets	(VII)	-	150,000,000.00
Total current assets		1,149,433,840.07	965,593,728.58
Non-current assets:			
Long-term equity investments	(VIII)	194,007,290.40	75,985,014.02
Fixed assets	(IX)	51,830,494.11	42,892,508.25
Construction in progress	(X)	4,680,462.89	4,374,193.54
Construction materials		102,213,898.69	793,421.79

Consolidated Balance Sheet (continued)

31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

	Note V	2011	2010 (restated)
Total liabilities		655,900,060.10	449,107,917.18
Shareholders' equity:			
Share capital	(XXII)	224,100,000.00	224,100,000.00
Capital surplus	(XXIII)	102,999,020.45	97,561,268.03
Surplus reserve	(XXIV)	34,049,480.44	28,801,169.93
Undistributed profits	(XXV)	427,217,076.14	308,821,323.70
Difference on translation of foreign currency financial statements		(3,643,142.26)	(431,136.12)
Total equity attributable to the shareholders of the Company		784,722,434.77	658,852,625.54
Minority interest		7,726,923.08	–
Total shareholders' equity		792,449,357.85	658,852,625.54
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,448,349,417.95	1,107,960,542.72
Net current assets		495,136,283.39	517,750,864.93
Total asset less current assets		794,051,861.27	660,117,679.07

Page 37 to page 159 of the financial statements were signed by the following person in charge:

Sha Min
Director

Guo Ya Jun
Director

Sha Min
Legal representative

Guo Ya Jun
Person in charge of
accounting function

Xu Yong Hui
Person in charge of
accounting department

Balance Sheet of the Company

31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note XIII	2011	2010 (restated)
Current assets:			
Cash at bank and on hand		76,463,577.68	77,867,716.76
Notes receivable		756,348.50	1,314,288.57
Accounts receivable	(I)	138,793,034.55	100,960,094.01
Prepayments		578,661.65	321,554.55
Other receivables	(II)	72,258,758.87	72,964,805.31
Inventories		3,821,984.27	33,429,363.97
Other current assets		-	150,000,000.00
Total current assets		292,672,365.52	436,857,823.17
Non-current assets:			
Long-term equity investments	(III)	390,084,978.40	202,062,702.02
Fixed assets		49,201,875.18	41,005,426.82
Construction in progress		-	3,927,375.54
TOTAL ASSETS		1,097,533.00	6,417,066.96
Intangible assets	2579,97,066.31	72556787097.10	6,417,066.96
Deferred tax assets		2,532,678.79	2,264,525.76
Total non-current assets			

Balance Sheet of the Company (continued)

31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note XIII	2011	2010 (restated)
Current liabilities:			
Short-term borrowings		130,300,000.00	115,000,000.00
Notes payable		5,743,735.80	–
Accounts payable		36,945,862.07	40,159,517.63
Advances from customers		635,215.60	1,208,002.00
Staff remuneration payables		117,886.34	156,785.92
Taxes payable		15,254,303.32	16,182,908.50
Other payables		7,610,496.57	1,356,632.57
Total current liabilities		196,607,499.70	174,063,846.62
Total liabilities		196,607,499.70	174,063,846.62
Shareholders' equity:			
Share capital		224,100,000.00	224,100,000.00
Capital surplus		101,655,183.03	96,217,430.61
Surplus reserve		34,049,480.44	28,801,169.93
Undistributed profits		194,177,267.72	169,352,473.11
Total shareholders' equity		553,981,931.19	518,471,073.65
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		750,589,430.89	692,534,920.27
Net current assets		96,064,865.82	262,793,976.55
Total assets less current liabilities		553,981,931.19	518,471,073.65

Page 37 to page 159 of the financial statements were signed by the following person in charge:

Sha Min
Director

Guo Ya Jun
Director

Sha Min
Legal representative

Guo Ya Jun
Person in charge of
accounting function

Xu Yong Hui
Person in charge of
accounting department

Consolidated Income Statement

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2011	2010 (restated)
I. Total operating income	(XXVI)	542,388,737.94	508,016,094.03
II. Total operating cost		414,709,367.41	394,441,310.48
Operating cost	(XXVI)	327,803,324.95	329,381,875.07
Taxes and surcharges	(XXVIII)	14,157,351.73	9,978,342.52
Selling and distribution expenses	(IXXX)	13,088,941.60	10,333,996.29
General and administrative expenses	(XXX)	39,152,681.18	32,522,522.58
Financial expenses	(XXXI)	9,254,329.57	9,832,657.72
Asset impairment losses	(XXXIII)	11,252,738.38	2,391,916.30
Share of profit of associates and jointly controlled entities	(XXXII)	11,584,523.96	985,014.02
Other investment income	(XXXII)	10,104,366.18	4,781,286.20
III. Operating profit		149,368,260.67	119,341,083.77
Add: Non-operating income	(XXXIV)	22,236,679.74	9,347,883.48
Less: Non-operating expenses	(XXXV)	165,264.92	961,467.53
IV. Total profit		171,439,675.49	127,727,499.72
Less: Income tax expenses	(XXXVIII)	25,385,612.54	16,195,468.24
V. Net profit		146,054,062.95	111,532,031.48
Net profit attributable to the shareholders of the Company			

Income Statement of the Company

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XIII	2011	2010 (restated)
I. Operating income	(IV)	155,520,680.41	144,610,893.55
Less: Operating cost	(IV)	75,528,456.11	69,632,736.59
Taxes and surcharges		2,755,667.12	475,942.10
Selling and distribution expenses		5,777,932.24	4,370,316.00
General and administrative expenses		28,020,245.30	23,080,690.44
Financial expenses		3,846,197.43	3,820,119.11
Asset impairment losses		4,377,800.35	2,391,916.30
Share of profit of associates and jointly controlled entities	(V)	11,584,523.96	985,014.02
Other investment income	(V)	4,304,514.06	4,096,080.95
II. Operating profit		51,103,419.88	45,920,267.98
Add: Non-operating income		10,067,793.58	7,964,937.13
Less: Non-operating expenses		109,252.04	935,748.86
III. Total profit		61,061,961.42	52,949,456.25
Less: Income tax expenses		8,578,856.30	4,839,323.22
IV. Net profit		52,483,105.12	48,110,133.03
V. Total comprehensive income		52,483,105.12	48,110,133.03

Consolidated Cash Flow Statement

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2011	2010 (restated)
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		398,582,342.48	505,904,688.35
Refund of taxes and surcharges		9,492,380.25	8,729,810.66
Cash received relating to other operating activities	(XLII).1	259,700,533.41	152,895,371.49
		<hr/>	<hr/>
Sub-total of cash inflows		667,775,256.14	667,529,870.50
		<hr/>	<hr/>
Cash paid for goods and services		277,447,966.56	244,554,430.19
Cash paid to and on behalf of employees		30,759,168.42	21,886,712.45
Payments of taxes and surcharges		45,364,497.51	32,246,048.58
Cash paid relating to other operating activities	(XLII).2	262,932,758.65	173,636,604.69
		<hr/>	<hr/>
Sub-total of cash outflows		667,775,256.14	667,529,870.50

Consolidated Cash Flow Statement (continued)

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2011	2010 (restated)
III. Cash flows from financing activities			
Cash received from borrowings		355,300,000.00	235,000,000.00
Sub-total of cash inflows		355,300,000.00	235,000,000.00
Cash repayments of borrowings		290,000,000.00	147,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		37,934,237.60	33,367,867.38
Sub-total of cash outflows		327,934,237.60	180,367,867.38
Net cash flows from financing activities		27,365,762.40	54,632,132.62
IV. Effect of foreign exchange rate changes on cash and cash equivalents		(1,330,827.40)	(158,221.60)
V. Net increase in cash and cash equivalents		104,890,736.94	119,748,549.21
Add: Cash and cash equivalents at beginning of period		310,159,203.60	190,410,654.39
VI. Cash and cash equivalent at end of period		415,049,940.54	310,159,203.60

Cash Flow Statement of the Company

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XIII	2011	2010 (restated)
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		148,476,313.65	125,991,844.38
Refund of taxes and surcharges		9,083,694.09	6,446,309.59
Cash received relating to other operating activities		64,139,486.67	249,917,440.96
		<hr/>	<hr/>
Sub-total of cash inflows		221,699,494.41	382,355,594.93
		<hr/>	<hr/>
Cash paid for goods and services		64,883,960.74	52,591,483.01
Cash paid to and on behalf of employees		18,726,210.53	12,717,486.97
Payments of taxes and surcharges		26,314,415.51	15,743,285.29
Cash paid relating to other operating activities		66,919,808.49	213,261,328.90
		<hr/>	<hr/>
Sub-total of cash outflows		176,844,395.27	294,313,584.17
		<hr/>	<hr/>
Net cash flows from operating activities		44,855,099.14	88,042,010.76
		<hr/> <hr/>	<hr/> <hr/>
II. Cash flows from investing activities			
Cash received from disposal of investments		150,000,000.00	60,000,000.00
Cash received from returns on investments		4,432,247.38	4,096,080.95
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		-	105,802.31
Cash received relating to other investing activities		-	25,000,000.00
		<hr/>	<hr/>
Sub-total of cash inflows		154,432,247.38	89,201,883.26
		<hr/>	<hr/>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		18,908,784.55	4,354,419.96
Cash paid to acquire investments		171,000,000.00	245,000,000.00
		<hr/>	<hr/>
Sub-total of cash outflows		189,908,784.55	249,354,419.96
		<hr/>	<hr/>
Net cash flows from investing activities		(35,476,537.17)	(160,152,536.70)
		<hr/> <hr/>	<hr/> <hr/>

Cash Flow Statement of the Company (continued)

For the year ended 31 December 2011

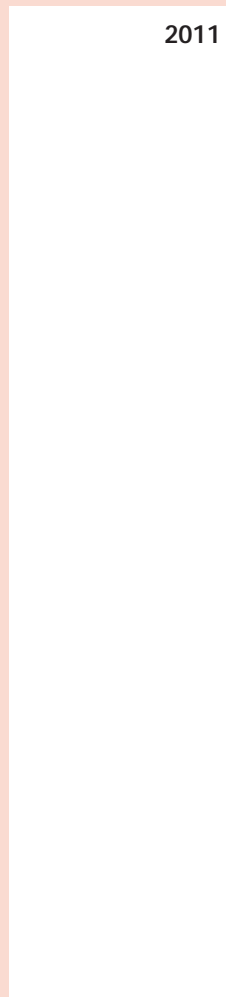
(All amounts in Renminbi yuan unless otherwise stated)

ITEMS

Note XIII

2011

2010
(restated)



Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	2011					Minority interest	Total shareholders' equity
	Attributable to the owners of the Company						
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Others		
I. Closing balance of prior year	224,100,000.00	97,561,268.03	28,801,169.93	308,821,323.70	(431,136.12)	-	658,852,625.54
II. Opening balance of current year	224,100,000.00	97,561,268.03	28,801,169.93	308,821,323.70	(431,136.12)	-	658,852,625.54
III. Changes during the period	-	5,437,752.42	5,248,310.51	118,395,752.44	(3,212,006.14)	7,726,923.08	133,596,732.31
(I) Net profits	-	-	-	146,054,062.95	-	-	146,054,062.95
(II) Other comprehensive income	-	-	-	-	(3,212,006.14)	-	(3,212,006.14)
(III) Shareholders contribution and capital reduction	-	-	-	-	-	7,726,923.08	7,726,923.08
1. Capital contribution by shareholders	-	-	-	-	-	7,726,923.08	7,726,923.08
(IV) Profit appropriation	-	-	5,248,310.51	(27,658,310.51)	-	-	(22,410,000.00)
1. Appropriation to surplus reserves	-	-	5,248,310.51	(5,248,310.51)	-	-	-
2. Appropriation to shareholders	-	-	-	(22,410,000.00)	-	-	(22,410,000.00)
(V) Others	-	5,437,752.42	-	-	-	-	5,437,752.42
IV. Closing balance of current period	224,100,000.00	102,999,020.45	34,049,480.44	427,217,076.14	(3,643,142.26)	7,726,923.08	792,449,357.85

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

Statement of Changes in Equity of the Company

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	2011				Total shareholders' equity
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	224,100,000.00	96,217,430.61	28,801,169.93	169,352,473.11	518,471,073.65
II. Opening balance of current year	224,100,000.00	96,217,430.61	28,801,169.93	169,352,473.11	518,471,073.65
III. Changes during the period	-	5,437,752.42	5,248,310.51	24,824,794.61	35,510,857.54
(I) Net profits	-	-	-	52,483,105.12	52,483,105.12
(II) Other comprehensive income	-	-	-	-	-
(III) Profit appropriation	-	-	5,248,310.51	(27,658,310.51)	(22,410,000.00)
1. Appropriation to surplus reserves	-	-	5,248,310.51	(5,248,310.51)	-
2. Appropriation to shareholders	-	-	-	(22,410,000.00)	(22,410,000.00)
(IV) Others	-	5,437,752.42	-	-	5,437,752.42
IV. Closing balance of current period	224,100,000.00	101,655,183.03	34,049,480.44	194,177,267.72	553,981,931.19

Statement of Changes in Equity of the Company (continued)

For the year ended 31 December 2011

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	2010 (restated)				Total shareholders' equity
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	224,100,000.00	96,217,430.61	23,990,156.63	148,463,353.38	492,770,940.62
II. Opening balance of current year	224,100,000.00	96,217,430.61	23,990,156.63	148,463,353.38	492,770,940.62
III. Changes during the period	-	-	4,811,013.30	20,889,119.73	25,700,133.03
(I) Net profits	-	-	-	48,110,133.03	48,110,133.03
(II) Other comprehensive income	-	-	-	-	-
(III) Profit appropriation	-	-	4,811,013.30	(27,221,013.30)	(22,410,000.00)
1. Appropriation to surplus reserves	-	-	4,811,013.30	(4,811,013.30)	-
2. Appropriation to shareholders	-	-	-	(22,410,000.00)	(22,410,000.00)
IV. Closing balance of current period	224,100,000.00	96,217,430.61	28,801,169.93	169,352,473.11	518,471,073.65

Notes to the Financial Statements

For the year ended 31 December 2011

I. CORPORATE INFORMATION

(I) General information

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited*) (the "Company", together with its subsidiaries, the "Group") 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.

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. On 22 November 2010, the Company's H shares were successfully migrated from the GEM to the mainboard of the Stock Exchange (the "Main Board").

The business registration number of the Company is 320100400023227 and the legal representative of the Company is Sha Min.

The addresses of the registered office and principal place of business of the Company are located at Building No.1, Ruan Jian Chuang Ye Zhong Xin, High Technology Development Region Qixia District, Nanjing City and No. 10 Maqun Avenue, Maqun Technology Park, Qixia District, Nanjing City respectively.

(II) The nature of the industry

The Group is engaged in the information technology application (IT application) service industry.

(III) Scope of business

Computer networks, industrial automation engineering design, installation; electronic products, computer development, manufacture, production for product sales, system integration; computer technology consulting and information services; research and development of ITS-based basic information collection technology and equipment.

(IV) Principal business

The Group is principally engaged in the provision of visual identification and RFID technologies-based full solutions to intelligent traffic, customs logistics and health care and other application areas.

(V) Basic organizational structure of the Company

The Company has established Shareholders' General Meeting, the Board of Directors and the Supervisory Committee. The Company has: Investment Department, Finance Department, Software Development Department, Hardware Development Department, Planning and Design Department, Engineering Technology Research Institute, Technology Management Department, Quality Management Department, Administration and Human Resources Department, Procurement Department, Legal Affairs Department, Traffic Monitoring and Control Department, Customs Logistics Monitoring Department, Office of the President and other functional departments.

Notes to the Financial Statements

For the year ended 31 December 2011

I. CORPORATE INFORMATION *(Continued)*

(V) Basic organizational structure of the Company *(Continued)*

As of 31 December 2011, the Group has seven wholly-owned and controlled subsidiaries, namely: 江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Limited), 江蘇瑞福智慧科技發展有限公司 (Jiangsu Raifu Intelligent Tech. Co., Ltd.), 南京三寶物流科技發展有限公司 (Nanjing Sample Logistic Company Limited), 南京物聯網研究院發展有限公司 (Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited), Sample Technology (H.K.) Co., Limited, Federal International Enterprise Limited and Nanjing City Intelligent Transportation Co., Ltd.(南京城市智能交通有限公司).

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS

(I) Basis of preparation of financial statements

The Company's financial statements were used to be prepared in accordance with accounting principles generally accepted in Hong Kong ("HKGAAP") for disclosure purposes. According to the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" published by the Stock Exchange in December 2010, with effect from this financial year, the Company decided to prepare its financial statements in accordance with the "Accounting Standards for Business Enterprises" and other related regulations issued by the China Ministry of Finance ("PRC Accounting Standards"). The adoption of PRC Accounting Standards has been applied retrospectively and the comparative financial information for the year ended 31 December 2010 is converted in accordance with PRC Accounting Standards. The reconciliation of shareholders' equity and profit of the Company from HK GAAP to PRC Accounting Standards is set out in Note XIV (4) to the financial statements.

The Group's financial statements have been prepared on a going concern basis and based on the actual transactions and matters incurred; in accordance with the PRC Accounting Standards, Information Disclosure Rule No. 15 of Public Offerings Company-Financial Reporting General Provisions (2010 Amendments) issued by CSRC and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance ("Hong Kong Companies Ordinance"); and the accounting policies and estimates of the Group.

(II) Statement of compliance of accounting standards for business enterprises

The financial statements have been prepared in conformity with the PRC Accounting Standards, and present truly and completely the consolidated and the Company's financial position as at 31 December 2011, and the consolidation and the Company's operating results and cash flow and other related information during the year then ended.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(III) Accounting period

The accounting period of the Group is from 1 January to 31 December of each calendar year.

(IV) Reporting currency

The reporting currency of the Company is Renminbi ("RMB"). The reporting currency for the overseas businesses is the currency of the place in which they operate.

The currency used by the Group in the preparation of the financial statements is RMB.

(V) Accounting treatments for business combinations involving entities under and not under common control

1. Business combinations involving entities under common control

The assets and liabilities acquired by the Group in business combination shall be measured at the carrying value of the acquiree on the date of combination. If there is an inconsistency between the accounting policies adopted by the acquirees and those of the Company, the adjustment will be made by the Group according to the Group's accounting policies at the date of the combination, and the adjusted carrying value will be recognised on this basis.

The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or total nominal value of the issued shares) is adjusted to capital premium in capital reserve. If the capital premium in capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

The direct expenses incurred in business combination, including the audit fee, appraisal fee and legal service fee paid by the Group in connection with business combination shall be charged to the profit or loss when incurred.

The administrative charges and commission incurred upon issuance of equity securities in business combination shall be offset against the premium income from equity securities. If such amount cannot be offset by premium income, it shall be adjusted in retained earnings.

2. Business combinations involving entities not under common control

The assets paid and liabilities incurred or committed as a consideration of business combination by the Group were measured at fair value on the date of acquisition and the difference between the fair value and its carrying value shall be charged to the profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(V) Accounting treatments for business combinations involving entities under and not under common control *(Continued)*

2. Business combinations involving entities not under common control *(Continued)*

The Group shall allocate the cost of combination on the date of acquisition and recognize the fair value of the identifiable assets, liabilities and contingent liabilities acquired from the acquiree.

Where the cost of combination is higher than the fair value of the identifiable net assets acquired from the acquiree in business combination, the Group shall recognize such difference as goodwill; where the cost of combination is less than the fair value of the identifiable net assets acquired from the acquiree in business combination, such difference shall be charged to the profit or loss for the period after review.

As for the assets other than intangible assets acquired from the acquiree in business

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(VI) Preparation of consolidated financial statements

The scope of consolidation of the consolidated financial statements of the Group is based on controlling interests, and all the subsidiaries are included in the consolidated financial statements.

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Company. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Company. For subsidiaries acquired from a business combination involving entities not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets on the date of combination. Based on the financial statements of the Company and its subsidiaries, the consolidated financial statements are prepared by the Company according to other relevant information and after the long-term equity investments in the subsidiaries are adjusted in accordance with the equity method.

When consolidating the financial statements, the effects of intra-transactions between the Company and its subsidiaries, and among subsidiaries on the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated statement of changes in equity shall be offset.

Profit or loss attributable to minority shareholders of a subsidiary is presented separately in the consolidated balance sheet within owners' equity and in the consolidated income statement below the net profit line item. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest in the equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest.

For acquisition of subsidiaries due to business combination involving entities under common control during the reporting period, the opening balance of the consolidated balance sheet shall be adjusted; the revenue, expense and profit of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included in the consolidated income statement; the cash flows of such subsidiaries from the beginning to the end of the reporting period when the merger occurs are included in the consolidated cash flow statement, and the comparative figures of the financial statements should be adjusted simultaneously as if the

Notes to the Financial Statements

For the year ended 31 December 2011

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments

Financial instruments include financial assets, financial liabilities and equity instruments.

1. Classification of the financial instruments

According to the purposes of acquisition and holding of financial assets and of the financial liabilities committed, the management classifies the financial instruments as: financial assets or financial liabilities carried at fair value through profit or loss for the current period, including financial assets or liabilities for trading (financial assets or financial liabilities directly designated as carried at fair value through profit or loss for the current period); held-to-maturity investments; Accounts receivable; available-for-sale financial assets and other financial liabilities.

2. Recognition and measurement of financial instruments

- (1) Financial assets or financial liabilities carried at fair value through profit or loss for the current period

When obtained, the financial assets or financial liabilities shall be initially measured at their fair value (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn), its transaction costs are included in the profit or loss for the period.

The interest or cash dividend which was gained in the period are recognized as investment income. At the balance sheet date, the variation in the fair value of the financial asset or financial liability shall be included in the profit or loss for the period.

When the said financial assets or financial liabilities are on disposal, the difference between the fair value and the amount of initial recognition shall be recognized as investment income; meanwhile, the profits and losses arising from the variation in fair value shall be adjusted.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

(2) Held-to-maturity investments

Held-to-maturity investments are initially measured at fair value when obtained (except for interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

Interest income is calculated according to the amortised cost and effective interest rate and recorded into investment income. The effective interest rate, ascertained when initially obtained, shall remain unchanged within the predicted term of existence or within a shorter applicable term.

When disposed, the difference between the consideration obtained and the carrying amount of the investment shall be recorded into investment income.

(3) Accounts receivable

The receivables that are formed in sale of goods or rendering of services to external parties, and the receivables, except for the debt instruments quoted in an active market, due to the Group from other entities, including accounts receivable, other receivables, notes receivable, prepayments, etc., are initially recognised at the consideration of the contract or agreement to be received from the buyers. Accounts receivable that are of a financing nature are initially recognised at their present value.

Upon recovery or disposal of accounts receivable, the difference between the consideration obtained and the carrying amount is charged to profit or loss for the period.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments *(Continued)*

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially measured at fair value when obtained (except for cash dividends which are declared but not distributed or interests on bonds of which the maturity interest is not drawn) plus relevant transaction costs.

The interests or cash dividends to be obtained during the period the available-for-sale financial assets are held shall be recorded into investment income. By the end of the reporting period, financial assets are measured at fair value, and the change in fair value shall be recorded into capital reserves (other capital reserves).

When disposed of, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment income; meanwhile, the corresponding portion of accumulated change in fair value

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments *(Continued)*

3. Recognition and measurement of transfer of financial assets

A financial asset shall be derecognised while the Group has transferred nearly all the risks and rewards related to the ownership of the financial asset to the transferee, and it shall not be derecognised if the Group has retained nearly all the risks and rewards related to the ownerships of the financial asset.

The substance-over-form principle shall be adopted while making a judgment on whether the transfer of financial assets satisfies the above conditions for termination of recognition. The transfer of financial assets could be classified into entire transfer and partial transfer. If the transfer of an entire financial asset satisfies the conditions for termination of recognition, the difference between the two amounts below shall be recorded into profit or loss for the period:

- (1) The carrying amount of the financial asset transferred;
- (2) The consideration received as a result of the transfer, plus the accumulative amount of the change in fair value previously recorded into the owners' equities (in cases where the transferred financial asset is available-for-sale financial asset).

If the partial transfer of financial assets satisfies the conditions for termination of recognition, the overall carrying amount of the transferred financial asset shall be apportioned according to their respective relative fair value between the portion of derecognised part and the remaining part, and the difference between the two amounts below shall be recorded into profit or loss for the current period:

- (1) The carrying amount of the derecognised part;
- (2) The sum of consideration of the derecognised portion and the corresponding portion of accumulated change in fair value previously recorded into owners' equity (in cases where the transferred financial assets are available-for-sale financial assets).

Financial assets will still be recognised if they fail to satisfy the conditions for termination of recognition, with the consideration received recognised as a financial liability.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments *(Continued)*

4. Conditions for derecognition of financial liabilities

When the current obligation under a financial liability is completely or partially discharged, the whole or relevant portion of the liability is derecognized; an agreement is entered between the Group and a creditor to replace the original financial liabilities with new financial liabilities with substantially different terms, derecognize the original financial liabilities as well as recognize the new financial liabilities.

If all or part of the contract terms of the original financial liabilities are substantially amended, the original financial liabilities will be derecognized in full or in part, and the financial liabilities whose terms have been amended shall be recognised as a new financial liability.

When financial liabilities is derecognized in full or in part, the difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

Where the Group repurchases part of its financial liabilities, the carrying amount of such financial liabilities will be allocated according to the relative fair value between the continued recognised part and derecognised part on the repurchase date. The difference between the carrying amount of the financial liabilities derecognized and the consideration paid (including transferred non-cash assets or new financial liability) is recognized in profit or loss for the current period.

5. Method of determining the fair values of financial assets and liabilities

All the financial assets and liabilities measured at fair value of the Group refer to the quotation in an active market at the end of the period.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IX) Financial instruments *(Continued)*

6. Impairment provision of financial assets (excluding accounts receivable)

The Group shall assess the carrying amount of financial assets other than those at fair value through profit or loss at the balance sheet date. If there is objective evidence that the financial asset is impaired, the Company shall make provision of any impairment.

(1) Impairment provision for available-for-sale financial asset:

While the fair value of available-for-sale financial asset falls significantly, or judged by the Company that descending trend is not temporary after taking into account related data comprehensively at the end of the period, they will be recognised as impaired, the cumulative loss arising from decline in fair value that had been recognised directly in the owner's equity shall be removed from the owner's equity and recognised in the profit or loss.

If, after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in the profit or loss for the current period.

Impairment losses recognised for an investment in an equity instrument shall not be reversed through profit or loss.

(2) Impairment provision for held-to-maturity investments:

The measurement of the impairment loss for held-to-maturity investments shall be treated with reference to that for the accounts receivable.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS (Continued)

(X) Accounts receivable (Continued)

(2) Accounts receivable that are subject to provision by groups (Continued)

Where aging analysis method is used for provision of bad debts for groups:

Aging	Provision ratios for accounts receivable (%)	Provision ratios for other receivables (%)
Within 1 year (including 1 year)	3	5
1 to 2 years	8	10
2 to 3 years	30	50
Over 3 years	100	100

Accounting method is used for provision of bad debts for groups which are accounts receivable due from governments. The customer groups of governments refer to the customs, public security and traffic departments of the PRC government. For these customer groups, according to historical information, the average terms of credit is 3 to 5 years, and thus their liabilities are discounted at the interest rate of the PRC government bond in the same period to calculate the recoverable amount. Comparison will be made between the discounted value and the carrying amount. Provision will be made for bad debts if there is any impairment.

(3) Accounts receivable which are individually insignificant but subject to separate provision

For individually insignificant accounts receivable, if there is objective evidence that the receivables are impaired at the end of the period, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount.

At the end of the period, notes receivable and prepayments which are not classified into groups with similar credit risks characteristics are subject to separate impairment test. If there is objective evidence that the receivables are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. If there is no impairment identified according to the impairment test, no provision for bad debts shall be recognised.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XI) Inventories

1. Classification of inventories

Inventories include goods in transit, raw materials, circulating materials, commodity stocks and goods in processing contract and assets formed by construction contracts, etc.

2. Cost of inventories

Cost of inventories is determined using the weighted average method.

3. Basis for the determination of net realisable value and the method of provisions for impairment of inventories

At the end of the period, after a thorough inspection of the inventories, provision for decline in value of inventories will be made and adjusted at the lower of the cost and the net realizable value.

Net realisable value of held-for-sale commodity stocks, such as finished goods, goods-in-stock, and held-for-sale raw materials, during the normal course of production and operation, shall be determined by their estimated sales less the related selling expenses and taxes; the net realizable value of material inventories, which need to be processed, during the normal course of production and operation, shall be determined by the amount after deducting the estimated cost of completion, estimated selling expenses and relevant taxes from the estimated selling price of finished goods; the net realizable value of inventories held for execution of sales contracts or labor contracts shall be calculated on the ground of the contracted price. If an enterprise holds more inventories than the quantity stipulated in the sales contract, the net realizable value of the exceeding part shall be calculated on the ground of general selling price.

Decline in value of inventories is made on an item-by-item basis at the end of the period. For large quantity and low value items of inventories, provision may be made based on categories of inventories; for items of inventories relating to a product line that is produced and marketed in the same geographical area and with the same or similar end uses or purposes, which cannot be practicably evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

4. Inventory system

The perpetual inventory system is adopted.

5. Amortisation of low-value consumables and packaging materials

Low-value consumables and packaging materials are expensed upon issuance.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XII) Long-term equity investments

1. Determination of cost of investment

- (1) Long-term equity investments formed through business combination of entities

For business combinations involving entities under common control: where the Group pays cash, transfers non-cash assets, bears debts or issues equity securities as consideration of combinations, the initial investment cost of long-term equity investments are the share with reference to the book value of the shareholders' equity of the acquiree on the date of combinations. Capital premium within the capital reserve is adjusted by differences between initial investment cost of long-term equity investments and the considerations paid; amounts that cannot be sufficiently released by the capital premium in the capital reserve serve the purpose of adjusting retained earnings. The direct expenses incurred in business combination, including the audit fee, appraisal fee and legal service fee paid in connection with business combination shall be charged to the profit or loss for the current period when incurred.

Business combinations involving entities not under common control: the cost of the combination ascertained on the date of acquisition shall be taken as the initial investment cost of the long-term equity investments. The cost of a business combination is the aggregate of the fair values, on the date of acquisition, of assets given, liabilities incurred or assumed, and equity securities issued by the acquirer to be paid by the acquirer, in exchange for control of the acquiree. The agency fee such as audit, legal service and evaluation consultation and other management fees incurred by the acquirer for the business combination shall be charged to the profit or loss for the period when incurred. As equity or bond securities are issued by the acquirer as consideration, any attributable transaction cost is included in their initial costs. When the business combination is achieved in stages through a number of exchange transactions, the aggregate of the book value of the previously held equity interest in the acquiree before the acquisition date and the new investment cost on the date of acquisition, shall be taken as the initial investment cost of the long-term equity investments. Where the Group regards the contingent consideration agreed in the combination agreement as part of the consideration of the transfer in business combinations, such contingent consideration shall be included in the cost of business combinations at its fair value on the date of acquisition.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XII) Long-term equity investments *(Continued)*

1. Determination of cost of investment *(Continued)*

(2) Long-term equity investments acquired by other means

The initial cost of investment of a long-term equity investment obtained by the

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XII) Long-term equity investments *(Continued)*

2. Subsequent measurement and recognition of profit or loss

(1) Subsequent measurement

Long-term equity investment in subsidiaries of the Company is accounted for by cost method, subject to adjustment pursuant to equity method during preparation of the combined financial statement.

Cost method is used to account for a long-term equity investment where the investor does not have joint control or significant influence over the investee, and the investment is not quoted in an active market and its fair value cannot be reliably measured.

Long-term equity investments with joint control or significant influence on the investee are accounted for using equity method. Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, no adjustment shall be made to the initial investment cost; where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the acquisition date, the difference shall be charged to profit or loss for the current period.

Treatment of the changes in owners' equity other than the share of the investee's net profit and loss: As for the changes in owners' equity other than the share of the investee's net profit and loss, the Company shall calculate its proportion, provided that the Company's proportion of shareholding in the investee remains unchanged, adjust the book value of the long-term equity investment and increase or decrease the capital reserve (other capital reserve).

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XII) Long-term equity investments *(Continued)*

2. Subsequent measurement and recognition of profit or loss *(Continued)*

(2) Recognition of profit or loss

Under the cost method, except for the actual consideration paid for the acquisition of investment or the declared but not yet distributed cash dividends or profits which are included in the consideration, investment gains is recognised as the Company's share of the cash dividends or profits declared by the investee.

Under the equity method, on the basis of the carrying amount of net profits of the investees, the following will be considered: Where the accounting policies and accounting periods of the investees are inconsistent with those adopted by the Company, the financial statements of the investees shall be adjusted according to the Company's accounting policies and accounting periods; the effects of the amount of depletion or amortization or the relevant assets impairment provision provided based on the fair values of fixed assets or intangible assets of the investees when acquiring the investment; appropriate adjustments are made to the matters, such as offsetting the unrealized inter-transactions occurred between the Company and associates and jointly controlled entities, the Company's share of net profits or losses in the investees shall be recognised.

In recognising the Company's share of losses incurred by the investees, treatment shall be made in the following order: First, to reduce the carrying amount of the long-term equity investment. Second, where the carrying amount of the long-term equity investment is not sufficient to reduce, the investment loss shall continue to be recognised to the extent of the carrying amount of other long-term equities that in substance constitute the net investment in the investees, and reduce the carrying amount of long-term receivables and other items. Finally, after the above treatments, where the enterprise still bears additional obligations as stipulated in the investment contract or agreement, the expected liabilities shall be recognised based on the obligations expected to be undertaken, and charged to the profit or loss for the current period. Where the investees realize profits in subsequent periods, after deducting its share of unrecognized losses, the Company shall treat in a reverse order with the above: write down the carrying amount of expected liabilities expected, restore the carrying amount of other long-term equities that in substance constitute the net investment in the investees and long-term equity investment, and recognize investment income simultaneously.

During the period the investments are held, where the investees was able to provide consolidated financial statements, accounting shall be made based on the net profits or changes in other equities in the consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS (Continued)

(XIII) Fixed assets

1. Conditions for recognition of fixed assets

Fixed assets are tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and have a useful life of more than one accounting year. Fixed asset is recognised when it meets the following conditions:

- (1) it is probable that the economic benefits associated with the fixed asset will flow to the enterprise;
- (2) and its cost can be reliably measured.

2. Method for depreciation of different fixed assets

Fixed assets are depreciated by categories using the straight-line method, and the annual depreciation rates are determined by categories based upon their estimated useful lives and their estimated residual values. Where the parts of a fixed asset have different useful lives or cause economic benefits for the enterprise in different ways, different depreciation rates or depreciation methods shall apply, and each part is depreciated separately.

For fixed assets leased under finance lease, if it can be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the remaining useful life of the leased asset. If it cannot be reasonably determined that the ownership of the leased asset can be acquired upon the expiry of the lease term, depreciation policies in line with the fixed assets will be adopted for depreciation during the shorter of the lease term and the remaining useful life of the leased asset.

The useful life and annual depreciation rate of each category of fixed assets are as follows:

Category	Useful lives of depreciation (years)	Estimated residual value (%)	Annual depreciation rate (%)
Buildings and structures	30	5	3.17
Transportation equipment	5	5	19.00
Electronic and office equipment	3-10	5	9.5-31.67

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XIII) Fixed assets *(Continued)*

3. Impairment testing methods and provision for impairment methods on *ixed assets*

The Group will judge if there is any indication of impairment as at the end of each period in respect of *ixed assets*.

If there is any indicator that a *ixed asset* may be impaired, recoverable amount shall be estimated. The recoverable amount of a *ixed asset* is the higher of its fair value less costs of disposal and the present value of the future cash *ows* expected to be derived from the *ixed asset*.

If the recoverable amount of a *ixed asset* is less than its carrying amount, the carrying value of the *ixed asset* will be reduced to its recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on *ixed assets* will be provided for.

After the impairment loss for the *ixed asset* is recognised, the corresponding adjustment will be made to the depreciation of the impaired *ixed asset* in subsequent periods, so as to amortise systematically the adjusted carrying amount (net of estimated net residual value) of the *ixed asset* over its remaining useful lives.

Once an impairment loss is made for a *ixed asset*, it shall not be reversed in subsequent accounting periods.

Where there is any indicator that a *ixed asset* may be impaired, the recoverable amount of a *ixed asset* will be assessed by an enterprise on an individual basis. If assessment of the recoverable amount for individual assets is difficult, the recoverable amount of an asset group will be determined based on the asset group to which the asset belongs.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XIII) Fixed assets *(Continued)*

4. Recognition basis and measurement method of fixed assets under finance lease

Group method: cost of acquisition, less accumulated depreciation and impairment losses. (Where any of the

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XIV) Construction in progress

1. Types of constructions in progress

Constructions in progress are accounted for by individual projects.

2. Criteria and time point for construction in progress being transferred to the fixed asset

Construction in progress is measured at all the expenditures incurred to bring the fixed assets ready for their intended use. If the construction in progress fixed assets constructed are ready for their intended use but the final account of completed project has not been issued, it should be transferred to fixed assets at an estimated cost according to the construction budget, construction price or actual cost, and depreciation should be provided according to depreciation policy for fixed assets from the date when the assets are ready for their intended use. When the final account of completed project is issued, the estimated cost will be adjusted according to the actual cost, while the depreciation charge will not be adjusted.

3. Impairment testing methods and provision for impairment methods on construction in progress

The Group will judge if there is any indication of impairment as at the end of each period in respect of construction in progress.

Where there is any indicator that construction in progress may be impaired, its recoverable amount will be assessed. Where there is any indicator that a construction in progress may be impaired, the recoverable amount of the construction in progress will be assessed by an enterprise on an individual basis. If assessment of the recoverable amount for individual constructions in progress is difficult, the recoverable amount of a construction in progress will be determined based on the asset group to which the construction in progress belongs.

The recoverable amount of a construction in progress is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the construction in progress.

If the recoverable amount of a construction in progress is less than its carrying amount, the carrying value of the construction in progress will be reduced to its recoverable amount. The written-down amount will be included in profit and loss for the period and the corresponding impairment loss on the construction in progress will be provided for.

Once an impairment loss is made for a construction in progress, it shall not be reversed in subsequent accounting periods.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XV) Borrowing costs

1. Criteria for recognition of capitalised borrowing costs

Borrowing costs refers to the interests incurred on borrowings borrowing interests, amortisation of discounts or premiums, ancillary costs and exchange differences arising from foreign currency borrowings, etc.

For borrowing costs incurred by the Group that are directly attributable to the acquisition, construction or production of assets qualified for capitalisation, the costs will be capitalised and included in the costs of the related assets. Other borrowing costs shall be recognised as expense in the period in which they are incurred and included in profit or loss for the current period.

Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

Capitalisation of borrowing costs begins when the following three conditions are fully satisfied:

- (1) expenditures for the assets (including cash paid, transferred non-currency assets or holding debt liability for the acquisition, construction or production of assets qualified for capitalisation) have been incurred;
- (2) borrowing costs have been incurred;
- (3) acquisition, construction or production that are necessary to enable the asset reach its intended usable or saleable condition have commenced.

2. Capitalisation period of borrowing costs

The capitalisation period shall refer to the period between the commencement and the cessation of capitalization of borrowing costs, excluding the period in which capitalisation of borrowing costs is temporarily suspended.

Capitalisation of borrowing costs shall be suspended during periods in which the qualifying asset under acquisition and construction or production ready for the intended use or sale.

If part of an asset being acquired, constructed or produced has been completed respectively and put into use individually, capitalization of such part of borrowing costs should be suspended.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XVI) Intangible assets *(Continued)*

1. Valuation method of intangible assets *(Continued)*

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XVI) Intangible assets *(Continued)*

4. Impairment provision for intangible assets

For the intangible assets with finite useful life, if there is an obvious sign of impairment, an impairment test will be conducted at the period-end.

For the intangible assets with infinite useful life, an impairment test will be conducted at each period-end.

An impairment test is conducted for the intangible assets to estimate its recoverable amount. Where there is any indicator that an intangible asset may be impaired, the recoverable amount of an intangible asset will be assessed by the Group on an individual basis. If assessment of the recoverable amount for individual assets is difficult, the recoverable amount of an asset group will be determined based on the asset group to which the intangible asset belongs.

The recoverable amount of an intangible asset is the higher of its fair value less costs of disposal and the present value of the future cash flows expected to be derived from the intangible asset.

If the recoverable amount of an intangible asset is estimated to be lower than the carrying amount, the

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XVII) Long-term prepaid expenses

Long-term prepaid expenses are expenditures and other expenses which have occurred but will benefit over 1 year and shall be amortized over the current period and subsequent periods. Long-term prepaid expenses are amortized evenly over the estimated benefit period.

(XVIII) Estimated liabilities

When the Group is involved in litigations, guarantees provided to debts, loss-making contracts or restructuring which are likely to require to deliver assets or to provide labour in the future and whose amounts can be measured reliably, estimated liabilities will be recognised.

1. Recognition criteria for estimated liabilities

The Group shall recognise the obligations related to contingencies as estimated liabilities, when all of the following conditions are satisfied:

- (1) the obligation is a present obligation of the Group;
- (2) it is probable that an outflow of economic benefits will be required to settle the obligation;
- (3) the amount of the obligation can be measured reliably.

2. Method of measuring the estimated liabilities

Estimated liabilities shall be initially measured at the best estimate of the expenditure required to settle the related present obligation.

Factors pertaining to a contingency such as risk, uncertainties, and time value of money shall be taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, the best estimate shall be determined by discounting the related future cash outflow.

The best estimate will be dealt with separately in the following circumstances:

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XVIII) Estimated liabilities *(Continued)*

2. Method of measuring the estimated liabilities *(Continued)*

The expenses required does not have a successive range (or band), or although there is a successive range (or band), the possibilities of occurrence of each result are not the same, if the contingency is related to individual item, the best estimate should be determined as the most likely amount; where the contingency is related to a number of items, the best estimate should be calculated and determined according to the possible results and the relevant possibilities.

Where some or all of the expenditure required to settle an estimated liability is expected to be reimbursed by a third party, the reimbursement is separately recognized as an asset when it is virtually certain that the reimbursement will be received. The amount recognized for the reimbursement is limited to the carrying amount of the liability recognized.

(IXX) Revenue

1. Specific criteria for judging the timing of recognition of the revenue from sales of goods

Revenue from the sale of goods is recognised when all the significant risks and rewards of ownership of the goods have been transferred to the buyer; the Group does not retain either continuing managerial involvement to the degree usually associated with ownership or effective control over the sold goods; the amount of revenue can be reliably measured; when it is probable that the economic benefits associated will flow to the enterprises and when the relevant amount of costs incurred or to be incurred can be measured reliably.

2. Recognition of revenue from use by others of assets

Revenue from use by others of assets shall be recognised when it is probable that the economic benefit associated with the transaction can flow into the Company, and the amount of revenue can be measured reliably:

- (1) The amount of interest income will be calculated and determined by the time when others use the enterprise's monetary capital and the effective interest rate.
- (2) Income from the use of the assets is calculated and determined with reference to the agreed chargeable hours and calculation method stipulated in the relevant contracts or agreements.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(IXX) Revenue *(Continued)*

3. Basis and method for determining the progress of contract completion when recognising the revenue arising from rendering of service and from construction contract using percentage of completion method

When the outcome of a transaction involving the rendering of services can be estimated reliably on the balance sheet date, revenue from the rendering of services is recognised by reference to the stage of completion of the transaction based on the progress of work performed.

The total revenue arising from the rendering of services shall be determined with reference to the amount stipulated in the contract or agreement received or receivable, except for cases where the amount stipulated in the contract or agreement is not fair. On the balance sheet date, the revenue arising from the rendering of services for the current period will be recognised with reference to the total revenue of rendering of services multiplied by stage of completion (net of the cumulative recognised amount of revenue during the prior accounting periods); meanwhile, the service cost for the current period will be carried forward with reference to the total cost of rendering of services multiplied by stage of completion (net of the cumulative recognised amount of service costs during the prior accounting periods).

Where the outcome of rendering of services cannot be estimated reliably on the balance sheet date, it shall be treated as following respectively:

- (1) if the costs incurred are expected to be recoverable, revenues are recognised to the extent that the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost.
- (2) If the costs incurred are not expected to be recoverable, the costs incurred are recognised in profit or loss for the current period and no service revenue is recognised.

(XX) Government grant

1. Types

Government grants are transfer of monetary assets or non-monetary assets from the government to the Group at no consideration, and are classified into government grant related to asset and government grant related to income.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XX) Government grant *(Continued)*

2. Methods of accounting treatment

Government grants relating to the purchase of fixed assets, intangible assets and other long-term assets should be presented as deferred income and recognized as non-operating income evenly over the useful life of the assets constructed or procured;

A government grant related to income is used for compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognized as deferred income, and recognized in non-operating income over the periods in which the related costs are recognized; if the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current period.

(XXI) Deferred tax assets and liabilities

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Save as the exceptions, deferred tax liabilities shall be recognised for the taxable temporary difference.

The exceptions for not recognition of deferred tax assets and liabilities include: the initial recognition of the goodwill; other transactions or matters other than business combinations in which neither profit nor taxable income (or deductible loss) will be affected when transactions occur.

After granted the legal rights of net settlement and with the intention to use net settlement or obtain assets, repay debt, the Group, at the same time, records the net amount after offsetting its current income tax assets and current income tax liabilities.

The Group was granted the legal rights of net settlement of current income tax assets and current income tax liabilities. Deferred income tax assets and deferred income tax liabilities are related to income tax to be paid by the same entity liable to pay tax to the same tax collection and management authority or related to different entities liable to pay tax, but the relevant entity liable to pay tax is intended to apply net settlement of current income tax assets and liabilities or, at the same time, obtain assets, repay debt whenever every deferred income tax assets and liabilities with importance would be reversed in the future, the Group records the net amount after offsetting its current income tax assets and current income tax liabilities.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS *(Continued)*

(XXII) Related party

A party under control or common control or significant influence exercised by or with control or common control or significant influence on the Company, or in concert with the Company under control or common control or significant influence exercised by another party is deemed as a related party. A related party can be a natural person or a corporate entity. An enterprise merely under common control of the State but without any other related party connections does not constitute a related party of the Company.

The related parties for the Company including but not limited to:

- (1) the parent company of the Company;
- (2) the subsidiaries of the Company;
- (3) Other enterprises of a common parent;
- (4) The investor with common control over the Company;
- (5) The investor with significant influence over the Company;
- (6) The jointly controlled entities of the Company, including their subsidiaries;
- (7) The associates of the Company, including their subsidiaries;
- (8) major individual investors of the Company and their close family members;
- (9) Key management personnel of the Company or its parent company and their close family members;
- (10) Other enterprises under the control, common control or significant influence of the Company's major individual investors, key management personnel or their close family members.

(XXIII) Change in major accounting policies and accounting estimates

1. Change in accounting policies

According to the requirements set out in the Cai Kuai [2008] No. 11 of Ministry of Finance "No. 2 Interpretation of Accounting Standards for Business Enterprises" in PRC, in the consolidated financial statements, the parent company shall make adjustment to equity attributable to owners (capital reserve) in the preparation of the consolidated financial statements due to the differences between the newly acquired long-term equity investment arising from the acquisition of minority interest and the net assets of the subsidiary calculated continuously since the date of acquisition (of the date of merger) pursuant to the proportion of the new shareholding. If capital surplus is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings.

Notes to the Financial Statements

For the year ended 31 December 2011

II. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND PRIOR PERIOD ERRORS (Continued)

(XXIII) Change in major accounting policies and accounting estimates (Continued)

1. Change in accounting policies (Continued)

The amount was charged to the profit for the period when the Company prepared the consolidated financial statements according to the HKAS in 2009.

Retrospective adjustment was made when the Company prepared the consolidated financial statements according to the PRC Accounting Standard in 2011.

Please see Notes XIV (4) for the specific effect of the differences.

2. Change in major accounting estimates

There were no changes in major accounting estimates during the reporting period.

(XXIV) Correction to previous errors

There was no correction to previous errors during the reporting period.

III. TAXATION

(I) Main types of taxes and corresponding rates

Tax Name	Tax basis	Standard tax rate
Value-added Tax ("VAT")	Output VAT is calculated on product sales and taxable services revenue, based on tax laws. The remaining balance of output VAT, after subtracting the deductible input VAT of the period, is VAT payable.	17%
Business tax	Based on taxable revenue	3%, 5% (Note 1)
City maintenance and construction tax	Based on business tax paid and VAT payable	7%
Enterprise income tax	Based on taxable profits	25%
Education surcharge	Based on business tax paid and VAT payable	4%, 5% (Note 2)

Note 1: (1) the business tax rate of technical services income is 5%(2) the business tax rate of revenue from construction and installation is 3%.

Notes to the Financial Statements

For the year ended 31 December 2011

III. TAXATION (Continued)

(I) Main types of taxes and corresponding rates (Continued)

Enterprise income tax

Name of the company	Tax rate	Notes
The Company	10%	Key software enterprise
Jiangsu Intellitrans Company Limited	15%	High and new technology enterprise
Jiangsu Raifu Intelligent Tech. Co., Ltd.	12.5%	Foreign investment company
Sample Technology (H.K.) Co., Limited	16.5%	Overseas company
Federal International Enterprise Limited	16.5%	Overseas company
Other subsidiaries	25%	

(II) Tax preferential and approval document

1. VAT

The rate of output VAT is 17%, payable on the balance after deduction of the input tax. Of which, the VAT policies relating to the sales revenue of software are: (1) In accordance with the requirements of the document (財稅[2000]25號), from 24 June 2000 to the end of 2010, as for the sales of the self-developed and produced software products by the VAT general tax payers, after the VAT is levied at a statutory tax rate of 17%, the VAT refund policies will be applied for the excess of the actual VAT burden over 3%. The refunded tax will be used by the enterprise for the research and development of software products and the expansion of production, not as the taxable income for the enterprise income tax and will not be levied the enterprise income tax. (2) On 28 January 2011, the State Council issued the Circular of the State Council on Printing and Distributing the Policies to Further Encourage the Development of the Software Industry and Integrated Circuit Industry (國發[2011]4號), pursuant to which, the preferential VAT policies for software industry shall continue. (3) On 16 July 2001, the Company obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 24 June 2003, Nanjing Sample Logistic Company Limited obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 11 September 2003, Jiangsu Intellitrans Company Limited obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 19 August 2004, Jiangsu Raifu Intelligent Tech. Co., Ltd. obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. They all enjoy the preferential VAT policies.

Notes to the Financial Statements

For the year ended 31 December 2011

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS

(I) Subsidiaries

1. Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered and operating place	Nature of
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Notes to the Financial Statements

For the year ended 31 December 2011

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS (Continued)

(I) Subsidiaries (Continued)

3. Subsidiaries acquired in a business combination involving enterprises not under common control

Name of subsidiary	Type of subsidiary	Registered and operating place	Nature of business	Registered capital (0000)	Scope of business	Actual investment at end of period (0000)	Equity interest held by the Company (%)	% voting rights held (%)	Consolidated or not	Minority interests
Jiangsu Intellitrans Company Limited	Wholly-owned subsidiary	PRC	Intelligent transportation system	10,000	Design, construction and maintenance of intelligent transportation system and computer networks engineering	13,000	100	100	Yes	-
Federal International Enterprise Limited	Wholly-owned subsidiary	HK	Electronic products	HKD1	Development and manufacturing of electronic products and computer software, etc.	HKD3,000	100	100	Yes	-
Jiangsu Raifu Intelligent Tech. Co., Ltd.	Wholly-owned subsidiary	PRC	Electronic products	3,134.47	Development and manufacturing of electronic products and communications equipment, etc.	3,134.47	100	100	Yes	-
Nanjing City Intelligent Transportation Co., Ltd.	Controlled	PRC	Information technology	10,000	Consultation on computer technologies and technical services, etc.	1,435	65	65	Yes	7,726,923.08

Note: All of the above companies are companies with limited liability.

(II) Notes to the changes in scope of consolidation

Name	2011
Nanjing City Intelligent Transportation Co., Ltd.	Combined
Hunan Li Zhen Technology Co., Ltd.	Cancelled in January 2011

Notes to the Financial Statements

For the year ended 31 December 2011

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS *(Continued)*

(III) No Special-purpose-vehicle or any entity entrusted to operate or gaining controlling power by way of accepting a lease

(IV) New member of consolidation or member left out of consolidation in the reporting period

1. New member of consolidation in the reporting period

Name	Net assets at the end of 2011	Net profit for 2011
Nanjing City Intelligent Transportation Co., Ltd.	20,188,759.68	188,759.68

2. Members left out of consolidation in the reporting period

Name	Net Assets at disposal date	Net profit from beginning of period till disposal date
Hunan Li Zhen Technology Co., Ltd.	29,349,621.19	146,054.04

(V) No business combination involving enterprises under common control happened during the period

Notes to the Financial Statements

For the year ended 31 December 2011

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS (Continued)

(VI) Business combination involving enterprises not under common control happened during the reporting period

1. Business combination involving enterprises not under common control happened during the period

The Company paid cash in the amount of RMB 14.35 million and acquired 65% equity interest in Nanjing City Intelligent Transportation Co., Ltd. with 31 December 2011 as the acquisition date. The total combination cost as at the acquisition date was RMB 14.35 million.

Nanjing City Intelligent Transportation Co., Ltd. was established as a company with limited liability on 8 December 2010 with its registered place at 10 Maqun Road, Qixia District, Nanjing. It is mainly engaged in the electronic information business. Its parent company before combination was Nanjing Kang Da Lai Electronic Technology Co., Ltd. (南京康達來電子科技有限公司).

2. The identifiable assets and liabilities of the acquiree

Items	Date of acquisition	
	Book Value	Fair Value
Current assets	16,947,540.70	16,947,540.70
Non-current assets	23,004,846.71	25,522,397.91
Current liabilities	19,763,627.73	19,763,627.73
Non-current liabilities	-	629,387.80

(VII) Subsidiary disposed during the reporting period by sales

(VIII) No reverse acquisition happened during the reporting period

(IX) No combination by way of absorption happened during the reporting period

(X) The exchange rate for main items of consolidation sheet of foreign entity.

The foreign entities of the Group include Sample Technology (H.K.) Co., Limited and Federal International Enterprise Limited. The exchange rates used in the translation of items of the financial statements are as follows:

In the balance sheet, except for "long-term equity investments" and other long-term assets items, both assets and liabilities items are translated at the spot exchange rate on the balance sheet date. "Long-term equity investments" items are translated using the spot exchange rate when they are incurred. Items of owners' equity except for "undistributed profit" are translated by spot rates when they are incurred. The revenue and expenses use the spot exchange rate when the transaction occurred in the income statements. The difference of currency translation has been listed in the consolidation sheet as an individual item.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS:

(All amounts are stated in RMB Yuan unless otherwise stated)

(I) Cash at bank and on hand

Items	2011			2010		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			99,473.85			302,292.45
Bank deposits						
RMB			236,146,970.29			268,959,261.60
Hong Kong Dollars (*HKD*)	36,886,019.98	0.8107	29,903,496.40	36,478,925.09	0.8470	30,897,649.55
Sub-total			266,050,466.69			299,856,911.15
Others						
RMB			191,475,137.14			25,215,805.44
Total			457,625,077.68			325,375,009.04

Of which, details of restricted cash are listed as below:

Items	2011	2010
Deposits for bank accepted bills of exchange	11,994,685.70	6,030,438.97
Deposits of guarantee letter	30,580,451.44	9,185,366.47
Total	42,575,137.14	15,215,805.44

Note: The above deposits have been excluded from the closing balance of cash and cash equivalents, and included in the cash relating to other operating activities.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(II) Notes receivable

1. Classification of notes receivable

Type	2011	2010
Bank accepted bills of exchange	856,348.50	1,314,288.57

2. Particulars of the top five undue bills endorsed by the Company by the end of year

Company of issuance	Date of
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Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: *(Continued)*

(III) Accounts receivable *(Continued)*

2. Disclosure of accounts receivable by categories

Categories	2011				2010			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(III) Accounts receivable (Continued)

2. Disclosure of accounts receivable by categories (Continued)

In the groups, provision for bad debts for accounts receivable due from non-governments are made using aging analysis:

Aging	2011			2010		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	262,572,094.40	92.54	7,877,162.83	82,776,097.44	88.91	2,121,043.16
1 to 2 years	13,292,653.59	4.68	1,063,412.29	6,839,773.09	7.35	547,181.84
2 to 3 years	5,341,664.88	1.88	1602499.46	2,487,271.60	2.67	746,181.48
Over 3 years	2,541,309.82	0.90	2541309.82	1,002,779.36	1.08	1,002,779.36
Total	<u>283,747,722.69</u>	<u>100.00</u>	<u>13,084,384.40</u>	<u>93,105,921.49</u>	<u>100.00</u>	<u>4,417,185.84</u>

3. There is no amount due from shareholders who holds 5% or more voting right of the Company included in balance of accounts receivable.

4. Particulars of the top five of accounts receivable at the end of the year

Name of unit	Relationship	Closing balance	Age	Percentage of the total accounts receivable (%)
Headquarter for Construction of Zhejiang Zhuyong Expressway (浙江諸永高速公路工程建設指揮部)	non-related party	47,676,008.72	Within 1 year	14.04
Foreign Capital Project Office of Shaanxi Provincial Communication Department (陝西省交通廳利用外資專案辦公室)	non-related party	32,411,153.36	Within 1 year	9.55
Nanjing Gori Technology Co., Ltd (南京國瑞能源科技有限公司)	non-related party	22,840,015.17	Within 1 year	6.73
Sichuan Yaxi Expressway Co., Ltd. (四川雅西高速公路有限責任公司)	non-related party	17,866,053.24	Within 1 year	5.26
Shanxi Jiji Expressway Co., Ltd. (山西晉濟高速公路有限責任公司)	non-related party	14,316,453.86	Within 1 year	4.22
Total		<u>135,109,684.35</u>		<u>39.80</u>

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(III) Accounts receivable (Continued)

5. There is no amount due from related parties of the Company included in balance of accounts receivable.
6. There were no accounts receivables derecognised due to transfer of financial assets during 2011.
7. There were no accounts receivables not completely derecognised but transferred during 2011.
8. There were no accounts receivable-backed securitisations during 2011.
9. 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.

(IV) Other receivables

1. The aging analysis of other receivables

Types	2011				2010			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year (including one year)	38,592,921.21	43.24	329,688.47	0.85	54,457,807.30	53.27	21,180.97	0.04
1 to 2 years	8,860,934.90	9.93	-	-	40,631,411.64	39.74	-	-
2 to 3 years	34,943,764.29	39.15	-	-	556,474.47	0.54	-	-
Over 3 years	6,865,064.40	7.69	-	-	6,589,386.25	6.45	-	-
Total	89,262,684.80	100.00	329,688.47	0.37	102,235,079.66	100.00	21,180.97	0.02

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IV) Other receivables (Continued)

4. Particulars of the top five of other receivables at the end of the year

Name of unit	Relationship	Closing balance	Age	Percentage of the total other receivables (%)	Nature or content
Headquarter for Construction of Zhejiang Zhuyong Expressway (浙江諸永高速公路工程建設指揮部)	non-related party	25,499,608.00	2 to 3 years	28.57	Retention monies
Foreign Capital Project Office of Shaanxi Provincial Communication Department (陝西省交通廳利用外資專案辦公室)	non-related party	7,541,042.10	2 to 3 years	8.45	Retention monies
Sichuan Guangnan Expressway Company Limited (四川廣南高速公路有限責任公司)	non-related party	5,505,535.00	Within 1 year	6.17	Retention monies
Headquarter for Construction of Yunnan Mengxin Expressway (雲南蒙新高速公路建設指揮部)	non-related party	5,050,000.00	Over 3 years	5.66	Retention monies
Tech Traffic Engineering Co., Ltd (Tech Highway Science & Technology Research Institute)	non-related party	3,500,000.00	1 to 2 years	3.92	Retention monies
Total		<u>47,096,185.10</u>		<u>52.76</u>	

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(V) Prepayments

2. Particulars of the top five of prepayments at the end of the year

Name of unit	Relationship	Closing balance	Aging	Reason of unsettlement
Nanyang Tiansai Pipe Company Limited (南陽天賽管業有限公司)	non-related party	1,200,000.00	Within 1 year	prepayments for material procurement
Tianjin Shengda Shenghui Construction and Installation Engineering Company Limited ()				

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(VI) Inventories

1. Classification of Inventories

Items	2011			2010		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	894,775.75	-	894,775.75	822,133.18	-	822,133.18
Commodity Stocks	4,514,267.82	617,784.18	3,896,483.64	1,872,237.55	382,456.85	1,489,780.70
Work in progress	105,416.07	-	105,416.07	181,171.49	-	181,171.49
Construction contract in progress	272,852,578.90	-	272,852,578.90	225,509,609.50	-	225,509,609.50
Total	278,367,038.54	617,784.18	277,749,254.36	228,385,151.72	382,456.85	228,002,694.87

2. Provisions for declines in the value of inventories

Type of inventory	2010	Current period additions	Current period reductions		2011
			Reversal	Write-off	
Commodity stocks	382,456.85	235,327.33	-	-	617,784.18
Total	382,456.85	235,327.33	-	-	617,784.18

3. Construction contract in progress

Items	2011	2010
Accumulated costs incurred	1,267,213,441.35	674,972,943.49
Add: Accumulated recognised gross profit	538,824,253.00	216,301,067.01
Less: Accumulated progress billings	1,533,185,115.45	665,764,401.00
The balance on the construction	272,852,578.90	225,509,609.50

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(VI) Inventories (Continued)

4. Major construction projects at the end of the period

Items	Year of Commencement	Contracted value of the project	Accumulated progress of completion	Accumulated costs incurred	Accumulated recognised gross profit	Accumulated progress billings	Inventory at the year-end
L10 Section, the Tunnel and Mechanical & Electrical Engineering Construction of Linhai to Duqiao Section for Zhejiang No. 83 Provincial Highway (Headquarter for the Modification of Zhejiang Linhai No. 83 Provincial Highway)	2011	121,494,301.00	70%	62,415,587.98	33,813,762.53	3,000,000.00	93,229,350.51
JD3 Section of Hangzhou to Ancheng of Hangchang Expressway Project (Zhejiang Hangchang Expressway Company Limited)	2011	114,231,900.00	70%	75,918,170.30	19,861,982.96	20,976,403.47	74,803,749.79
Communication, Monitoring and Toll System Construction Project for Nanjing Bridge No. 4(Headquarter for Construction of Nanjing Yangtze River Bridge No. 4)	2011	81,888,818.00	70%	49,497,688.71	15,448,990.20	3,511,088.00	61,435,590.91
Cangzhou Administration Bureau for Expressway Construction (Mechanical & Electrical Engineering Construction of Qikou to Haifeng, Cangzhou for Yanhai Expressway)	2011	54,882,680.00	90%	39,566,429.52	10,882,849.03	37,916,180.00	12,533,098.55
General Contracting Headquarter for Yun'nan Mosi Expressway Construction (JJ01 and JJ02 sections for Mosi Expressway Mechanical and Electrical Engineering)	2010	14,500,206.00	95%	13,066,783.06	1,361,751.79	5,383,850.00	9,044,684.85
Total		386,997,905.00		240,464,659.57	81,369,336.51	70,787,521.47	251,046,474.61

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(VII) Other current assets

Items	2011	2010
Wealth management products	–	100,000,000.00
Entrusted loans	–	50,000,000.00
	<hr/>	<hr/>
Total	–	150,000,000.00
	<hr/> <hr/>	<hr/> <hr/>

(VIII) Long-term equity investments

1. Classification of long-term equity investments:

Items	2011	2010
Jointly controlled entities and associates	193,007,290.40	75,985,014.02
Other equity investments	1,000,000.00	–
	<hr/>	<hr/>
Total	194,007,290.40	75,985,014.02
	<hr/> <hr/>	<hr/> <hr/>

2. Related information for jointly controlled entities and associates

Entity	Shareholding of the Company (%)	Voting right (%)	Total assets at 2011	Total liabilities at 2011	Net assets at 2011	Total operating	
						revenue for 2011	Net profits for 2011
Zhong Jian Zhi Kang Supply Chain Management Company Limited	50		Note 1,896,202,040.42	1,431,673,286.26	464,528,754.16	4,033,006,172.92	29,093,790.35

Note: Zhong Jian Zhi Kang Supply Chain Management Company Limited (中健之康供應鏈服務有限責任公司) Statemests

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IX) Fixed assets

1. Particulars of fixed assets

Items	1 January 2011	Addition	Disposal	31 December 2011
I. Total of original value:	78,763,317.37	14,334,198.14	280,764.00	92,816,751.51
1. Buildings	50,892,266.73	7,521,919.00	-	58,414,185.73
2. Transportation equipment	5,188,725.35	622,520.00	244,414.00	5,566,831.35
3. Electronic and office equipment	22,682,325.29	6,189,759.14	36,350.00	28,835,734.43
		New increase in the year	Provision in the year	
	-	-	-	-
II. Total of accumulated depreciation:	35,870,809.12	72,915.85	5,285,154.90	40,986,257.40
1. Buildings	16,761,214.73	72,915.85	2,172,940.09	19,007,070.67
2. Transportation equipment	3,183,856.26	-	629,272.43	3,604,801.22
3. Electronic and office equipment	15,925,738.13	-	2,482,942.38	18,374,385.51
III. Total net book value of fixed assets	42,892,508.25	-	-	51,830,494.11
1. Buildings	34,131,052.00	-	-	39,407,115.06
2. Transportation equipment	2,004,869.09	-	-	1,962,030.13
3. Electronic and office equipment	6,756,587.16	-	-	10,461,348.92
IV. Total of Impairment Provision	-	-	-	-
1. Buildings	-	-	-	-
2. Transportation equipment	-	-	-	-
3. Electronic and office equipment	-	-	-	-
V. Total of carrying amount	42,892,508.25	-	-	51,830,494.11
1. Buildings	34,131,052.00	-	-	39,407,115.06
2. Transportation equipment	2,004,869.09	-	-	1,962,030.13
3. Electronic and office equipment	6,756,587.16	-	-	10,461,348.92

Depreciation charges for the year amounted to RMB5,285,154.90.

The fixed assets transferred from construction in progress amounted to RMB5,245,421.51.

Notes to the Financial Statements

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For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIII) Deferred tax

1. Recognised deferred tax assets and deferred tax liabilities

Items	2011	2010
Deferred tax assets		
Provision for impairment on assets	2,501,013.52	908,661.08
accruals	<u>1,747,162.68</u>	<u>1,992,247.98</u>
Total	<u>4,248,176.20</u>	<u>2,900,909.06</u>
Deferred tax liabilities:		
Asset gains from business combinations involving entities not under common control	<u>1,602,503.41</u>	<u>1,265,053.53</u>
Total	<u><u>1,602,503.41</u></u>	<u><u>1,265,053.53</u></u>

2. Breakdown of deductible difference and taxable difference

Items	2011	2010
Breakdown of deductible difference		
Provision for impairment on assets	19,373,606.78	7,627,539.60
accruals	<u>17,060,944.67</u>	<u>19,260,269.99</u>
Total	<u>36,434,551.45</u>	<u>26,887,809.59</u>
Breakdown of taxable difference		
Asset gains from business combinations involving entities not under common control	<u>12,248,813.50</u>	<u>11,677,515.00</u>
Total	<u><u>12,248,813.50</u></u>	<u><u>11,677,515.00</u></u>

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XIV) Provision for impairment on assets

Items	1 January 2011	Increase in the year	Decrease in the period Reversal	transfer	31 December 2011
Provision for bad debts	7,245,082.75	11,510,739.85	-	-	18,755,822.60
Provision for decline in value of inventories	382,456.85	235,327.33	-	-	617,784.18
Total	7,627,539.60	11,746,067.18	-	-	19,373,606.78

(XV) Short-term borrowings

1. Classification of short-term borrowings

Items	2011	2010
Guaranteed loan	286,300,000.00	215,000,000.00

2. Breakdown of guaranteed loan

Lender	Amount	Borrowing date	Due date	Guarantee
China Construction Bank, Da Xing Gong Branch	40,000,000.00	2011-3-3	2012-3-2	Note1

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XVII) Accounts payable (Continued)

5. Significant accounts payable aged over 1 year

Name of unit	Closing balance	Reason of not transfer
Jiangsu Zhongchao Cable Co., LTD	4,613,479.04	Payment has not due
Beijing Ziguang Jie Tong Technology Co. Ltd (紫光捷通科技股份有限公司)	3,300,000.00	Payment has not due
Hezhou Guanglong Materials Trading Company Limited (賀州廣龍物資貿易有限公司)	3,000,000.00	Payment has not due
Tianzheng Shanghai Electrical and Mechanical Services (Holdings) Limited	2,735,000.00	Payment has not due
Zhejiang Zhancheng Construction Group Co., Ltd.	2,528,169.06	Payment has not due
Total	<u>16,176,648.10</u>	

(XVIII) Advances from customers

1. Balances of advances from customers

Items	2011	2010
Advances from customers	<u>1,725,195.60</u>	<u>1,705,670.12</u>

2. There is no amount from shareholders who holds 5% or more voting right of the Company included in balance of advances from customers.

3. There is no amount from related parties of the Company included in balance of advances from customers.

4. There are no main advances from customers aged over 1 year included in the closing balance.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(IXX) Staff remuneration payables

Item	1 January 2011	Increase in the year	Decrease in the year	31 December 2011
(1) wages or salaries, bonuses, allowances and subsidies	-	22,364,268.25	22,364,268.25	-
(2) Staff welfare	-	1,258,237.64	1,258,237.64	-
(3) Social insurance	83,385.21	4,209,707.74	4,212,244.06	80,848.89
Including: Medical insurance	23,190.75	1,114,482.89	1,115,184.62	22,489.02
Basic pension contribution	51,836.93	2,684,701.94	2,686,277.47	50,261.40
Unemployment insurance	5,026.06	249,520.95	249,678.43	4,868.58
Work injury insurance	1,278.03	61,970.89	62,010.00	1,238.92
Maternity insurance	2,053.44	99,031.07	99,093.54	1,990.97
(4) Housing funds	1,391.00	1,248,424.46	1,247,914.74	1,900.72
(5) Union running costs and staff education costs	259,195.51	137,040.20	159,069.00	237,166.71
(6) Compensation to employees for termination of employment relationship	-	418,357.00	418,357.00	-
Total	<u>343,971.72</u>	<u>29,636,035.29</u>	<u>29,660,090.69</u>	<u>319,916.32</u>

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XX) Taxes payable

Tax items	2011	2010
VAT	10,064,934.25	13,734,195.73
Business tax	15,649,809.25	8,067,260.26
Enterprise income tax	26,052,966.75	16,356,155.10
Individual income tax	50,645.83	104,896.33
City maintenance and construction tax	1,561,589.94	579,517.58
Education surcharge	1,195,597.78	422,237.19
Others	363,561.19	243,413.45
	<u>54,939,104.99</u>	<u>39,507,675.64</u>
Total	<u>54,939,104.99</u>	<u>39,507,675.64</u>

(XXI) Other payables

1. Balances of other payables

Items	2011	2010
Other payables	27,683,268.40	25,784,252.60
	<u>27,683,268.40</u>	<u>25,784,252.60</u>

2. Particulars of amounts due to shareholders who holds 5% or more voting right of the Company included in balance of other payables:

Name of unit	2011	2010
Nanjing Sample Technology Group Company Limited	35,691.00	-
	<u>35,691.00</u>	<u>-</u>
Total	<u>35,691.00</u>	<u>-</u>

3. There is no amount due to related parties of the Company included in balance of other payables.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXI) Other payables (Continued)

4. Significant other payables aged over 1 year:

Name of unit	Closing balance	Reason of not payment
Beijing Xing Jiu Ming Information Technology Development Company Limited (北京星久明資訊技術發展有限公司)	7,541,042.95	Retention monies

5. Particulars of the top five of other payables with relatively significant amount at the end of the year

Name of unit	Closing balance	Nature or content
Beijing Xing Jiu Ming Information Technology Development Company Limited	7,541,042.95	Retention monies
Chengdu Shengang Lutong Technology Co., Ltd. (成都深港路通科技有限公司)	6,989,488.00	Receipts under custody
Zhejiang Supcon Information Technology Co., Ltd	2,121,920.18	Retention monies
Jiangxi Fangxing Technology Co., Ltd.	1,900,000.00	Retention monies
Ningbo Wanlida Engineering and Installation Company Limited, Guizhou Branch (寧波萬力達工程安裝有限公司貴州分公司)	695,188.00	Retention monies
Total	19,247,639.13	

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXV) Undistributed profits

Item	2011	2010
Undistributed profit at the beginning of the year	308,821,323.70	224,510,305.52
Add: Current net profit attributable to shareholders of the Company	146,054,062.95	111,532,031.48
Less: Provision of statutory surplus reserves	5,248,310.51	4,811,013.30
Ordinary shares dividends payable	22,410,000.00	22,410,000.00
Closing balance of undistributed profit	427,217,076.14	308,821,323.70

(XXVI) Operating income and operating cost

1. Operating income and operating cost

Item	2011	2010
Principal operating income	537,533,918.69	503,072,208.48
Other operating income	4,854,819.25	4,943,885.55
Total operating income	542,388,737.94	508,016,094.03
Principal operating cost	324,751,142.92	325,435,212.39
Other operating cost	3,052,182.03	3,946,662.68
Total operating cost	327,803,324.95	329,381,875.07

2. Principal operations (by product)

Name of Products	2011		2010	
	Operating income	Operating cost	Operating income	Operating cost
Intelligent traffic	371,950,455.07	254,743,894.87	373,532,114.16	270,837,293.17
Customs logistics	82,296,992.34	39,468,145.81	81,391,036.38	35,637,326.54
Sales of equipment	62,202,501.30	26,483,737.38	40,720,157.86	15,259,632.36
Service	21,083,969.98	4,055,364.86	7,428,900.08	3,700,960.32
Total	537,533,918.69	324,751,142.92	503,072,208.48	325,435,212.39

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: *(Continued)*

(XXVI) Operating income and operating cost *(Continued)*

3. Operating income from the top five customers of the Company



Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXVI) Operating income and operating cost (Continued)

6. Information regarding the Company's reportable operating segments as provided to the Company's chief operating decision makers for the purposes of resources allocation and assessment of segment performance for the year is only derived from intelligent system business. In addition, the Company's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no separate segments are presented.

(XXVII) Income of Construction Contracts

Contract item	Total contractual amount	Accumulated cost incurred	Accumulated gross profit that has been recognised	The amount that has been settled
Fixed cost contract L10 Section, the Tunnel and Mechanical & Electrical Engineering Construction of Linhai to Duqiao Section for Zhejiang No. 83 Provincial Highway (Headquarter for the Modification of Zhejiang Linhai No. 83 Provincial Highway)	121,494,301.00	62,415,587.98	33,813,762.53	3,000,000.00
Fixed cost contract JD3 Section of Hangzhou to An'cheng of Hangchang Expressway Project (Zhejiang Hangchang Expressway Company Limited)	114,231,900.00	75,918,170.30	19,861,982.96	20,976,403.47
Fixed cost contract Communication, Monitoring and Toll System Construction Project for Nanjing Bridge No. 4(JJ contractual section)(Headquarter for Construction of Nanjing Yangtze River Bridge No. 4)	81,888,818.00	49,497,688.71	15,448,990.20	3,511,088.00
Total		<u>187,831,446.99</u>	<u>69,124,735.69</u>	<u>27,487,491.47</u>

(XXVIII) Taxes and surcharges

Item	2011	2010	Charge rate Standards
Business tax	10,237,503.46	9,270,270.15	3%, 5%
City construction tax	2,424,913.61	202,464.06	7%
Education surcharge tax	1,494,934.66	505,608.31	5%, 4%
Total	<u>14,157,351.73</u>	<u>9,978,342.52</u>	

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXIX) Selling and distribution expenses

Item	2011	2010
Salary and additions	5,562,907.92	4,743,571.43
Entertainment expenses	2,066,501.08	1,667,906.82
Travelling expenses	1,476,675.69	1,434,476.86
Composite fees for construction	973,191.30	453,501.19
Others	844,638.41	525,287.39
Bidding fees	723,284.20	349,306.64
Water and electricity charges	350,017.23	96,407.03
Motor vehicle expenses	349,675.09	328,292.96
Office expenses	252,558.33	145,413.39
Telephone charges	162,784.84	123,068.55
Advertisement and promotion expenses	143,911.28	187,784.03
Postage	100,530.07	33,650.01
Depreciation charges	82,266.16	245,329.99
Total	13,088,941.60	10,333,996.29

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXX) General and administrative expenses

Item	2011	2010
Salary and additions	15,833,317.97	13,478,680.27
Research and development materials fees	4,785,182.14	2,005,398.68
Depreciation charges	4,417,599.44	4,741,489.87
Others	3,043,640.09	1,871,449.74
Technical service fees	2,285,416.20	902,450.00
Intangible assets amortisation	2,144,699.46	2,105,532.66
Entertainment expenses	1,435,931.82	567,478.48
Agency fees	1,124,694.47	2,422,606.81
Taxation charges	871,400.17	641,073.41
Travelling 708 -13.5 re 328.965 6p t983 0 7417,599.440 0 41,073.41Tr (Agency fees)Tj /328.965 6p [(,97D (3tater		

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXII) Investment income

Item	2011	2010
Income from long-term equity investments under equity method	11,584,523.96	985,014.02
Income from disposal of long-term equity investments	3,012,700.92	–
Investment income from wealth management products	1,478,389.05	2,831,610.95
Interest income from entrusted loans	5,613,276.21	1,949,675.25
Total	21,688,890.14	5,766,300.22

(XXXIII) Asset impairment losses

Item	2011	2010
Provision for bad debts	11,017,411.05	2,349,879.02
Declines in values of inventories	235,327.33	42,037.28
Total	11,252,738.38	2,391,916.30

(XXXIV) Non-operating income

1. Breakdown of non-operating income

Item	2011	2010
Total gain on disposal of non-current assets	21,712.40	68,918.73
Including: gain on disposal of fixed assets	21,712.40	68,918.73
Government grants	12,915,900.00	2,867,500.00
VAT refund	9,241,755.25	4,897,526.49
Penalty income	–	1,462,500.00
Others	57,312.09	51,438.26
Total	22,236,679.74	9,347,883.48

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXV) Non-operating expenses

Item	2011	2010
Total loss on disposal of non-current assets	8,853.93	52,468.73
Including: Loss on disposal of fixed assets	8,853.93	52,468.73
Penalty and overdue fines	-	123.78
Donations	-	858,300.00
Others	156,410.99	50,575.02
Total	165,264.92	961,467.53

(XXXVI) Auditor's remuneration

Auditor's remuneration for the year was RMB 750,000.00 (2010: RMB920,000.00).

(XXXVII) Directors, supervisors and employees' emoluments

1. Directors and supervisors' emoluments

Item	2011	2010
Directors and supervisors' fees		
Executive directors	75,000.00	60,000.00
Non-executive director and independent non-executive directors	110,000.00	90,000.00
Supervisors	30,000.00	30,000.00
Sub-total	215,000.00	180,000.00
Executive directors' other emoluments		
Basic salaries and allowance	686,505.70	541,801.06
Contributions to retirement benefits/ pensions schemes	173,349.07	132,848.42
Sub-total	859,854.77	674,649.48
Supervisors		
Basic salaries and allowance	-	-
Contributions to retirement benefits/ pensions schemes	-	-
Sub-total	-	-
Total	1,074,854.77	854,649.48

None of the directors or supervisors waived any emoluments during the year.

No emoluments were paid by the Group to the directors or supervisors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXVII) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows:

Name	2011			Total
	Fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Executive Directors				
Mr. Sha Min	25,000.00	315,900.00	67,585.81	408,485.81
Mr. Chang Yong	25,000.00	195,303.00	56,271.79	276,574.79
Mr. Guo Ya Jun	25,000.00	175,302.70	49,491.47	249,794.17
Sub-total	75,000.00	686,505.70	173,349.07	934,854.77
Non-executive Director				
Mr. Ma Jun	30,000.00	-	-	30,000.00
Sub-total	30,000.00	-	-	30,000.00
Independent Non-Executive Directors				
Mr. Zhang Zhan	10,000.00	-	-	10,000.00
Mr. Wang Wei	10,000.00	-	-	10,000.00
Mr. Lau Shek Yau, John	60,000.00	-	-	60,000.00
Mr. Xu Su Ming	-	-	-	-
Mr. Li Hai Feng	-	-	-	-
Mr. Shum Shing Kei	-	-	-	-
Sub-total	80,000.00	-	-	80,000.00
Supervisors				
Ms. Gu Qun	10,000.00	-	-	10,000.00
Mr. Dai Jian Jun	10,000.00	-	-	10,000.00
Mr. Li Gang	-	-	-	-
Independent supervisor				
Mr. Qiu Xiang Yang	10,000.00	-	-	10,000.00
Sub-total	30,000.00	-	-	30,000.00
Total	215,000.00	686,505.70	173,349.07	1,074,854.77

On 19 May 2010, Mr. Ge Jun resigned as non-executive director and Mr. Ma Jun was appointed as non-executive director.

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXVII) Directors, supervisors and employees' emoluments (Continued)

2. Particulars of Directors and supervisors' emoluments were as follows: (Continued)

On 19 May 2010, Mr. Sun Huai Dong resigned as supervisor and Ms. Gu Qun was appointed as supervisor.

On 23 May 2011, Mr. Zhang Zhan, Mr. Wang Wei and Mr. Lau Shek Yau, John resigned as independent non-executive directors and Mr. Xu Su Ming, Mr. Li Hai Feng and Mr. Shum Shing Kei were appointed as independent non-executive directors.

On 20 December 2011, Ms. Gu Qun resigned as supervisor and Mr. Li Gang was appointed as supervisor.

Name	2010			Total
	Fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Executive Directors				
Mr. Sha Min	20,000.00	215,910.82	54,059.36	289,970.18
Mr. Chang Yong	20,000.00	153,554.04	36,398.76	209,952.80
Mr. Guo Ya Jun	20,000.00	172,336.20	42,390.30	234,726.50
Sub-total	60,000.00	541,801.06	132,848.42	734,649.48
Non-executive director				

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXVII) Directors, supervisors and employees' emoluments (Continued)

3. Five highest paid individuals

During the year, of the five individuals with the highest emoluments, three (2010: three) were directors. The emoluments of them were disclosed in the notes above. The emoluments of the remaining two (2010: two) individuals were as follows:

Items	2011	2010
Basic salaries and allowance	412,000.00	389,000.00
Contributions to retirement benefits schemes	112,000.00	51,000.00
Total	524,000.00	440,000.00

During the years, no emoluments were paid by the Company to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:

Items	2011 number	2010 number
Nil to HK\$1,000,000 (nil to RMB820,000.00)	2	2

(XXXVIII) Income tax expenses

Items	2011	2010
Current income tax calculated based on tax law and related regulations	26,901,485.40	17,823,343.64
Adjustment to deferred income tax	(1,515,872.86)	(1,627,875.40)
Total	25,385,612.54	16,195,468.24

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XXXIX) Dividends

Item	2011	2010
Final dividend proposed of RMB0.1 per share	22,410,000.00	22,410,000.00

The directors recommend the payment of a final dividend of RMB0.1 per share (2010: RMB0.1 per share) for the year ended 2011 on 21 March 2012.

The final dividend proposed after the end of reporting period has not been recognised as a liability at the end of reporting period and is subject to approval by the shareholders at the annual general meeting.

Item	2011	2010
Final dividend in respect of the previous year, approved and paid during the year	22,410,000.00	22,410,000.00
Total	22,410,000.00	22,410,000.00

(XL) Calculation process of basic earnings per share and diluted earnings per share

1. Basic earnings per share

$$\text{Basic earnings per share} = P0 \div S$$

$$S = S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0 - Sk$$

Where:

P0 is the net profit attributable to ordinary shareholders of the Company or net profit attributable to ordinary shareholders with deduction of non-recurring gains and losses; S is the weighted average of outstanding ordinary shares; S0 is total of the shares at the beginning of year; S1 is the number of additional shares resulting from reserve capitalization or allocation of dividends during the reporting period; Si is the number of additional shares resulting from new issue or debt to equity during the reporting period; Sj is the number of reduced shares resulting from share repurchase during the reporting period; Sk is the number of reduced shares during the reporting period; M0 is the number of months during the reporting period; Mi is accumulated months from the following month of increasing shares to the ending of reporting period; Mj is accumulated months from the following month of decreasing shares to the ending of reporting period.

Notes to the Financial Statements

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XL) Calculation process of basic earnings per share and diluted earnings per share (Continued)

2. Diluted earnings per share (Continued)

(1) Basic earnings per share (Continued)

Weighted average number of ordinary shares is calculated as follows:

Items	2011	2010
Number of ordinary shares in issue at the beginning of the year	224,100,000.00	224,100,000.00
Add: Weighted average number of ordinary shares issued for the period	-	-
Less: Weighted average number of ordinary shares purchased for the period	-	-
	<hr/>	<hr/>
Weighted average number of ordinary shares outstanding at the end of the year	224,100,000.00	224,100,000.00
	<hr/> <hr/>	<hr/> <hr/>

(2) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current year attributable to ordinary shareholders of the Company by the adjusted weighted average number of ordinary shares outstanding.

Items	2011	2010
Consolidated net profit attributable to ordinary shareholders of the Company (diluted)	146,054,062.95	111,532,031.48
Weighted average number of ordinary shares outstanding of the Company (diluted)	224,100,000.00	224,100,000.00
Diluted earnings per share (RMB/share)	0.652	0.498
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Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XL) Calculation process of basic earnings per share and diluted earnings per share (Continued)

2. Diluted earnings per share (Continued)

(2) Diluted earnings per share (Continued)

Weighted average number (diluted) of ordinary shares is calculated as follows:

Items	2011	2010
Weighted average number of ordinary shares outstanding at the end of year when the basic earnings per share is calculated	224,100,000.00	224,100,000.00
Effects of convertible bonds	-	-
Effects of share options	-	-
	<u>224,100,000.00</u>	<u>224,100,000.00</u>
Weighted average number (diluted) of ordinary shares at the end of the year	<u>224,100,000.00</u>	<u>224,100,000.00</u>

(XLI) Other comprehensive income

Item	2011	2010
Difference on translation of foreign currency financial statements	(3,212,006.14)	(196.18)
Total	<u>(3,212,006.14)</u>	<u>(196.18)</u>

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XLIII) Supplementary information of cash flow statements

1. Supplementary information of cash flow statements

Items	2011	2010
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	146,054,062.95	111,532,031.48
Add: Provision for assets impairment	11,252,738.38	2,391,916.30
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	5,285,140.51	5,447,013.45
Amortisation of intangible assets	2,144,699.46	2,105,532.66
Loss on disposal of fixed assets, intangible assets and other long-term assets	(17,613.40)	

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: (Continued)

(XLIII) Supplementary information of cash flow statements (Continued)

2. Information about disposal or acquisition of subsidiaries or other operating enterprises for the period

Items	2011	2010
I. Information about acquisition of subsidiaries or other operating enterprises:		
1. Consideration for acquiring subsidiaries and other operating enterprises	14,350,000.00	–
2. Cash and cash equivalents paid for acquiring subsidiaries and other operating enterprises	14,350,000.00	–
Less: Cash and cash equivalents held by subsidiaries and other operating enterprises	5,094,009.50	–
3. Net cash paid for the acquisition of subsidiaries and other operating enterprises	9,255,990.50	–
4. Net assets obtained from acquisition of subsidiaries		
Current assets	16,947,540.70	–
Non-current assets	25,522,397.91	–
Current liabilities	19,763,627.73	–
Non-current liabilities	629,387.80	–
II. Information about disposal of subsidiaries or other operating enterprises:		
1. Price of disposal of subsidiaries or other operating enterprises		
2. Cash and cash equivalents received from disposal of subsidiaries or other operating enterprises	29,349,621.19	–
Less: Cash and cash equivalents held by subsidiaries and other operating enterprises	29,346,847.78	–
3. Net cash received from disposal of subsidiaries and other operating enterprises	2,773.41	–
4. Disposal of net assets of subsidiaries		
Current assets	29,346,847.78	–
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–

Notes to the Financial Statements

For the year ended 31 December 2011

V. NOTES TO THE MAIN ITEMS OF CONSOLIDATED FINANCIAL STATEMENTS: *(Continued)*

(XLIII) Supplementary information of cash flow statements *(Continued)*

3. The composition of cash and cash equivalents:

Items	2011	2010
I. Cash		
Including: Cash on hand	99,473.85	

Notes to the Financial Statements

For the year ended 31 December 2011

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(IV) Particulars of other related parties of the Company

Name	Relationship with the Company	Organization code
Nanjing Sample Digital Science and Technology Company Limited (Other subsidiary controlled by the controlling shareholder Sample Group	73887605-X

Notes to the Financial Statements

For the year ended 31 December 2011

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

2. Related party providing guarantees (Continued)

- (1) Explanations on the guarantee provided to the related parties by the Company:

Note1: The Company provided a joint responsibility guarantee of up to RMB 200,000,000 with respect to the loans incurred and to be incurred between Bank of Jiangsu Co., Ltd. and Zhong Jian Zhi Kang from 28 June 2011 to 27 June 2012. As at 31 December 2011, the amount utilized by Zhong Jian Zhi Kang was RMB171,614,768.

Note2: The Company provided guarantee to bank to secure a loan for a total of RMB 150,000,000 in favour of its subsidiary Jiangsu Intellitrans Company Limited.

Note3: The Company provided guarantee to bank to secure a loan of RMB 6,000,000 in favour of its subsidiary Nanjing City Intelligent Transportation Co., Ltd.

- (2) Explanations on the guarantee provided to the Company by the related parties:

Among the total guarantee provided to the Company by the related parties, as at 31 December 2011, the balances for the borrowings that the Company obtained was RMB 130,300,000.

- (3) Explanations on the bills guarantee:

Sample Group provided guarantee to secure the bank accepted bills of exchange issued by Jiangsu Intellitrans Company Limited, a subsidiary of the Company through Nanjing Branch, Bank of Ningbo, with guaranteed amount of up to RMB 20,000,000. As at 31 December 2011, the amount of the bank accepted bills of exchange issued by Jiangsu Intellitrans Company Limited through Nanjing Branch, Bank of Ningbo was RMB 22,294,817.00, of which, 7,849,836.80 was retention monies for bills of exchange, and the remaining RMB 14,444,980.20 was secured by the guarantee provided by Sample Group.

3. Borrowing and lending from/to related parties

- (1) Lending to related parties

Related parties	Amount	Commencement date	Due date	Explanation
Zhong Jian Zhi Kang	40,000,000.00	April 2011	September 2011	Received funds utilization fee RMB 1,072,700.00
Xuzhou Huai Hai	40,000,000.00	May 2011	September 2011	Received funds

Notes to the Financial Statements

For the year ended 31 December 2011

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

4. Transfer of assets of the related parties

Name of related party	Type of related party transaction	Pricing method of related party transaction	2011	
			Amount	Percentage of similar transactions (%)
Sample Group	Transfer of land and buildings	Appraisal value (Note)	16,835,400.00	74.12

Note: In July 2011, Sample Group transferred to the Company a plant with a gross floor area of 2,261.63m² and a land use right with an area of 28,612.4m² owned by him at an appraisal value of RMB 16,835,400 by Jiangsu Wealth Assets Valuation Co., Ltd

5. Other related party transactions

The Company and Sample Group, the controlling shareholder, 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 to the Company.

Notes to the Financial Statements

For the year ended 31 December 2011

Notes to the Financial Statements

For the year ended 31 December 2011

IX. EVENTS AFTER BALANCE SHEET DATE

1. Post balance sheet investments

- (1) On 13 March 2012, the Company contributed RMB25,000,000 to a wholly owned subsidiary of the Company, Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited. The registered capital and fully paid capital were both RMB100,000,000 subsequent to the capital contribution. The capital contribution was verified by Jiangsu Li An Da Xing Ye Certified Public Accountants Company Limited (江蘇利安達興業會計師事務所有限公司) and a capital verification report (蘇利安達驗字(2012)第0032號) was issued on 14 March 2012.
- (2) The Company and Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited, the wholly owned subsidiary of the Company, contributed capital to establish Jiangsu Sample Information Technology Company Limited (江蘇三寶信息技術有限公司) with a registered capital of RMB50,000,000. The first capital contribution of RMB 10,000,000 was received on 18 January 2012 and the second capital contribution of RMB 40,000,000 was received on 21 March 2012. The contribution made by the Company was RMB15,000,000, representing 30% of the registered capital, while the contribution made by the Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited was RMB35,000,000, representing 70% of the registered capital. The aforesaid capital contributions were verified by Jiangsu Li An Da Xing Ye Certified Public Accountants Company Limited (江蘇利安達興業會計師事務所有限公司) and two capital verification reports (蘇利安達驗字(2012)第0005號 and 蘇利安達驗字(2012)第0035號) were issued on 18 January 2012 and 21 March 2012 respectively.
- (3) Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited, the wholly owned subsidiary of the Company, made the second and third capital contributions (both amounted to RMB26,000,000) to its holding subsidiary Nanjing City Intelligent Transportation Co., Ltd on 5 January 2012 and 12 March 2012 respectively. The registered capital and fully paid capital of the company were both RMB100,000,000 subsequent to the capital contributions. The two capital contributions were verified by Jiangsu Li An Da Xing Ye Certified Public Accountants Company Limited (江蘇利安達興業會計師事務所有限公司) and two capital verification reports (蘇利安達驗字(2012)第0001號 and 蘇利安達驗字(2012)第0029號) were issued on 5 January 2012 and 13 March 2012 respectively.

2. Post balance sheet collection of funds utilization fee

The Company received funds utilization fee of RMB168,922.22 and RMB511,811.11 from Zhong Jian Zhi Kang and Xuzhou Huai Hai Pharmaceutical Co., Ltd on 28 February 2012 respectively. Jiangsu Raifu Intelligent Tech. Co., Ltd., a subsidiary of the Company, received funds utilization fee of RMB1,689,677.78 from Zhong Jian Zhi Kang on 29 February 2012.

Notes to the Financial Statements

For the year ended 31 December 2011

XII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's major financial instruments include trade and other receivables, trade and other payables, cash and cash equivalents and short-term bank loans. Details of these financial instruments are disclosed in the 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 Company'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.

1. Credit risk

The Group's credit risk primarily relates to the Group's trade and other receivables and prepayments. 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 the end of each reporting period 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 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 end of reporting period, the Group has a certain concentration of credit risk as 14.04% (2010: 37.3%) and 39.8% (2010: 65.4%) 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 reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note.

Notes to the Financial Statements

For the year ended 31 December 2011

XII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

2. 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 end of reporting period 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 end of reporting period) and the earliest date the Group can be required to pay.

Company	2011 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
Notes payable	28,038,552.80	28,038,552.80	28,038,552.80	-	-
Accounts payable	255,291,518.57	255,291,518.57	255,291,518.57	-	-
Other payables	27,683,268.40	27,683,268.40	27,683,268.40	-	-
Staff remuneration payables	319,916.32	319,916.32	319,916.32	-	-
Short-term borrowings	286,300,000.00	296,488,000.00	81,090,000.00	82,412,000.00	132,986,000.00
Total	597,633,256.09	607,821,256.09	392,423,256.09	82,412,000.00	132,986,000.00

Company	2010 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
Notes payable	12,060,877.94	12,060,877.94	12,060,877.94	-	-
Accounts payable	153,440,415.63	153,440,415.63	153,440,415.63	-	-
Other payables	25,784,252.60	25,784,252.60	25,784,252.60	-	-
Staff remuneration payables	343,971.72	343,971.72	343,971.72	-	-
Short-term borrowings	215,000,000.00	219,580,000.00	107,852,000.00	91,410,000.00	20,318,000.00
Total	406,629,517.89	411,209,517.89	299,481,517.89	91,410,000.00	20,318,000.00

Notes to the Financial Statements

For the year ended 31 December 2011

XII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT *(Continued)*

3. Market risk

(1) 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.

(2) 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.

(3) Price risk

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

Notes to the Financial Statements

For the year ended 31 December 2011

XIII. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

(Continued)

(I) Accounts receivable *(Continued)*

2. There is no amount due from shareholders who holds 5% or more voting right of the Company included in balance of accounts receivable.

3. Particulars of the top five of accounts receivable at the end of the year

Name of unit	Relationship	Closing balance	Age	Percentage of the total accounts receivable (%)
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Notes to the Financial Statements

For the year ended 31 December 2011

XIII. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

(Continued)

(II) Other receivables

1. Disclosure of other receivables by categories:

Categories	2011				2010			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision								
Subject to provision by groups								
Including: Others	102,578.99	0.14	21,180.97	20.65	47,611.65	0.07	21,180.97	44.49
Accounts receivable within the scope of combination	63,180,329.36	87.41	-	-	63,058,454.48	86.40	-	-
Retention monies	8,997,031.49	12.45	-	-	9,879,920.15	13.54	-	-
Sub-total for the group	72,279,939.84	100.00	21,180.97	0.03	72,985,986.28	100.00	21,180.97	0.03
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	72,279,939.84	100.00	21,180.97	0.03	72,985,986.28	100.00	21,180.97	0.03

In the groups, provision for bad debts for other receivables are made using aging analysis:

Aging	2011			2010		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
Amount	Percentage (%)	Amount		Percentage (%)		
Within 1 year	102,578.99	100.00	21,180.97	47,611.65	100.00	21,180.97
1 to 2 years	-	-	-	-	-	-
2 to 3 years	-	-	-	-	-	-
Over 3 years	-	-	-	-	-	-
Total	102,578.99	100.00	21,180.97	47,611.65	100.00	21,180.97

Notes to the Financial Statements

For the year ended 31 December 2011

Notes to the Financial Statements

For the year ended 31 December 2011

XIII. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE COMPANY

(Continued)

(IV) Operating income and operating cost (Continued)

3. Operating income from the top five customers of the Company

Name of the customers	2011	
	Total operating income	Percentage of the total operating income of the Company (%)
Nanjing Gori Technology Co., Ltd Checkpoints at Port Area and Customs Logistics Monitoring System Development Project for Fuzhou Bonded Port (Fuzhou Bonded Logistics Development Company Limited)	20,940,170.94	13.46
Nanjing Gori Technology (Holdings) Co., Ltd Public Security High-Definition Checkpoint and ePolice System Construction Project of Binhai County Public Security Bureau (Binhai County Public Security Bureau)	13,826,094.01	8.89
Nanjing Gori Technology (Holdings) Co., Ltd Public Security High-Definition Checkpoint and ePolice System Construction Project of Binhai County Public Security Bureau (Binhai County Public Security Bureau)	10,085,470.09	6.48
Checkpoint at the west centralized inspection area in Xiamen Haicang Bonded Port (Xiamen Haicang Bonded Port Area Investment and Construction Management Co. Ltd.)	9,145,299.13	5.88
	7,521,367.49	4.84
Total	61,518,401.66	39.55

(V) Investment income

Items	2011	2010
Investment income from long-term equity investments under cost method		
Investment income from long-term equity investments under equity method	11,584,523.96	985,014.02
Investment income from disposal of long-term equity investments		
Investment income from wealth management products	1,478,389.05	2,831,610.95
Interest income from entrusted loans	2,826,125.01	1,264,470.00
Total	15,889,038.02	5,081,094.97

Notes to the Financial Statements

For the year ended 31 December 2011

XIV. SUPPLEMENTAL INFORMATION

(I) Summary of non-recurring profit or loss

Item	2011	2010
Profits or losses on disposal of non-current assets	12,858.47	16,450.00
Tax return or exemption without proper authorization	-	-
Government grants recognised in profits or losses (excluding those government grants that are closely relevant to the enterprise's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	12,915,900.00	2,867,500.00
Interests received from entities other than financial institutions recognised in profits or losses	3,968,288.89	-
Gains arising from the difference between investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net identifiable assets attributable to the enterprise	-	-
Gains or losses arising from non-monetary assets exchange	-	-
Gains or losses arising from entrusted investments or entrusted asset management	-	-
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	-	-
Gains or losses arising from debt restructuring	-	-
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	-	-
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	-	-
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	-	-
Gains or losses arising from contingencies irrelevant to the Company's normal business	-	-
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	1,478,389.05	2,831,610.95
Reversal of provision for bad-debts of accounts receivable subject to separate provision	-	-
Gains or losses arising from entrusted loan granted to other entities	5,613,276.21	1,949,675.25
Gains or losses arising from changes in fair value of investment properties under fair value model	-	-
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	-	-
Consignment fee income arising from entrusted operations	-	-
Other non-operating income and expenses other than the aforementioned items	(99,098.90)	604,939.46
Other profit or loss items meeting the definition of non-recurring profit or loss	3,012,700.92	
Impact on income tax	(3,563,873.81)	(937,905.38)
Impact on minority interests (after-tax)		
Total	23,338,440.83	7,332,270.28

Notes to the Financial Statements

For the year ended 31 December 2011

XIV. SUPPLEMENTAL INFORMATION (Continued)

(II) Return on net assets and earnings per share

2011	Weighted average return on net assets	Earnings per share (RMB/share) (Note)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	20.39%	0.652	0.652
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	17.13%	0.548	0.548

2010	Weighted average return on net assets	Earnings per share (RMB/share) (Note)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	18.32%	0.498	0.498
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	17.12%	0.465	0.465

Notes to the Financial Statements

Five-Year Financial Summary

RESULTS

	2011	Year ended 31 December			
		2010 (restated)	2009 (restated)	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total operating income	542,389	508,016	486,360	331,726	152,790
Total profit	171,440	127,727	96,111	98,929	89,672
Net profit	146,054	111,532	88,143	93,399	90,205
Non-controlling interests	-	-	(52)	253	121
Net profit attributable to shareholders of the Company	146,054	111,532	88,194	93,146	90,084
Basic earnings per share (RMB)	0.65	0.50	0.43	0.48	0.47

ASSETS AND LIABILITIES

	2011	At 31 December			
		2010 (restated)	2009 (restated)	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	298,916	142,367	143,244	80,434	96,884
Current assets	1,149,434	965,594	795,774	605,853	380,063
Current liabilities	654,298	447,843	367,347	308,029	155,560
Net current assets	495,136	517,751	428,428	297,824	224,503
Equity attributable to shareholders of the Company	784,722	658,852	569,730	373,773	319,750
Total equity	792,449	658,852	569,730	375,469	321,193