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

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

Stock Code : 8287

Annual Report 2007

* for identification purpose only

Contents

Corporate Information

EXECUTIVE DIRECTORS
Mr. Sha Min (Chairman)
Mr. Chang Yong
Mr. Guo Ya Jun

NON-EXECUTIVE DIRECTORS
Mr. Ge Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Zhang Zhan
Mr.Wang Wei
Mr. Lau Shek Yau John

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

QUALIFIED ACCOUNTANT
Mr. Chan Chi Kei Ronald

COMPANY SECRETARY
Mr. Chan Chi Kei Ronald

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

COMPLIANCE OFFICER
Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES
Mr. Guo Ya Jun
Mr. Chan Chi Kei Ronald

COMPLIANCE ADVISER
Core Pacific - Yamaichi Capital Limited

AUDITORS
Horwath Hong Kong CPA Limited
Certified Public Accountants

PRINCIPAL BANKERS
Industrial and Commercial Bank of China
(Nanjing Xinjiekou Branch)
95 Hanzhong Road, Nanjing City
Jiangsu Province, the PRC

HONG KONG H SHARES REGISTRAR AND TRANSFER OFFICE
Computershare Hong Kong Investor Services Limited
Shop 1712–1716, 17th Floor,
Hopewell Centre,
183 Queen's Road East, Wanchai,
Hong Kong

LEGAL ADVISERS
Tsun & Partners Solicitors

INVESTOR AND MEDIA RELATIONS CONSULTANT
Porda International (Finance)
PR Co., Ltd.
7/F, CMA Building,
No.64 Connaught Road Central,
Hong Kong

REGISTERED OFFICE
Room 103, Building No. 1,
Ruan Jian Chuang Ye Zhong Xin,
High Technology Development Region
Qixia District, Nanjing City,
Jiangsu Province, the PRC

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC
No. 10 Maqun Avenue, Maqun
Technology Park,
Qixia District, Nanjing City,
Jiangsu Province,
the PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG
3112A, 31/F,
Shun Tak Centre
168–200 Connaught Road Central,
Central, Hong Kong

STOCK CODE
8287

Chairman's Statement

Mr. Sha Min Chairman

To all shareholders,

On behalf of the board of directors (the "Board") of Nanjing Sample Technology Company Limited (the "Company"), I hereby present the annual report of the Company (together with its subsidiaries referred to as the "Group") for the year ended 31 December 2007 (the "period under review") for your review and consideration.

Chairman's Statement

RESULTS

For the financial year of 2007, turnover and profit for the year attributable to equity holders of the Company increased by 16.09% and 80.01% respectively, to approximately RMB152,790,000 and RMB90,084,000 (2006: turnover was RMB131,614,000 and profit for the year attributable to equity holders of the Company was RMB50,043,000). The growth was mainly attributable to the emphasis of the Group on the growth of cash flows from major operations whilst enhancing major products and services, further applications of RFID technology in systems and increase in sales of key software products.

DIVIDENDS

During the period under review, the Board recommended the payment of a final dividend of RMB0.10 per share for the year ended 31 December 2007.

BUSINESS AND OPERATION REVIEW

Focusing on cash flows from and business models of main operations and quality of major products, setting up of standardised workflow for an interconnected digital platform, improvement of project management system and allocation system were the corporate strategic objectives of the Group in 2007. Evolving around such strategic objectives, the Company attained good results in the expansion of research and application of RFID technology, focusing on cash flows from major operations, development of information service business and optimisation of business model in 2007 under the leadership of the Board.

Enhancing Capabilities in Technological Innovation Continuously and Maintaining the Group's Core Competitive Strengths

During the period under review, market demand for major products of the traffic monitoring and control sector, ePolice, Police Inspection and Reporting Post and Mobile ePolice, demonstrated a steady growth trend, and operations of related projects achieved extensive social and economic benefits. With the constant development of new technologies and their applications in Police Inspection and Reporting Post, fundamental changes occurred to the capabilities, functions and system management models of Police Inspection and Reporting Posts. Technological innovation was thereby enhanced in the traffic sector, and the sector pro-actively undertook the renovation works of phases one and two of the Police Inspection and Reporting Post in Heze, Shandong Province. After smooth completion of the project, affirmations and compliments were received from the leadership of the Public Security Bureau of Shandong Province. Meanwhile, affirmations were received from Standardisation Technical Committee for Security and Protection Alarm Systems of China (SAC/TC 100) for the Group's achievements in the development of Police Inspection and Reporting Post. On 27 April, the Group participated in the amendment to system standards regarding "Integration System of City Monitoring, Control and Alarm" of SAC/TC100, and became a liaison member of the SAC/TC100 committee, and undertook the establishment of standards of "Technical Requirements on Identification, Comparison and Inspection System of Checkpoint Information" issued by the Ministry of Public Security at the same time.

The customs operations of the Group strode into a period of rapid development over the last two years, with the development of projects on custom gate throughout the country. For the project management of logistics technology sector, emphasis was placed on customer service whist improving the service assurance system. Expansion and realignments were made to the organisational structure of the service centres in order to provide timely response and quality service to meet customer needs. During the period under review, the Group contracted the construction of thousands of passages for state-level export processing zones, customs bonded logistics zones, bonded harbours and customs, port zone intelligent checkpoints, which were inspected and readily accepted by relevant authorities. In addition, with logistics technology accumulated through years by the research, development and applications of customs logistics platform, combination and increase in the operational functions of the imports and exports customs and bonded operations were achieved by the research and development of logistics monitoring platform at the Dayaowan Bonded Harbour in Dalian, and site integration platform in the Nanjing Customs District. The perfect connection of checkpoint system and bonded harbour logistics monitoring platform achieved the objectives of swift inspection,

Chairman's Statement

clearance and strict monitoring, simplified the operations of customers, terminals and ports, and provided a safer and efficient environment for clearance of customs and a strong technical assurance for the optimisation of monitoring model of customs. The profound accumulation of technology of Sample Technology in the areas of customs logistics monitoring is thereby recognised.

Further Enhancing Information Services and Optimising Business Model of the Group

Provision of information services is the perennial development objective of the Group. Facing new development opportunities, the Company fully understands its competitive environment and industry position, and the industry development trend. The Company will actively expand research and application of the RFID technology, dedicate to the development of its operation projects and industry technology, use significant efforts in achieving the strategic objectives of developing the information service industry by way of operations, whilst increasing investment in its major operations and strengthening its core competitiveness.

The Group officially entered into a cooperation agreement with Tianjin Port International Logistics Development Co., Ltd on 18 January for the establishment of a joint venture project company, and a RFID integrated checkpoint management system for Tianjin Port. The cooperation achieved a significant breakthrough in the operation model, and also provided a very good precedent for the development of other operations of the Company. On 9 April, Sample RFID, a wholly-owned subsidiary of the Company, acquired all of the assets of the Intel Technology Adviser Office from Sample Group, the controlling shareholder of the Company, so as to jointly develop the business of RFID and its applications with Intel China for the enhancement of the Group's traffic control and customs logistics monitoring businesses. The Group entered into a memorandum of understanding with Microsoft (China) Company Limited on 5 September in Nanjing for the joint establishment of software-as-a-service platform (SaaS platform) — the first "internet software supermarket" services for industry users in the country, provided corporate users of industries such as customs, logistics and traffic with application and custody services at corporate level based on the Microsoft platform. The cooperation enabled the Group to obtain stronger technical assurance in the internet industry as well as in the aspects of business and information services. The Group entered into equity interests transfer agreement on 10 September for the transfer of equity interests in Jiangsu Intellitrans Company Limited to the Group, thereby further expanded the scope of operations of the Company to areas of highway intelligent traffic, forming the preliminary operation structure with urban traffic, customs logistics and highway traffic as the main operations. Sample Research Institute was officially established on 12 September, and provided more systematic assurance for the Group's transformation to the modern information service industry. The Group through its wholly-owned subsidiary, Sample Hong Kong, completed its acquisition of Federal International Enterprise Group on 20 December, thereby further assured the Group's leading position in the manufacturing and system applications of RFID products.

Continual Enhancement of Corporate Culture and Team Building as well as Improvement in Corporate Awareness and Social Influence

The Group believes in the principle of survival that talents are above everything since its establishment, and is adamant that "talents, personality and character" are the three merits of the Company. During the period under review, the Company further enhanced team cohesiveness and placed particular emphasis on team building. Vacant positions and departments were filled through external recruitment and internal training whilst focusing on training project managers for large composite projects. Nurturing of innovative teams for technology was highly regarded, thereby achieving the team effect of excellent personnel. In the meantime, improvement of personal capabilities in line with the progress of core teams was emphasised, thereby achieving the development of individual personnel and the Company as a whole.

The Group placed high emphasis on the transport and logistic policy studies carried out by the state, provincial and municipal government departments and strove to strengthen the communication and cooperation with these departments. During the period under review, the Ministry of Science and Technology, China Logistics Technology Association, ITS Canada, various leaders of the People's Government of Jiangsu Province and Nanjing City and internationally renowned enterprises such as Microsoft (China) and Intel visited the Group from time to time for study and research. The Group gained extensive affirmation for its good research and development environment and its

Chairman's Statement

excellent innovative capabilities. In addition, the Group was also invited to participate in the "Seminar on US-China RFID Industry and Applications" held in Beijing and also gave a lecture, thereby further enhanced its corporate awareness and social influence.

PROSPECTS

Overall Development Objectives of the Company in 2008:

Leveraging on the foundation of its existing technologies and competitive strengths, the Group will continue to innovate and enhance its capabilities for long-term sustainable development in 2008. Focusing on people-oriented system and culture, the development of operations, the cash flows of major operations, the establishment of standardized workflow and the growth of the Company's operations in the capital market are the overall guiding concepts of the Group in 2008.

Redeployment of All Favourable Factors, such as Personnel, Funds, Internal and External Resources as well as Improvement in the Core Competitiveness of the Group's Major Operations

In 2008, the Group will be steadfast in its team building, with high regards for the training of talents and selection of successors, assure the improvement and progress of talents, so as to train a team of quality, good character and with cohesiveness for the development of the Company, and establish a sound allocation system and attractive welfare system for the talents.

The Group will develop its traffic and logistics information service projects with incomparable endeavour and improve the capabilities of sustainable development for the Company. Values for customers will be created through the construction of information and transaction platforms in traffic and logistics areas. The investments in information service platforms and development of business model will be enhanced whilst the post-sales service team will be further strengthened so as to increase the efficiency of the operations.

In 2008, the Group will steadily enhance the research and development of its competitive products, service quality, in ensuring its leading position in the industry, improving the quality of contracts and satisfaction of customers, enhancing the capabilities in the management of cash flows from operations and funds management. The Group will focus on the effectiveness of project management, develop standardized workflow for management and improve operation efficiency for the Group as a whole. Emphasis will be placed on improving the pricing of outsourced works, workflows on business procurements and internal monitoring of projects, achieving workflow establishment and office automation across all the departments in the Company.

Promotion of the Brand of Sample, Establishment of Platforms for Technological Environment and Improvement of Organisational Structure Management for the Company through Management Centralisation

The Group will develop more standardized and transparent systems for financial management and internal control in 2008. In the meantime, the establishment of state-level engineering centres will be developed, and simulation and testing bases for information collection and application would be established.

Leveraging on the existing strengths of the Company, the major operations of the Company will be developed as the first growing and harmonious enterprise in the country which specialises in the information services of the modern logistics and intelligent traffic sectors.

Chairman's Statement

On behalf of Sample Technology, I would like to extend our gratitude to our suppliers, clients and shareholders for their support and faith, as well as the contribution from every staff, which enabled the Group to achieve the impressive results.

By Order of the Board
Sha Min
Chairman

Nanjing, the PRC
25 March 2008

Management Discussion and Analysis

FINANCIAL REVIEW

Turnover

Audited consolidated turnover of the Group for the year ended 31 December 2007 was approximately RMB152,790,000, an increase of approximately 16.09% over last year. The Company continued to achieve high volume of sales in Intelligence Police Inspection System from the public infrastructure sector and Customs Logistics Monitoring System from the provincial Customs from RMB90,041,000 in 2006 to RMB153,109,000 in 2007. However, sales of software products sharply decreased from RMB32,519,000 in 2006 to RMB655,000 in 2007, a decrease of 97.98%.

Gross Profit

Gross margin of the Group for the year ended 31 December 2007 was approximately 66.83%, an increase of 14.18% over 2006. The increase in gross margin was mainly attributable to the sales increases of provision of video security system solutions.

Other Income

The Group recorded an increase of 17.06% in other income from approximately RMB10,888,000 in 2006 to approximately RMB12,746,000 for the year. The increase in other income was attributable to the net income from maintenance service RMB4,514,000 increased from RMB1,090,000 in 2006 to RMB4,514,000 in current year, represented 314% increase.

Distribution Costs

There was an increase in distribution costs from approximately RMB7,571,000 in 2006 to approximately RMB9,424,000 for the year, a growth of 24.47%. The increase is mainly come from the growth of turnover.

Administrative Expenses

Administrative expenses of the Group experienced a significant increase of 121.76% from approximately RMB12,263,000 in 2006 to approximately RMB27,194,000 for the year. Such increase was mainly due to the surge in depreciation charge from RMB3,521,000 in 2006 to approximately RMB6,077,000 for the year. In addition, amount of inventories recognised as an expense and impairment loss on trade and other receivables increased from RMB41,448,000 and RMB592,000 respectively to RMB49,340,000 and RMB3,471,000 respectively, representing increases of 19.25% and 486%.

Net profit attributable to equity holders of the Company

Net profit attributable to equity holders of the company increased sharply from approximately RMB50,043,000 in 2006 to approximately RMB90,084,000 for the year, an increase of 80.01% over last year. In addition to the growth of the results, a gain of approximately RMB15,031,000 for the year was come from the excess of the Company's interest in the net fair value of the acquired subsidiary's assets and liabilities over cost.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, equity attributable to equity holders of the company was approximately RMB319,750,000. Current assets were approximately RMB380,063,000, comprising cash and bank deposits of approximately RMB68,070,000. The Group had non-current liabilities of approximately RMB194,000 for the year. Current liabilities were approximately RMB155,560,000, mainly including trade and other payables, tax payable and short-term bank loans. Net assets per share of the Group was approximately RMB1.66. As at 31 December 2007, short-term bank loans of the Group were RMB109,000,000.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2007, the Group has no assets under pledge.

GEARING RATIO

As at 31 December 2007, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was 13%.

FOREIGN CURRENCY EXPOSURE

Since the Group mainly conducts its business in the PRC and most of the sales and purchase 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

To further consolidate the Group's leading position in the RFID production and application, the Group completed the acquisition of Federal International Enterprise Limited and its subsidiaries through Sample Technology (HK) Co., Limited, a wholly-owned subsidiary of the Group.

CAPITAL COMMITMENT

As at 31 December 2007, the Group had no significant capital commitment.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group had no significant contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, total employees' remuneration of the Group was approximately RMB3,401,000 and the number of employees was 245. The Group remunerated its staff based on individual performance, profile and experience and with reference to the market price. The Group would grant discretionary bonus to the staff with reference to the individual's performance as recognition of their contribution. Other benefits included contributions to the retirement scheme, medical scheme, unemployment insurance and housing allowances.

BUSINESS REVIEW

Business Development

Traffic Sector

The Group has been engaged in the provision of traffic monitoring control system in the PRC. At present, in order to raise the capability in enforcing social order and managing road traffic, public security authorities in the PRC have increasingly applied new technology products into daily operation and, therefore, demand for service in the industry is rising. Meanwhile, competition has became ferocious as more enterprises enter this industry. To maintain its leading position in the industry, the Company continues to increase investment in technology and launch system products to satisfy customer needs according to market demand.

During the period under review, according to the demand of public security traffic business, the Company took the lead in launching system solution of the Police Inspection and Reporting Post, which passed the recognition of industry standard set by the Ministry of Public Security. The Group's 3.0 version system of the Police Inspection and Reporting

Management Discussion and Analysis

Post is being installed in many cities across the country. Those systems in actual operation have created huge social benefit and gained good responses from customers. Phase 3 of the transport security customs gate system for the transport police subdivision of Yangzhou Public Security Bureau was examined and accepted by a panel of experts.

While launching new technology and new products continuously, the Group also places particular emphasis on the formulation of industry standards. On the one hand, the Company works with the relevant authorities to formulate the standard for platform of public security command centres. On another front, the Group also worked with the Ministry of Public Security by actively participating in formulation of the national standard on Technical Conditions for Information Recognition, Comparison, and Control System of Vehicles at Customs Gate. On this basis, the Company strives to consolidate its leading position and expand its market share.

Logistics Sector

During the period under review, customs logistics monitoring system are extensively used in state-level export processing zones and customs bonded logistics zone, including the bonded zone of Suzhou Industrial Park, Wuzhong Exporting Processing Zones, Langfang Exporting Processing Zone, Kunming Exporting Processing Zone and all exporting processing zones in Jiangxi Province. The Group has been contracted to construct customs intelligent checkpoints and customs monitoring platform system in Dayaowan Bonded Harbour (「大窰灣保稅港區智能卡口建設」), which consolidated advantages in policies, function and locations for bonded zone, exporting processing zones and port area in Dayaowan Bonded Harbour (「大窰灣保稅港區智能卡口建設」), ensuring a technical support in improving the mode of customs monitoring and demonstrating its rich technical experience in the customs logistics monitoring sector.

In respect of logistics technology, the Company has successfully signed up the first checkpoints project in airport logistics base in the PRC, which laid a solid foundation for the horizontal development of its intelligent checkpoints project. The newly established logistics centre of Beijing Capital International Airport, which was examined and accepted by China Customs, has commenced commercial operation and became the important platform in handling imports and exports by airfreight. It is the first bonded logistics centre backed by an airport in the PRC, marking Beijing Capital International Airport's progress into world-class cargo hub.

The Group formed a strategic alliance with Services Centre of Dalian Dayaowan Customs Authorities in promoting container trucks at port terminals. As at the end of December, issue of container truck licenses and collection of fees were completed. The electronic vehicle license project in cooperation with Huangpu Customs commenced the issue of electronic vehicle license, laying a foundation in promoting the application of electronic vehicle license management system of the Company in the Pearl River Delta, and demonstrating a good model for other customs districts to manage vehicles.

Meanwhile, Information Industry Projects of the Ministry of Information Industry for Tender - Study of Electronic Label and Standard of RFID in Container, which is led by the Group and jointly operated by East Port and China International Marine Containers (Group) Ltd., achieved a breakthrough and entered into the stage of examination and inspection. Pilot projects for application of electronic label for containers commenced on the container routes between Chongqing and Shanghai in Yangtze River.

Logistics technology is built on the foundation of project management, with significant emphasis on customer service by establishing new offices in Guangzhou, Dongguan, Shenzhen, Dalian and Guangxi. The Company also trained a new after-sale customer service team. Its comprehensive after-sale technical service system and quality service guarantee are widely recognised by customers, including Xiamen Dongdu Customs, Suzhou Logistics Centre, Infrastructure Management Centre of Dalian Economic Development Zone, which have issued written compliments to the Group for its outstanding service quality and system operating efficiency.

Management Discussion and Analysis

Research and development

Traffic Sector

With rising market demand, the Company leverages on its technical advantage for innovation, and gradually applied its technologies in high recognition rate and identification rate into system products. The system was upgraded in adopting the new digital video identification technology, which substantially raised its identification rate and was highly acclaimed by the customers and experts. In order to cater for actual needs of customers, the Company first applied RFID technology into vehicle safety management system by leveraging on its leading technical advantages in RFID. The new version of Mobile ePolice, successfully developed by Technical Centre of the Ministry of Communications, has commenced operation with high recognition from customers, and has been examined and accepted by customers.

Logistics Sector

During the period under review, the Gate Control and Monitoring System V3.0, developed by the Company with its own logistics technology, separated business control from equipment control, and improved the system version of collection at front end of customs gate with flexible auxiliary control. A study of logistics control platform in bonded harbours will be conducted. The Company, as a major network integrator, would formulate the industry standards for checkpoints with the General Customs Administration and the first draft was completed in 2007. The construction proposal of a maintenance system for all customs gate systems in the PRC and the agreement of relevant fees charges after inter-regional adjustments were initially recognised by the General Customs Administration.

PROSPECTS

Research and Development

Traffic Sector

In 2008, integrated system management platform and the applications of new technology and products will be the guiding ideas for research and development of the traffic sector, three research and development projects, namely, provincial level integration of security customs gate system, high-definition security customs gate system and advanced camara system for highway traffic violation will be established. Of which the provincial level integration of security customs gate system is based on the development trend of security customs gate system, focuses on current phenomenon of interruption in the areas of security customs gate system and conducts network integration of the security customs gate system for an entire province, centralises management, achieves collaboration of security customs gate system for an entire province, provides support for the analysis and decision of criminal investigation of security departments. The high-definition security customs gate system and advanced camera system for highway traffic violation apply the upgrades and transformation of original products brought by high-definition technologies of shooting and the identification of number and plate, night intelligent light-filling technology for vehicle licence plates, intelligent light-filling technology for drivers and embedded design concept, thereby improves the competitiveness of the two major products, namely security customs gate system and advanced camera system for highway traffic violation, continues to enhance the their strengths in the market.

Logistics Sector

In 2008, the research and development of logistics technology will focus on three areas: integrated research and development of new models of checkpoints, application framework for customs logistics monitoring and automatic testing platforms. The integrated research and development of new models of checkpoints will introduce systems such as passage video monitoring and video conversation, enhance the convenience of remote communication, monitoring and control whilst improve the remote monitoring and control of facilities, assures the immediacy of maintenance, thereby achieves satisfactory unmanned guard duty of passages and remote monitoring and control programmes. The research and development of the application framework for customs logistics monitoring is based on the experience of the Company in the customs sector, and rapid research and development of solutions in the logistics sector is achieved

Management Discussion and Analysis

by building up metadata, frameworks of general service, manipulation of strategies and swift service redeployment. The research and development of automatic testing platform satisfies automatic testing for the development of customs gate integrated system as well as software of logistics platform, and enhances the service quality of testing and the experience of operation workflow.

Highway Sector

In 2008, apart from continuing the operations of the electrical and mechanical projects and the existing software products of the Company, the Group will also strive to the areas of intelligence, actively expand to every area of intelligent traffic. In the meantime, the Group will actively develop traffic information business, mainly by developing management software, e-government and information for the traffic sector. The Group will establish a network of monitoring and control and integrated platform for command and redeployment which cover the cities, highways and tunnel (groups) of an entire province, thereby setting up standards of the formats of information for the interconnection of the monitoring of them, and providing platforms for the network of full digitalisation of internet video network. At the same time, the Group will establish alarms for public commute, traffic dispersion and traffic incident as well as automatic collaboration system of contingency plan, thereby enhances the control of information of the decision makers and achieves the concept of "Better Service to the Public". The Group will establish inspection systems for highways, thereby technically achieves centralisation of the operation for highway inspection, reduces the relevant costs, improves the relevant efficiency and effectively improve the environment for inspection. The Group will also establish integrated system of information management of highways, conduct research on the completed informationalised solution the construction, management, maintenance and operation of highways, achieve communication networking, information sharing, timely update and enquiry of information between departments of every level of highway management. The system mainly relies on the extensive experience of Jiangsu Expressway Company Limited, the advanced J2EE system, thorough and detailed planning, practicable concept of development, so as to determine the that system will be in leading position in the traffic industry in China.

RFID Sector

The RFID sector of the Group engages in the development of technology and products of UHF RFID. The major development projects in 2008 will include: improvement of the functions of the developed modules of handheld devices, development of low-cost handheld reader with simple functions, research and manufacturing of embedded handheld devices based on ARM architecture, research and development of reader based on Intel reader chip and the development of short range and low-cost integrated device. In the meantime, the Group plans to establish a research institute for the application of RFID tag in 2008, it will be mainly for the research of the 5.8GHz short range wireless communication technology used by Electronic Toll Collection in China and application of RFID in industrial production and logistics areas.

Sales and Marketing

Traffic Sector

Based on the demand and planning of the Ministry of Public Security for the three-year development of the general and traffic police of each city, the Group estimated that the traffic monitoring and controlling sector in China will create a market of more than RMB 30 billion for products on public security technology. Market shares related to the Group's operations mainly concentrate in traffic, security monitoring and controlling checkpoint system, Police Inspection and Reporting Post, ePolice, collection of evidence on speeding of motor vehicles on roads of senior grade, development of public security information platform, off-site violation penalty system and redeployment of command of public security affairs. In 2008, the Group will fully capitalise on the existing strengths of its brands, especially the single champion in Police Inspection and Reporting Post which laid down satisfactory foundation for the group's market explorations, pursue projects of influence and beyond municipal level, integrate its external resources, secure market share and technology through acquisition of external resources, implement the strategy of promoting competitive products with the addition of brand, shift the foresight of major products to the integration of high value-added software platforms and the change of information operations.

Management Discussion and Analysis

Logistics Sector

As a chief network integrator of custom gate systems, in 2008 the Group will further create core competitiveness for its major operations, pursue higher market share in major markets and higher margin, continue to explore regional markets, focus on the development of sites, logistics centres and new ports, emphasize product quality, create brands of the Company, and strengthen the leading position in the industry. The investments in information service platform will be increased and the development of business model will be further enhanced by the establishment of information and transaction platforms with credibility in the areas of logistics, and the after-sales service team will be further developed so as to create value for customers.

Highway Sector

In 2008, the Group will conduct conscientious research on the conditions of the market, selectively focus on the enhancement of investing in the electrical and mechanical engineering market of the traffic sector, and enter into cooperations for the projects in the major markets by way of strategic alliance. Comprehensive inspection items will be selected as entry points, explorations into the market for general highway toll software will be enhanced and promotion outside Jiangsu Province will be considered. The development of information for the traffic sector has currently gone beyond Jiangsu Province, and related operations have already been established in Zhejiang and Gansu. In 2008, 2 to 3 provinces will continue to be selected as focuses in the market, management software will be developed and e-government in the traffic sector, traffic information management software will be promoted and applied.

RFID Sector

In recent years, competition in the RFID market has been intense. Under the pressure of the competition in the industry, the Group's guidelines will be research and development of technology, improvement in the process of its production and the quality of its products. In 2008, the Group will mainly use a vertical approach, focus on the promotion of low-cost integrated reader, improve the technology of the standardised reader for railway in China, develop a new area of application, actively explore overseas markets such as Korea and Malaysia, retain markets of industry customers such as customs and ports, enhance external cooperation, pursue establishing entities for global market with multinational corporations, improve the technologies of the Company and expand the scope of the markets.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 43, an executive Director and the 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 firstly appointed as a Director in December 1999. He is directly interested in 0.7% of the registered capital of the Company immediately after the Placing. Mr. Sha was conferred the titles of Jiangsu Province Outstanding Yong Entrepreneur and Nanjing Ten Outstanding Young Entrepreneur in 2000 and 2001 respectively. Mr. Sha was elected as a committee member of the Nanjing Committee of the Chinese People's Political Consultative Conference in January 2003. Mr. Sha became a committee member of the Jiangsu Committee of the Chinese People's Political Consultative Conference in December 2007.

Mr. Chang Yong (常勇), aged 41, has been the general manager of the Company since December 2000. He is responsible for implementing the Group's strategies and business plans. He obtained a master's degree in computer application studies from Harbin Polytechnical University in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from 1990 to 1992. Mr. Chang became the vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. He was appointed as an executive director and the general manager of Sample System in December 1997. Mr. Chang was elected as a member of the Chinese People's Political Consultative Committee of Xuanwu District in Nanjing City in 1998. Mr. Chang was firstly appointed as a Director in December 1997.

Mr. Guo Ya Jun (郭亞軍), aged 48, an executive Director, the vice general manager and the financial controller of the Company. He is responsible for supervising the Company's accounting department and financial affairs. He graduated from the Faculty of Agricultural Economy at Anhui Agricultural College in August 1982 with a bachelor's degree in agricultural economics. Mr. Guo worked for the Finance Bureau of Lingbi County in Anhui Province from 1982 to 1992. He worked for the Nanjing Jintai Building Materials Development Company between 1993 and 1996. Mr. Guo was appointed as the finance manager of Sample Group and Sample System in October 1996 and became the Company's director of finance and vice general manager in December 2000. He is currently mainly responsible for the financial and administrative management of the Group. He was firstly appointed as a Director in December 1999.

NON-EXECUTIVE DIRECTOR

Mr. Ge Jun (戈軍), aged 44, Han nationality, a master's degree holder. In 1984, he obtained his undergraduate degree from the College of Environmental Science and Engineering of the Tongji University in Shanghai, majoring in Municipal Engineering (Water Supply and Sewage). From 1984 to 1994, he worked for the Nanjing Professional College. In 1994, he graduated from the Master's program in Civil Engineering of the Southeast University. From 1994 to 2003, he was employed by the China Jiangsu International Economic Technical Corporation Corp. From 2003 to 2006, he worked for Jiangsu Su Jian Investment Management Consulting Company Limited. Mr. Ge is now an employee of the Jiang Su Century Golden Ox Technology & Industry & Trade Corporation.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Zhang Zhan (張展), aged 40, Han nationality, a bachelor's degree holder. He obtained a bachelor's degree in computer science from Wuhan University in 1989. From 1989 to 1998, he worked for the Nanjing Branch of China Construction Bank. He was appointed as a director of the Company in 2000. Mr. Zhang is currently the general manager of the investment banking division of China Construction Bank Securities Investment Company Limited.

Mr. Wang Wei (王煒), aged 48, Han nationality, a doctorate degree holder. He obtained a bachelor's degree in Road Engineering in 1982, a master's degree in 1985 from the Southeast University and taught at the university. Mr. Wang obtained a doctorate degree in Structural Engineering from Southeast University in 1990 and taught as a visiting professor at Ruhr-University, Germany in 1996. Mr. Wang was appointed as an independent director of the Company in 2001. He is currently the Dean of Transportation College of Southeast University and the Head of the City Road Traffic Management (Clear Way Project) National Professional Group.

Biographical Details of Directors, Supervisors and Senior Management

Mr. Lau Shek Yau John (劉石佑), aged 60, Han nationality, a bachelor's degree holder. He graduated from the University of Hong Kong in 1971. Mr. Lau was a director of Inchcape Export Buying Services from 1971 to 1983. Mr. Lau established United Distribution Services Far East Limited in 1985, Hoi Kong Container Services Company Limited in 1986 and Wide Shine Terminals Limited in 1990. He founded Cargo Services Far East Limited in 1991 and was appointed as a director of the Company in 2003. Mr. Lau is a member of the Nanjing Committee of the Chinese People's Political Consultative Committee.

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 52, an EMBA graduate. He is now a professor of the Economics and Management College of the Southeast University. He is also the executive director of the Institute for Urban Development in Jiangsu and the Vice President of the Nanjing Entrepreneur Club. From 1991 to 2004, he was appointed as Deputy Director and Director of the Economics and Management College of the Southeast University. In 1992, he was exceptionally promoted as Professor, and received the State's Sponsorship for Special Contribution. He is veteran in the teaching and research of economics and management affairs. He has in-depth knowledge in corporate management and industrial development.

Mr. Sun Huai Dong (孫懷東), aged 40, a Supervisor. He graduated from the Department of Radio Engineering of the Southeast University with a bachelor's degree in July 1990. He worked for the Stateowned Factory No.772 from 1990 to 1992. Mr. Sun was appointed manager of the sales department and general manager of Sample Industry during the period from 1993 to 2002. Mr. Sun has been the vice deputy general manager of Jiangsu Hai Te Man New Material Co., Ltd. since 2002. He was firstly appointed as a Supervisor in December 1999.

Mr. Dai Jian Jun (戴建軍), aged 37, as a Supervisor. He was educated in Jiangsu Public Security Professional School from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a Supervisor in August 2003.

SENIOR MANAGEMENT AND CORE TECHNICAL STAFF

Mr. Fu Yu Qing (富煜清), aged 69, the Company's chief technical officer. He graduated from Southeast University in August 1961 and obtained a doctorate degree in Philosophy from the University of Laval in 1984. Mr. Fu was an instructor of the Faculty of Wireless Communications of Southeast University from September 1961 to December 1979. He was an associate professor, professor, director of teaching group, director of laboratory and general engineer of the research institute of Southeast University from January 1984 to July 1998. Mr. Fu joined Sample Group in September 1998. Mr. Fu joined the Company and was appointed as the chief technical officer of the Company in December 2000.

Mr. Chen Rui Cai (陳瑞才), aged 45, general manager of the Company's traffic department. He graduated from Chang'an University (Xi'an Highway College) in July 1987. He worked for the research institute under the Nanjing Police's traffic control research department as deputy president in August 1987. Mr. Chen joined the Company in June 2003 and served as the general manager of the Company's traffic department.

Mr. Zhu Xiang (朱翔), aged 31, received postgraduate education. He is the secretary of the Board of the Directors and general manager of the investment centre. He graduated from Xi'an Jiaotong University in July 2000 and obtained a MBA degree from Nanjing University in June 2006. He joined the securities department of Hainan Airlines Company Limited in July 2000, serving as the assistant to secretary of the board of directors. He joined the Company in March 2003, serving as the senior manager of the Company's investment department, general manager of the investment centre and secretary to the Board of Directors.

Biographical Details of Directors, Supervisors and Senior Management

Ms. Du Jin (杜瑾), aged 44. 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 now the general manager of the Company's customs affair department.

Mr. Chan Chi Kei Ronald (陳智機), aged 33. He graduated from the Hong Kong Polytechnic University with a bachelor's degree in Accountancy. Mr. Chan is a member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Chan has over 10 years of experience in auditing and financial management. Currently, he serves as the company secretary, the qualified accountant and one the authorized representatives of the Company, responsible for financial and accounting management as well as secretarial duties.

Report of Directors

The Board presents their annual report and audited financial statements for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Group is a major developer and provider of video security system solutions in the PRC targeting on government authorities. Its products and system solutions are currently designated for use in (i) traffic monitoring and control sector and (ii) customs logistics monitoring sector in the PRC.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Sales to the Group's five largest customers accounted for 41.2% (2006: 31.8%) of the total sales for the year and sales to the largest customer included therein amounted to 21.3% (2006: 7.8%).

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

Five Largest Suppliers

Purchase from the Group's five largest suppliers accounted for 12.0% (2006: 23.6%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 3.1% (2006: 3.2%).

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

RESULTS AND DIVIDENDS

The results and financial position of the Group for the year ended 31 December 2007 are set out on pages 30 to 67 of the annual report.

The Directors recommended the payment of a final dividend of RMB0.1 per share for the year ended 31 December 2007.

RESERVES

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

DISTRIBUTABLE RESERVES

At 31 December 2007, the Group's reserves available for distribution amounted to RMB80,527,000.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the note 28 to the financial statements.

In accordance with the Extraordinary General Meeting of the Company held on 25 August 2007, the Company agreed to issue bonus shares and capitalization shares to the shareholders whose names appear on the register of members of the Company on 25 August 2007, on the basis of fifteen bonus shares for every ten H Shares, and five capitalization shares for every fifteen domestic shares. Following the bonus issue and the capitalization issue, the registered capital of the Company increased from RMB64,500,000 to RMB193,500,000.

Report of Directors

PROPERTY, PLANT AND EQUIPMENT

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

DIRECTORS AND SUPERVISORS

The Directors and Supervisors for the year and up to the date of this report are as follows:

Executive Directors

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

Non-executive Directors

Mr. Ge Jun	(appointed on 25 August 2006)
Mr. Zhao Jing Cheng	(resigned on 25 August 2006)
Mr. Zhang Yin Qian	(resigned on 25 August 2006)
Mr. Guo Shi Ping	(resigned on 25 August 2006)
Mr. Zhu De Xiang	(resigned on 25 August 2006)

Independent Non-executive Directors

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

Supervisors

Mr. Qiu Xiang Yang	(appointed on 25 August 2006)
Mr. Sun Huai Dong	
Mr. Dai Jian Jun	
Ms. Du Jin	(resigned on 25 August 2006)
Mr. Tian Tao	(resigned on 25 August 2006)
Ms. Ma Lin Ping	(resigned on 25 August 2006)

DIRECTORS AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts will expire on 31 December 2009 and shall renew for another term of three years subject to the approval at the annual general meeting of the Company.

Save as the disclosed above, no Directors and Supervisors for re-election at the forthcoming annual general meeting has a service contract with the Company's subsidiaries which is not terminable by the Company within one year without payment, other than statutory compensation.

DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS

Details of Directors' remuneration and the highest paid individuals are set out in the note 9 and 10 to the financial statements.

Report of Directors

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 2007, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to Rules 5.46 to 5.47 of the GEM Listing Rules.

Long Positions in Shares

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

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

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2007, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Long position in Shares

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") *(Note)*	58,950,000	Beneficial and corporate	30.47
Jiang Su Century Golden Ox Technology & Industry & Trade Corporation ("Century Golden Ox")	22,455,000	Beneficial	11.60
Active Gold Holding Limited	49,545,000	Beneficial and corporate	25.60

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

Report of Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2007, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2007, 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 period.

SHARE OPTION SCHEME

The Company conditionally approved a share option scheme ("Share Option Scheme") on 24 April 2004. The principal terms and conditions of the share option scheme are set out in the section "Summary of the terms of Share Option Scheme" in Appendix VII of the Prospectus. As at 31 December 2007, none of the options is granted under the Share Option Scheme.

ADVANCES TO AN ENTITY

Pursuant to the Rules 17.15 and 17.17 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 8% under the assets ratio as defined under Rule 19.07(1) of the GEM Listing Rules. As at 31 December 2007, the Company's total assets were HK$476,947,000.

During the year, the Company has made fund advance to Jiangsu Intellitrans. The amount of fund advance is unsecured, non-interest bearing and have no fixed repayment terms.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

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

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company had received from each of the independent non-executive Directors an annual confirmation of his independence. The Company considered all the independent non-executive Directors are independent.

COMPLIANCE ADVISER'S INTEREST

According to the agreement entered into by the Company and Core Pacific-Yamaichi Capital Limited ("CPY Capital") on 2 June 2004. CPY Capital acts as the compliance adviser of the Company for the period from 9 June 2004 to 31 December 2007 or until the agreement is terminated pursuant to the terms and conditions of the agreement. The agreement was completed on 31 December 2006. CPY Capital received an agreed amount of fees for the services to be rendered in respect thereof.

AUDIT COMMITTEE

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

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

Report of Directors

DIRECTORS AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2007, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2007, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

DIRECTORS AND SUPERVISORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or a Supervisor had a direct and indirect material interest, subsisted at the end of the year or at any time during the year.

CONNECTED TRANSACTIONS

(a) On 9 April 2007, the Company's subsidiary, Nanjing Sample RFID Technology Company Limited ("Sample RFID") entered into an assignment agreement with Sample Group in which Sample RFID agreed to acquire all assets necessary for the operation of a RFID technology research and exhibition center owned by Sample Group at a cash consideration of RMB3,250,000. The centre was originally jointly established and operated by Sample Group and an independent third party ("Independent Third Party"). The Company is advised by Sample Group that Sample Group has terminated the joint operation with Independent Third Party with effect from 1 January 2007.

Upon signing the assignment agreement, Sample RFID also entered into a co-operation agreement with the Independent Third Party for the joint operation of this centre.

(b) On 20 December 2007, the Company's subsidiary, Sample Technology (H.K.) Co Limited ("Sample HK") completed its acquisition of 100% of the issued share capital of Federal International Enterprises Limited and its subsidiaries ("Federal International Group") in order to further assured the Group's leading position in the manufacturing and system applications of RFID products.

According to the agreement, the Group acquired 100% of the issued share capital of Federal International and accepted the assignment of loan of HK$35,233,200 (equivalent to approximately RMB32,990,000) granted to Federal International for a consideration of HK$30,000,000 (equivalent to approximately RMB28,090,000).

(c) On 14 January 2008, the Group acquired the entire paid up capital of 江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Limited) at a cash consideration of RMB40,000,000. Details of this acquistition are set out in circular of the Company dated 27 November 2007.

CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles and complied with the code provision set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules for the year ended 31 December 2007.

Report of Directors

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 April 2008 to 19 May 2008 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed final dividend and for attending the forthcoming annual general meeting of the Company to be held on 15 May 2008, all transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, Shop 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 17 April 2008. The Final dividend will be payable on 19 August 2008 to shareholders whose name appear on the register of members of the Company on 19 May 2008.

On behalf of the Board
Sha Min
Chairman

Nanjing, the PRC
25 March 2008

Corporate Governance Report

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions as set out in the Code on Corporate Governance Practices (the "Code"). Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all Directors, the Directors have complied with such code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2007.

BOARD OF DIRECTORS AND BOARD MEETING

The Directors for the year are listed as follows:

Executive Directors

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

Non-executive Directors

Mr. Ge Jun	(appointed on 25 August 2006)
Mr. Zhao Jing Cheng	(resigned on 25 August 2006)
Mr. Zhang Yin Qian	(resigned on 25 August 2006)
Mr. Guo Shi Ping	(resigned on 25 August 2006)
Mr. Zhu De Xiang	(resigned on 25 August 2006)

Independent Non-executive Directors

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

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

The Board of Directors, which currently comprises 7 directors, is entrusted with the overall responsibility for directing and supervising the Company's business and affairs. During the year, Mr. Sha Min and Mr. Chang Yong were appointed as the Chairman and the Chief Executive Officer of the Company. The board of Directors held a full board meeting each quarter.

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

Corporate Governance Report

The attendance of individual Directors at the board meetings held during the year is listed as follows:

	Attendance
Executive Directors	
Mr. Sha Min *(Chairman)*	8/8
Mr. Chang Yong	8/8
Mr. Guo Ya Jun	8/8
Non-executive Directors	
Mr. Zhao Jing Cheng	2/5
Mr. Zhang Yin Qian	3/5
Mr. Guo Shi Ping	5/5
Mr. Zhu De Xiang	5/5
Mr. Ge Jun	3/3
Independent Non-executive Directors	
Mr. Zhang Zhan	8/8
Mr. Wang Wei	8/8
Mr. Lau Shek Yau John	7/8

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

REMUNERATION COMMITTEE

In accordance with Code provision B1.1 to B1.5 of the Code on Corporate Governance Practices, the appointment and the terms of reference of the Company's remuneration committee have been approved in the board meeting on 10 November 2005. Members of the remuneration committee, with the majority consisting of independent non-executive Directors, comprise:

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

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

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

Corporate Governance Report

NOMINATION OF DIRECTORS

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

Members of the nomination committee comprise:

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

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

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

AUDITORS' REMUNERATION

The audit committee of the Company is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. During the year, the auditors' remuneration regarding the annual audit of the Company amounted to RMB520,000.

AUDIT COMMITTEE

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

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

The audit committee held 4 meetings during the year. Details of the attendance of the audit committee meetings are as follows:

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

During the year, the Group's unaudited quarterly and interim results for the year 2007 and annual audited results for the year ended 31 December 2006 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. The audited consolidated results of the Group for the year ended 31 December 2007 have been reviewed by the audit committee.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors' responsibilities for the financial statements and the reporting responsibilities of the external auditors to the shareholders are set out on page 28 and 29.

INTERNAL CONTROLS

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 2007, 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 conducted careful review on the use of proceeds from placing in strict accordance with the plans of the use of proceeds disclosed in the Prospectus. It 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 financial report, audited by Shu Lun Pan Horwath, to be proposed by the Board and agreed that it truly and fully reflect the operating results and asset position of the Company. The supervisory committee has also reviewed the report of the directors and the dividend payment proposal. The supervisory committee are of the opinion that the members of the Board, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager, and senior management had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees, or in violation of any laws and regulations and the articles of association of the Company.

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

On behalf of the Supervisory Committee
Qiu Xiang Yang
Chairman

Nanjing, the PRC
25 March 2008

Independent Auditor's Report

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
Certified Public Accountants
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
www.horwath.com.hk

TO THE MEMBERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED
(established and reorganised into a joint stock limited company
in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Nanjing Sample Technology Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 30 to 67, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

Independent Auditor's Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

25 March 2008

Chan Kam Wing, Clement
Practicing Certificate number P02038

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	**2007** **RMB'000**	2006 RMB'000
Turnover	4	**152,790**	131,614
Cost of sales		**(50,679)**	(62,322)
Gross profit		**102,111**	69,292
Other revenue	4	**12,746**	10,888
Distribution costs		**(9,424)**	(7,571)
Administrative expenses		**(27,194)**	(12,263)
Finance costs	6	**(3,598)**	(2,474)
Excess of interest in the net fair value of assets and liabilities of subsidiaries acquired over cost	31	**15,031**	—
Gain on disposal of a subsidiary		**—**	988
Profit before income tax	7	**89,672**	58,860
Income tax credit/(expense)	8	**533**	(8,267)
Profit for the year		**90,205**	50,593
Attributable to:			
Equity holders of the Company	11	**90,084**	50,043
Minority interests		**121**	550
		90,205	50,593
Proposed final dividend	12	**19,350**	—
Earnings per share			
— Basic (RMB) cents	13	**46.56**	25.86

The accompanying notes form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	14	**57,839**	57,896
Prepaid lease payments	15	**6,718**	6,869
Intangible assets	16	**—**	—
Convertible note receivable	17	**—**	1,000
Deposit for acquisition of a subsidiary	18	**30,028**	—
Deferred tax assets	19	**2,299**	891
		96,884	66,656
Current assets			
Inventories	21	**3,654**	3,280
Trade and other receivables	22	**141,454**	92,294
Loans receivable	23	**117,900**	—
Prepaid lease payments	15	**150**	150
Amounts due from customers for contract work	24	**38,155**	31,127
Pledged bank deposits	25	**10,680**	361
Bank balances and cash		**68,070**	121,013
		380,063	248,225
Current liabilities			
Trade and other payables	26	**42,963**	29,135
Construction cost payables		**—**	1,978
Tax payables		**3,597**	6,780
Short-term bank loans	27	**109,000**	46,000
		155,560	83,893
Net current assets		**224,503**	164,332
Total assets less current liabilities		**321,387**	230,988
Non-current liabilities			
Deferred tax liabilities	19	**194**	—
Net assets		**321,193**	230,988
Equity			
Share capital	28	**193,500**	64,500
Reserves	30	**126,250**	165,166
Equity attributable to equity holders of the Company		**319,750**	229,666
Minority interests		**1,443**	1,322
Total equity		**321,193**	230,988

These financial statements on pages 30 to 67 were approved and authorised for issue by the Board of Directors on 25 March 2008 and are signed on its behalf by:

Sha Min
Director

Guo Ya Jun
Director

The accompanying notes form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Attributable to equity holders of the Company							
	Share capital RMB'000	**Share premium** RMB'000	**Statutory surplus reserve** RMB'000	**Statutory welfare fund** RMB'000	**Retained profits** RMB'000	**Total** RMB'000	**Minority interests** RMB'000	**Total** RMB'000
At 1 January 2006	64,500	52,641	7,913	3,956	50,613	179,623	4,857	184,480
Profit for the year	—	—	—	—	50,043	50,043	550	50,593
Disposal of a subsidiary	—	—	—	—	—	—	(4,085)	(4,085)
Transfer on disposal of a subsidiary	—	—	(152)	(76)	228	—	—	—
Profit appropriation	—	—	5,960	—	(5,960)	—	—	—
Transfer to statutory surplus reserve	—	—	3,880	(3,880)	—	—	—	—
At 31 December 2006	64,500	52,641	17,601	—	94,924	229,666	1,322	230,988
Profit for the year	—	—	—	—	90,084	90,084	121	90,205
Bonus issue and capitalisation issue *(Note 28(b))*	129,000	(32,250)	—	—	(96,750)	—	—	—
Profit appropriation	—	—	7,731	—	(7,731)	—	—	—
At 31 December 2007	**193,500**	**20,391**	**25,332**	**—**	**80,527**	**319,750**	**1,443**	**321,193**

The accompanying notes form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before income tax		**89,672**	58,860
Adjustments for:			
Finance costs		**3,598**	2,474
Interest income		**(1,703)**	(2,249)
Depreciation of property, plant and equipment		**6,077**	3,521
Recognition of prepaid lease payments		**151**	150
Loss on disposal of property, plant and equipment		**3**	—
Excess of interest in the net fair value of assets and liabilities of subsidiaries acquired over cost		**(15,031)**	—
Gain on disposal of a subsidiary		**—**	(988)
Allowance for inventories		**434**	302
Operating cash flows before movements in working capital		**83,201**	62,070
Decrease/(increase) in inventories		**236**	(3,382)
Increase in amounts due from customers for contract work		**(7,028)**	(4,526)
Increase in trade and other receivables		**(37,250)**	(58,506)
Increase/(decrease) in trade and other payables		**8,518**	(4,192)
Cash generated from/(used in) operations		**47,677**	(8,536)
PRC income tax paid		**(3,658)**	(6,549)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**44,019**	(15,085)

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	**2007** **RMB'000**	2006 RMB'000
INVESTING ACTIVITIES			
Acquisition of subsidiaries	31	**(5,839)**	—
Disposal of a subsidiary		**—**	(2,979)
Deposit for acquisition of a subsidiary		**(30,028)**	—
Loan advanced		**(88,900)**	—
Acquisition of convertible note receivable		**—**	(1,000)
Repayment of convertible note receivable		**1,000**	—
Interest received		**1,703**	2,249
Proceeds from disposal of property, plant and equipment		**7**	—
Payments to acquire property, plant and equipment		**(4,988)**	(809)
(Increase)/decrease in pledged bank deposits		**(10,319)**	846
NET CASH USED IN INVESTING ACTIVITIES		**(137,364)**	(1,693)
FINANCING ACTIVITIES			
Interest paid		**(3,598)**	(2,474)
Repayment of bank loans		**(46,000)**	(46,000)
New bank loans raised		**90,000**	46,000
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES		**40,402**	(2,474)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(52,943)**	(19,252)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**121,013**	140,265
CASH AND CASH EQUIVALENTS AT END OF YEAR		**68,070**	121,013
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		**68,070**	121,013

The accompanying notes form part of these financial statements.

Notes to the Financial Statements

1. ORGANISATION AND OPERATIONS

南京三宝科技股份有限公司 (Nanjing Sample Technology Company Limited) (the "Company") was established in the Mainland China (the "PRC") and was approved to be reorganised into a joint stock limited company on 28 December 2000. It is principally engaged in the provision of video security system solutions, sale of security system software and sales of related computer products. The addresses of the registered office and principal place of business of the Company are located at Room 103, Building No.1, Ruan Jian Chuang Ye Zhong Xin, High Technology Development Region Qixia District, Nanjing City, Jiangsu Province, the PRC and 1 Huangzhuang Road, Maqun Technology Park, Qixia District, Nanjing City, Jiangsu Province, the PRC, respectively.

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

The books and records of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are maintained in Renminbi ("RMB"), the functional currency in which the majority of the Group's transactions is denominated.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

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

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM.

(b) Adoption of new and revised standards

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

The impact of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statements*: *Capital disclosures* has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

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

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

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) — Int 11	HKFRS 2 — Group and treasury share transactions	1 March 2007
HK(IFRIC) — Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 14	HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

(c) Basis of consolidation

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

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

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

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

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

(d) Business combinations

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(d) Business combinations (continued)

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

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

(e) Subsidiary

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

(f) Joint ventures

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

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

(g) Goodwill

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

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(h) Property, plant and equipment

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

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

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

Buildings	30 years
Furniture, fixtures and equipment	5-10 years
Motor vehicles	5 years
Leasehold improvements	Over the remaining term of the lease but not exceeding 5 to 10 years

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

(i) Leasehold land

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

(j) Intangible assets

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(j) Intangible assets (continued)

Research and development costs

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

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

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

(k) Impairment of assets excluding goodwill

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

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

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

(l) Installation contracts

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(l) Installation contracts (continued)

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

(m) Inventories

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

(n) Financial assets

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

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

i) Loans and receivables

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial assets (continued)

ii) Impairment

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

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

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

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

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

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

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

iii) Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(n) Financial assets (continued)

iv) Derecognition of financial assets

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

(o) Financial liabilities and equity

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

i) Equity instruments

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

ii) Financial liabilities

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

The Group has one category of financial liabilities, which is other financial liabilities. Other financial liabilities including bank loans, trade and other payables, construction cost payables are subsequently measured at amortised cost, using the effective interest rate method. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis.

iii) Derecognition of financial liabilities

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

(p) Cash and cash equivalents

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(q) Leasing

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

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

(r) Provisions and contingent liabilities

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

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

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

(s) Taxation

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

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

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(s) Taxation (continued)

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

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

(t) Foreign currencies

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

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

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

(u) Government grants

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

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

Notes to the Financial Statements

2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

(v) Retirement benefit cost

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

(w) Borrowing costs

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

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

(x) Related parties

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

(y) Revenue recognition

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

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

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

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

Notes to the Financial Statements

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

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

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

(b) Useful lives of property, plant and equipment

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

(c) Impairment of trade and other receivables

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

Notes to the Financial Statements

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(d) Construction contracts

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

4. TURNOVER AND OTHER REVENUE

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

	2007 **RMB'000**	2006 RMB'000
Provision of video security system solutions	**153,109**	90,041
Sales of security system software	**655**	32,519
Sales of related computer products	**—**	9,890
	153,764	132,450
Less: Business tax and other related taxes	**(974)**	(836)
Turnover	**152,790**	131,614
PRC value added tax refunded	**4,588**	7,527
Interest income from		
— bank deposits	**1,647**	2,249
— convertible loan receivable	**56**	—
Total interest income on financial assets not at fair value through profit or loss	**1,703**	2,249
Maintenance service income	**6,459**	2,015
Less: Cost incurred for maintenance services	**(1,945)**	(925)
Others	**1,941**	22
Other revenue	**12,746**	10,888
	165,536	142,502

Notes to the Financial Statements

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

Geographical segments

The Group's operations are situated in the PRC in which its revenue was derived principally therefrom. Accordingly, no geographical segments are presented.

6. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on bank loans wholly repayable within five years	**3,598**	2,474

7. PROFIT BEFORE INCOME TAX

	2007 RMB'000	2006 RMB'000
Profit for the year is arrived at after charging:-		
Auditor's remuneration	**520**	480
Staff costs including directors' emoluments	**7,341**	7,195
Retirement benefits scheme contributions	**948**	528
	8,289	7,723
Less: Staff costs included in research and development costs	**(522)**	(950)
	7,767	6,773
Research and development costs	**2,773**	3,384
Less: Government grants received	**—**	(1,575)
	2,773	1,809
Loss on disposal of property, plant and equipment	**3**	—
Depreciation of property, plant and equipment	**6,077**	3,521
Allowance for inventories	**434**	302
Carrying amount of inventories sold	**48,906**	41,146
Amount of inventories recognised as an expense	**49,340**	41,448
Impairment loss on trade and other receivables	**3,471**	592
Operating lease rentals in respect of buildings	**576**	166
Recognition of prepaid lease payment	**151**	150
Exchange losses/(gain), net	**1,009**	(22)

Notes to the Financial Statements

8. INCOME TAX

(a) Taxation in the consolidated income statement represents:

	2007 **RMB'000**	2006 RMB'000
PRC income tax	**313**	8,825
Deferred tax credit (note 19)		
— origination and reversal of timing difference	**(786)**	(558)
— resulting from a change in tax rate	**(60)**	—
Income tax (credit)/expense	**(533)**	8,267

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

The Company is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. In February 2008, the Company was identified as an Important Enterprise. Pursuant to the policies for encouraging development of software properties and Integrated electrical circuit properties issued by the State Commission of the PRC, the Company was entitled to a preferential tax rate of 10% for the year ended 31 December 2007. In March 2008, the Company obtained a tax concession from local tax authority in which the Company was fully exempted from PRC income tax for the fourth quarter of 2007, followed by a 50% reduction in the PRC income tax for the next 3 years.

The Company's subsidiaries are subject to PRC income tax rate of 33%.

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

	2007 **RMB'000**	**%**	2006 RMB'000	%
Profit before income tax	**89,672**		58,860	
Tax at the domestic income tax rate of 15%	**13,451**	**15.0**	8,829	15.0
Tax effect of expenses not deductible for tax purpose	**1,285**	**1.4**	382	0.6
Tax effect of income not taxable for tax purpose	**(2,605)**	**(2.9)**	(1,190)	(2.0)
Effect of the different tax rates of subsidiaries	**238**	**0.3**	388	0.7
Effect of change in tax rate	**(62)**	**—**	—	—
Tax relief	**(12,934)**	**(14.4)**	—	—
Effect of tax loss not recognised	**232**	**0.3**	—	—
Others	**(138)**	**(0.2)**	(142)	(0.2)
Tax (credit)/charge and effective tax rate for the year	**(533)**	**(0.5)**	8,267	14.0

Notes to the Financial Statements

8. INCOME TAX (CONTINUED)

(c) New tax law of the PRC

On 16 March 2007, the National People's Congress of the PRC promulgated the PRC Enterprise Income Tax Law, which became effective from 1 January 2008.

According to the new tax law, the standard enterprise income tax rate for PRC enterprises will be reduced from 33% to 25%. However, a "high-technology company" will continue to be entitled to a preferential tax treatment. The detailed application of the newly introduced preferential tax policies have yet to be made public.

9. DIRECTORS' EMOLUMENTS

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

	2007				2006			
	Fees	**Other emoluments**		**Total**	Fees	Other emoluments		Total
		Salaries and other benefits	**Contributions to retirement benefits/ pension schemes**			Salaries and other benefits	Contributions to retirement benefits/ pension schemes	
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors								
Mr. Sha Min	**20**	**252**	**13**	**285**	20	161	9	190
Mr. Chang Yong	**20**	**171**	**13**	**204**	20	141	9	170
Mr. Guo Ya Jun	**20**	**214**	**13**	**247**	20	127	9	156
Sub-total	**60**	**637**	**39**	**736**	60	429	27	516
Non-executive directors								
Mr. Ge Jun (i)	**—**	**—**	**—**	**—**	—	—	—	—
Mr. Zhao Jing Chen (ii)	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Zhang Yin Qian (ii)	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Guo Shi Ping (ii)	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Zhu De Xiang (ii)	**10**	**—**	**—**	**10**	10	—	—	10
Sub-total	**40**	**—**	**—**	**40**	40	—	—	40
Independent non-executive directors								
Mr. Zhang Zhan	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Wang Wei	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Lau Shek Yau, John	**62**	**—**	**—**	**62**	62	—	—	62
Sub-total	**82**	**—**	**—**	**82**	82	—	—	82
Supervisors								
Mr. Tian Tao	**10**	**—**	**—**	**10**	10	—	—	10
Mr. Sun Huai Dong	**10**	**67**	**4**	**81**	5	—	—	5
Ms. Du Jin	**10**	**159**	**10**	**179**	5	100	9	114
Mr. Dai Jian Jun	**10**	**—**	**—**	**10**	5	—	—	5
Sub—total	**40**	**226**	**14**	**280**	25	100	9	134
Independent supervisors								
Ms Ma Lin Ping	**10**	**—**	**—**	**10**	5	—	—	5
Mr. Qiu Xiang Yang	**—**	**—**	**—**	**—**	—	—	—	—
Sub—total	**10**	**—**	**—**	**10**	5	—	—	5
Total	**232**	**863**	**53**	**1,148**	212	529	36	777

Notes to the Financial Statements

9. DIRECTORS' EMOLUMENTS (CONTINUED)

(i) Appointed on 25 August 2007.

(ii) These directors resigned on 5 April 2007.

The emoluments of each of the Directors for both years were below HK$1,000,000 (equivalent to RMB943,000).

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2006: three) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emoluments of the remaining two (2006: two) individuals were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**330**	222
Contributions to retirement benefits scheme	**13**	9
	343	231

Their emoluments were within the following band:

	2007 No. of employees	2006 No. of employees
Nil to HK$1,000,000 (Nil to RMB943,000)	**2**	2

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

11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a profit of RMB75,040,000 (2006: RMB40,137,000) which has been dealt with in the financial statements of the Company.

12. DIVIDENDS

The directors recommended the payment of a final dividend of RMB0.1 per share in respect of the year ended 31 December 2007. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date. This dividend is subject to approval by the shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The total estimated dividend to be paid is RMB19,350,000.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the Group's profit for the year attributable to the equity holders of the Company of RMB90,084,000 (2006: RMB50,043,000) and 193,500,000 (2006 (restated): 193,500,000) ordinary shares in issue during the year.

Notes to the Financial Statements

13. EARNINGS PER SHARE (CONTINUED)

Basic earnings per share for the year ended 31 December 2007 is restated to take into effect the bonus issue and capitalisation issue during the year ended 31 December 2007.

No diluted earnings per share is presented as the Company has no potential dilutive ordinary shares outstanding for the years ended 31 December 2007 and 2006.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture fixtures and equipment	Motor vehicles	Leasehold improvements	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2006	27,509	15,129	3,933	15,141	9,275	70,987
Adjustment (note (a))	—	—	—	—	(194)	(194)
Additions	—	377	432	—	—	809
Transfers	5,489	436	—	3,156	(9,081)	—
Disposals	—	(1,004)	(850)	—	—	(1,854)
At 31 December 2006	32,998	14,938	3,515	18,297	—	69,748
Acquisition of subsidiaries (note 31)	—	1,558	—	—	54	1,612
Additions	—	3,631	667	690	—	4,988
Reclassification	1,100	—	—	(1,100)	—	—
Disposals	—	(80)	—	—	—	(80)
At 31 December 2007	34,098	20,047	4,182	17,887	54	76,268
ACCUMULATED DEPRECIATION						
At 1 January 2006	1,055	4,542	1,842	2,656	—	10,095
Provided for the year	1,295	1,184	476	566	—	3,521
Eliminated on disposal	—	(955)	(809)	—	—	(1,764)
At 31 December 2006	2,350	4,771	1,509	3,222	—	11,852
Acquisition of subsidiaries (note 31)	—	570	—	—	—	570
Provided for the year	1,080	2,765	392	1,840	—	6,077
Reclassification	104	—	—	(104)	—	—
Eliminated on disposal	—	(70)	—	—	—	(70)
At 31 December 2007	3,534	8,036	1,901	4,958	—	18,429
NET BOOK VALUE						
At 31 December 2007	30,564	12,011	2,281	12,929	54	57,839
At 31 December 2006	30,648	10,167	2,006	15,075	—	57,896

Note:

(a) Adjustment represents reversal of over-provision for construction costs in prior years.

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

(c) On 9 April 2007, the Group entered into a co-operation agreement with an independent third party for joint operation of a RFID Technology research and exhibition centre for a term of 2 years. Upon expiry of the agreement, the Group will entitle to its share of the jointly controlled assets. As at 31 December 2007, the Group's share of the jointly controlled assets recognised in the financial statements is RMB2,632,500.

Notes to the Financial Statements

15. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
Leasehold land in the PRC		
— Medium term lease	**6,868**	7,019
Analysed for reporting purposes as		
— Current asset	**150**	150
— Non-current asset	**6,718**	6,869
	6,868	7,019

16. INTANGIBLE ASSETS

	RMB'000
Technical know-how	
COST	
At 1 January 2006	8,000
Disposal of a subsidiary	(7,000)
At 31 December 2006 and 2007	1,000
ACCUMULATED AMORTISATION	
At 1 January 2006	8,000
Disposal of a subsidiary	(7,000)
At 31 December 2006 and 2007	1,000
CARRYING AMOUNT	
At 31 December 2007	—
At 31 December 2006	—

17. CONVERTIBLE NOTE RECEIVABLE

	2007 RMB'000	2006 RMB'000
Unlisted convertible note receivable	**—**	1,000

The note was secured by the 51% equity interest in the issuer of the note, bearing interest at 15% per annum, repayable by 9 February 2008 and was convertible into 1,000,000 ordinary shares of the issuer at an initial conversion price of RMB1 per share. The note was stated at amortised cost.

On 10 May 2007, the note was early repaid and an interest income of RMB55,800 was recognised.

Notes to the Financial Statements

18. DEPOSIT FOR ACQUISITION OF A SUBSIDIARY

On 9 October 2007, the Company entered into a sale and purchase agreement whereby the Company agreed to acquire the entire paid up capital of 江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Limited) ("Jiangsu Intellitrans"), a limited liability company in the PRC, at a consideration of RMB40 million. At the balance sheet date, the Company had paid RMB30,028,000 to the vendor as a deposit for the acquisition.

The acquisition was approved by the shareholders of the Company on 12 January 2008 and completed on 18 January 2008 (note 38).

19. DEFERRED TAX ASSETS AND LIABILITIES

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

	Depreciation of property, plant and equipment	Amortisation of technical know-how	Pre-operating expenses	Impairment loss on trade and other receivables	Impairment loss on inventories	Accrued expenses	Tax loss	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	—	493	9	93	210	331	—	1,136
Credited/(charged) to profit or loss for the year (note 8)	575	296	(9)	(158)	46	(192)	—	558
Disposal of a subsidiary	(19)	(770)	—	—	—	(14)	—	(803)
At 31 December 2006	556	19	—	(65)	256	125	—	891
Credited/(charged) to profit or loss for the year (note 8(c))	86	(15)	—	548	54	113	—	786
Effect of change in tax rate (note 8(c))	—	(2)	—	—	—	62	—	60
Acquisition of subsidiaries (note 31)	—	—	—	34	185	—	149	368
At 31 December 2007	642	2	—	517	495	300	149	2,105

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

	2007	2006
	RMB'000	RMB'000
Net deferred tax assets	**2,299**	891
Net deferred tax liabilities	**(194)**	—
	2,105	891

At 31 December 2007, the Group has unused tax losses of RMB1,502,000 available for offset against future profits. A deferred tax asset has been recognised in respect of RMB595,000 of such losses. No deferred tax asset has been recognised in respect of the remaining RMB907,000 due to the unpredictability of future profit streams. RMB907,000 may be carried forward indefinitely and the remaining will expire in 2008.

Notes to the Financial Statements

20. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2007 are as follows:

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

All of the subsidiaries are limited liability companies.

21. INVENTORIES

	2007 RMB'000	2006 RMB'000
Computer hardware products, equipment and software products	**3,654**	3,280

Notes to the Financial Statements

22. TRADE AND OTHER RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**125,427**	73,066
Less: Allowance for doubtful debts	**(4,794)**	(1,187)
Trade receivables, net	**120,633**	71,879
Other receivables	**17,502**	5,079
Less: Allowance for doubtful debts	**(21)**	(21)
Other receivables, net	**17,481**	5,058
Prepayments to suppliers	**3,340**	15,357
	141,454	92,294

(a) Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance, except for certain well-established customers.

(b) The following is an ageing analysis of trade receivables net of allowance for doubtful debts at 31 December 2007:

	2007 RMB'000	2006 RMB'000
Aged:		
0–90 days	**30,948**	49,905
91–180 days	**23,647**	2,195
181–365 days	**33,912**	7,517
1–2 years	**16,678**	12,262
Over 2 years	**15,448**	—
	120,633	71,879

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

	2007 RMB'000	2006 RMB'000
At beginning of year	**1,208**	616
Acquisition of subsidiaries	**136**	—
Impairment loss recognised	**3,471**	592
At end of year	**4,815**	1,208

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

Notes to the Financial Statements

22. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	2007 **RMB'000**	2006 RMB'000
Neither past due nor impaired	**52,647**	34,172
Less than 6 months past due	**33,785**	7,511
	86,432	41,683

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

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

23. LOANS RECEIVABLE

	2007 **RMB'000**	2006 RMB'000
Advance to Jiangsu Intellitrans	**88,900**	—
Other loan (note 31)	**29,000**	—
	117,900	—

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

(b) The other loan is unsecured, bears interest at bank borrowing rate and repayable by 26 December 2008. At the balance sheet date, the interest rate was 7.47%.

Notes to the Financial Statements

24. AMOUNTS DUE FROM CUSTOMERS FOR CONTRACT WORK

	2007 RMB'000	2006 RMB'000
Contract costs incurred to date	**20,752**	65,590
Recognised profits less recognised losses	**26,762**	35,068
	47,514	100,658
Less: Progress billing	**(8,465)**	(69,531)
Receipts from customers in advance	**(894)**	—
	38,155	31,127

At 31 December 2006, included in amounts due from customers for contract work was RMB258,000 in relation to Nanjing Wuzhou Refrigeration Co., Ltd. ("Nanjing Wuzhou"), a related company with common directors. No balance included in amounts due from customers for contract work as at 31 December 2007 was related to the related company.

25. PLEDGED BANK DEPOSIT

The bank deposit is pledged to a bank for granting a loan of RMB20,000,000 (2006: Nil) to the Group (Note 27).

26. TRADE AND OTHER PAYABLES

	2007 RMB'000	2006 RMB'000
Trade payables	**5,847**	14,899
Other payables	**18,178**	8,569
Other tax payables	**18,938**	5,667
	42,963	29,135

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

	2007 RMB'000	2006 RMB'000
Aged:		
0–90 days	**2,045**	7,078
91–180 days	**1,121**	3,973
181–365 days	**485**	2,042
1–2 year	**1,424**	731
Over 2 years	**772**	1,075
	5,847	14,899

Notes to the Financial Statements

27. SHORT-TERM BANK LOANS

	2007 RMB'000	2006 RMB'000
Secured bank loan — guaranteed by a shareholder, Nanjing Sample Technology Group Company Limited ("Sample Group") (a)	**20,000**	–
Unsecured bank loans (b)		
— guaranteed by Sample Group	**79,000**	46,000
— guaranteed by a third party	**30,000**	—
	109,000	46,000

(a) The bank loan is secured by a bank deposit of RMB20,000,000 (note 25), bears interest at 3.78% per annum and repayable within one year.

(b) The bank loans are unsecured and repayable within one year with interest charged at a range from 6.73% to 8.02% (2006: 6.12%) per annum.

The fair value of the above bank loans estimated by discounting their future cash flows at the prevailing market borrowing rates at 31 December 2007 approximates to the corresponding carrying amount.

28. SHARE CAPITAL

	Number of shares			Amount		
	Domestic shares	H shares	Total	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid, with par value of RMB1.0 each:						
At 1 January and 31 December 2006	44,100,000	20,400,000	64,500,000	44,100	20,400	64,500
Bonus issue and capitalisation issue (b)	88,200,000	40,800,000	129,000,000	88,200	40,800	129,000
At 31 December 2007	132,300,000	61,200,000	193,500,000	132,300	61,200	193,500

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

(a) Pursuant to the resolution passed on 25 August 2007, the registered share capital of the Company was increased from RMB64,500,000 to RMB193,500,000.

Notes to the Financial Statements

28. SHARE CAPITAL (CONTINUED)

(b) On 25 August 2007, 32,250,000 bonus shares and 96,750,000 capitalisation shares were issued to existing shareholders of domestic shares and H shares on the basis of (i) 15 bonus shares for every 10 domestic shares and every 10 H shares in issue and (ii) 5 capitalisation shares for every 10 domestic shares and every 10 H shares in issue. The bonus shares and capitalisation shares were credited as fully paid by way of capitalisation of an amount of RMB32,250,000 standing to the credit of the share premium account and an amount of RMB96,750,000 in the retained profits account respectively.

(c) On 10 August 2007, the Company and a placing agent entered into non-binding preliminary placing agreement whereby the Company would issue an aggregate of not more than 30,600,000 new H shares of RMB1.0 each (the "Placing") to independent third parties. The placing price per new H share will be determined upon the execution of a definitive placing agreement by the Company and the placing agent with reference to, but no more than 20% discount (if any) to, the average closing price of the H shares for the five consecutive trading days before the date of execution of the definitive placing agreement and such other factors, if any at the relevant time. The Placing is subject to the fulfillment and satisfaction of various terms and conditions to be agreed between the Company and the placing agent. As at the date the "Board" of Directors approved these financial statements, the Placing has not finalised.

29. SHARE OPTION SCHEME

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

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

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

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

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

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

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

Notes to the Financial Statements

30. RESERVES

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

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

Before 2006, the Company and its subsidiaries were required by the relevant laws and regulations in the PRC to set aside 5% to 10% of its profit after taxation for the statutory welfare fund which is to be used for the welfare of the staff and workers of the Company. According to the amendment on relevant financial regulations in the PRC, the Company and its subsidiaries were no longer required by law to appropriate their annual statutory net profit to the statutory public welfare fund with effect from 1 January 2006. The balance of statutory public welfare fund at 31 December 2005 was transferred to statutory reserve.

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

Notes to the Financial Statements

31. ACQUISITION OF SUBSIDIARIES

In December 2007, the Group acquired 100% of the issued share capital of Federal International and accepted the assignment of loan of HK$35,233,200 (equivalent to approximately RMB32,990,000) granted to Federal International for a consideration of HK$30,000,000 (equivalent to approximately RMB28,090,000). This transaction has been accounted for by the acquisition method of accounting.

The fair value of net assets of Federal International and its subsidiaries at the date of acquisition are as follows:

	RMB'000
Fair value of net assets acquired:	
Property, plant and equipment	1,042
Deferred tax assets (note 19)	368
Inventories	1,044
Trade and other receivables	11,910
Loan receivable (note 23)	29,000
Bank balances and cash	22,251
Bank borrowings	(19,000)
Shareholder's loan	(32,990)
Trade and other payables	(451)
Tax payable	(3,043)
	10,131
Add: Shareholder's loan	32,990
	43,121
Cash consideration	28,090
Excess of interest in the net fair value of assets and liabilities of subsidiaries acquired over cost	15,031
Net cash outflow arising on acquisition:	
Cash consideration	28,090
Bank balances and cash acquired	(22,251)
	5,839

Federal International and its subsidiaries did not contribute revenue and profit to the Group for the year.

Had the acquisition been effected at the beginning of the year, the revenue of the Group would have been RMB168,531,000, and the profit for the year would have been RMB100,479,000. The directors consider this pro forma information to represent an appropriate measure of the performance of the combined group on an annualised basis and to provide a reference point for comparison in future periods.

Notes to the Financial Statements

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make the following future minimum lease payments in respect of land and buildings rented under non-cancellable operating leases which fall due as follows:

	2007	2006
	RMB'000	RMB'000
Within one year	**–**	31

33. RETIREMENT BENEFITS SCHEME

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

The total cost charged to profit or loss of RMB948,000 (2006: RMB528,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. All the contributions had been paid over to the schemes as at 31 December 2007.

34. RELATED PARTY TRANSACTIONS

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

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

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

Notes to the Financial Statements

34. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2007 RMB'000	2006 RMB'000
Guarantees given by Sample Group	**79,000**	46,000

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

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**1,149**	833
Contributions to retirement benefits/pensions schemes	**50**	36
	1,199	797

35. CAPITAL RISK MANAGEMENT

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

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

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

The gearing ratio at the year end was as follows:

	2007 RMB'000	2006 RMB'000
Debt	**109,000**	46,000
Cash and cash equivalents	**(68,070)**	(121,013)
Net debt	**40,930**	(75,013)
Equity	**322,221**	230,988
Gearing ratio	**13%**	N/A

Notes to the Financial Statements

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 6.15% (2006: 6.07%) and 20.07% (2006: 19.79%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the financial year in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 22.

Notes to the Financial Statements

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk

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

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

	Carrying amount RMB'000	**Total contractual discounted cash flow** RMB'000	**Less than 3 months** RMB'000	**More than 3 months but less than 6 months** RMB'000	**More than 6 months but less than 1 year** RMB'000
As at 31 December 2007					
Trade and other payables	**38,963**	**38,963**	**38,963**	**—**	**—**
Short-term bank loans	**109,000**	**114,388**	**1,990**	**22,136**	**90,262**
	147,963	**153,351**	**40,953**	**22,136**	**90,262**
As at 31 December 2006					
Trade and other payables	29,135	29,135	29,135	—	—
Construction cost payables	1,978	1,978	1,978	—	—
Short-term bank loans	46,000	48,163	704	704	46,755
	77,113	79,276	31,817	704	46,755

(c) Market risk

(i) Interest rate risk

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

(ii) Foreign currency risk

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

Notes to the Financial Statements

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Market risk (continued)

(iii) Price risk

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

(d) Fair values

All financial instruments are carried at amounts not materially different from their values as at 31 December 2007 and 2006.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables (including pledged bank deposits and cash and bank balances)	**376,259**	245,795
Financial liabilities		
Financial liabilities measured at amortised cost	**147,963**	77,113

38. SUBSEQUENT EVENT

In January 2008, the Group acquired the entire paid up capital of Jiangsu Intellitrans at a cash consideration of RMB40,000,000.

Details of this acquisition are set out in circular of the Company dated 27 November 2007.

The amounts of the assets liabilities and contingent liabilities recognised at the acquisition date are not disclosed in these financial statements as no audited financial statements of Jiangsu Intellitrans under Hong Kong Financial Reporting Standards have been prepared up to the date of the approval of these financial statements.

Five Year Financial Summary

RESULTS

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**152,790**	131,614	88,314	77,439	61,836
Profit before taxation	**89,672**	58,860	25,056	20,616	23,610
Profit for the year	**90,205**	50,593	21,184	17,973	20,859
Minority interests	**121**	(550)	(82)	32	(252)
Profit attributable to equity holders of the Company	**90,084**	50,043	21,102	18,005	20,607
Earning per share — Basic (RMB cents)	**46.56**	77.59	32.72	32.20	45.79

ASSETS AND LIABILITIES

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	**96,884**	66,656	69,318	66,311	24,588
Current assets	**380,063**	248,225	204,215	184,759	111,455
Current liabilities	**155,560**	83,893	89,053	71,324	41,411
Net current assets	**224,503**	164,332	115,162	113,435	69,893
Equity attributable to equity holders of the Company	**319,750**	229,666	179,623	164,971	74,825
Total equity	**321,193**	230,988	184,480	169,746	79,632