



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 : 1708

Interim Report 2011



* for identification purpose only

The turnover of the Group for the six months ended 30 June 2011 amounted to approximately RMB302,820,000, representing a decrease of approximately 1.3% as compared to the corresponding period of last year.

The profit attributable to owners of the Company for the six months ended 30 June 2011 was approximately RMB60,663,000, representing an increase of approximately 2.7% as compared to the corresponding period of last year.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011.

UNAUDITED CONSOLIDATED INTERIM RESULTS

The board (the “Board”) of directors (the “Directors”) of Nanjing Sample Technology Company Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2011 together with the comparative unaudited figures for the corresponding period ended 30 June 2010, prepared in accordance with Hong Kong Financial Reporting Standards and generally accepted accounting principles in Hong Kong, as follows. The unaudited results have not been audited by the Company’s auditor but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 June 2011

		Six months ended 30 June	
	Notes	2011 RMB’000 (Unaudited)	2010 RMB’000 (Unaudited)
Turnover	4	302,820	306,922
Cost of sales		(217,936)	(226,571)
Gross profit		84,884	80,351
Other income		14,674	8,803
Distribution costs		(6,161)	(4,255)
Administrative expenses		(17,787)	(11,790)
Finance costs	5	(6,789)	(4,418)
Profit before tax		68,821	68,691
Share of results of a jointly-controlled entity		146	–
Income tax charge	6	(8,304)	(9,649)
Profit for the period	7	60,663	59,042
Attributable to:			
Owners of the Company		60,663	59,042
Non-controlling interests		–	–
		60,663	59,042
Earnings per share attributable to the owners of the Company			
— Basic (RMB cents)	9	27.07	26.35

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)*For the six months ended 30 June 2011*

	Six months ended	
	30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period	60,663	59,042
Other comprehensive income:		
Exchange difference arising on translation of foreign operations	(2)	94
Total comprehensive income for the period	60,661	59,136
Total comprehensive income for the period attributable to:		
Owners of the Company	60,661	59,136
Non-controlling interests	—	—

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 30 June 2011*

		At 30 June 2011	At 31 December 2010
	Notes	RMB'000	RMB'000
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment		45,405	47,331
Prepaid lease payments		6,192	6,267
Intangible assets		8,758	9,732
Deferred tax assets		2,855	2,901
Deposit for investment in an associate		–	5,000
Interest in a jointly-controlled entity/ deposit for investment in a jointly-controlled entity		76,131	75,985
Total non-current assets		139,341	147,216
Current assets			
Inventories		5,964	2,493
Trade receivables	10	200,801	147,920
Bills receivables		–	1,314
Other receivables and prepayments		327,752	157,982
Prepaid lease payments		150	150
Amounts due from customers for contract work		201,314	225,509
Available-for-sale financial assets		75,000	100,000
Tax recoverable		30	30
Pledged bank deposits		11,440	15,216
Bank balances and cash		192,352	310,159
Total current assets		1,014,803	960,773

		At 30 June 2011 RMB'000 (Unaudited)	At 31 December 2010 RMB'000 (Audited)
	Notes		
Current liabilities			
Trade and other payables and receipts in advance	11	189,879	216,572
Short-term bank loans		235,000	215,000
Tax payable		8,726	16,300
Total current liabilities		433,605	447,872
Net current assets		581,198	512,901
Total assets less current liabilities		720,539	660,117
Non-current liabilities			
Deferred tax liabilities		1,022	1,265
Net assets		719,517	658,852
Equity			
Share capital	12	224,100	224,100
Reserves	13	495,417	434,752
Total equity		719,517	658,852

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

	Attributable to owners of the Company					Non-controlling	
	Share Capital	Share premium	Statutory surplus reserve	Exchange translation reserve	Retained profits	Total	interests
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011 (Audited)	224,100	96,217	61,043	(431)	277,923	658,852	-
Exchange difference arising on translation of foreign operations (Unaudited)	-	-	-	2	-	2	-
Profit for the period (Unaudited)	-	-	-	-	60,663	60,663	-
Profit appropriation (Unaudited)	-	-	6,233	-	(6,233)	-	-
At 30 June 2011 (Unaudited)	224,100	96,217	67,276	(429)	332,353	719,517	-
At 1 January 2010 (Audited)	224,100	96,217	49,673	(431)	200,171	569,730	-
Exchange difference arising on translation of foreign operations (Unaudited)	-	-	-	94	-	94	-
Profit for the period (Unaudited)	-	-	-	-	59,042	59,042	-
Profit appropriation (Unaudited)	-	-	5,744	-	(5,744)	-	-
At 30 June 2010 (Unaudited)	224,100	96,217	55,417	(337)	253,469	628,866	-

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW (UNAUDITED)

	Six months ended	
	30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash inflow/(outflow) from operating activities	(44,704)	3,223
Net cash inflow/(outflow) from investing activities	(86,314)	(159,868)
Net cash inflow/(outflow) from financing activities	13,211	123,357
Increase/(decrease) in cash and cash equivalents	(117,807)	(33,288)
Cash and cash equivalents at the beginning of the period	310,159	190,411
Cash and cash equivalents at the end of the period	192,352	157,123

NOTES TO THE INTERIM FINANCIAL STATEMENTS**1. GENERAL**

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited) (the “Company”) was established in the People’s Republic of China (the “PRC”) and was approved to be reorganized 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 H shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 June 2004. On 1 December 2010, the H shares of the Company were migrated from GEM to the Main Board of the Stock Exchange by way of transfer of listing and commenced trading on the Main Board. The H shares of the Company was last traded on GEM on 30 November 2010.

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 AND BASIS OF PREPARATION

The condensed consolidated financial information has been prepared in accordance with the applicable disclosure required by the Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those adopted in preparing the audited financial statements of the Group for the year ended 31 December 2010, except for the adoption of a number of new and revised Hong Kong Financial Reporting Standards, amendments and interpretations (“HKFRSs”) issued by the HKICPA, which are effective for its accounting year beginning on 1 January 2011. The adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

3. 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 analyses of the Group’s business segments are 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.

4. TURNOVER

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

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

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Urban traffic monitoring and control sector	30,471	20,939
Customs logistics monitoring sector	47,282	48,856
Expressway monitoring sector	221,952	237,127
Other	3,115	–
Total	302,820	306,922

5. FINANCE COSTS

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings wholly repayable within five years	6,789	4,418

6. INCOME TAX CHARGE

	Six months ended	
	30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
The charge comprises:		
PRC income tax	8,304	9,649

PRC income tax is calculated at the rates prevailing under the relevant laws and regulations in the PRC. The standard enterprise tax rate for enterprises in the PRC is 25%.

The Company is recognised as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%. In February 2008, the Company was identified as an Important Enterprise. 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%.

During the current and prior periods, the Company's major subsidiary, Jiangsu Intellitrans Company Limited ("Jiangsu Intellitrans") is certified as a high-technology company according to PRC tax regulations and is entitled to a preferential tax rate of 15%.

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

7. PROFIT FOR THE PERIOD

	Six months ended	
	30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Amount of inventories recognised as expenses	216,923	225,004
Research and development cost	4,647	4,132
Depreciation of property, plant and equipment	2,459	2,518
Operating lease rentals in respect of land use rights	250	307
Staff costs (including Directors' emoluments)	11,822	10,580
Interest income	(812)	(593)
PRC value added tax refunded	(1,402)	(5,499)

8. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2011 are based on the profit attributable to owners of the company of approximately RMB60,663,000 (2010: RMB59,042,000) and on the weighted average number of 224,100,000 (2010: 224,100,000) ordinary shares in issue during the periods.

No diluted earnings per share have been presented for the six months ended 30 June 2011 and 2010 as the Company has no potential dilutive ordinary shares outstanding during the relevant periods.

10. TRADE RECEIVABLES

	At 30 June 2011 RMB'000 (Unaudited)	At 31 December 2010 RMB'000 (Audited)
Trade receivables	134,124	100,029
Amounts due from customers for contract works	73,901	55,115
Less: Provision for impairment losses	(7,224)	(7,224)
	200,801	147,920

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. The following is an aged analysis of trade receivables, net of allowance for doubtful debts and provision for impairment losses at the statement of financial position date:

	At 30 June 2011 RMB'000 (Unaudited)	At 31 December 2010 RMB'000 (Audited)
Aged:		
0–90 days	52,881	58,099
91–180 days	33,710	9,321
181–365 days	62,483	57,546
1–2 years	40,250	11,059
Over 2 years	11,477	11,895
	200,801	147,920

11. TRADE AND OTHER PAYABLES AND RECEIPTS IN ADVANCE

	At 30 June 2011	At 31 December 2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payables	117,091	134,259
Other payables	46,260	58,248
Receipts in advance	7,549	1,208
Other tax payables	18,979	22,857
	189,879	216,572

The following is an aged analysis of trade payables:

	At 30 June 2011	At 31 December 2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Aged:		
0–90 days	73,251	83,991
91–180 days	12,368	10,742
181–365 days	10,098	15,019
1–2 years	9,469	10,857
Over 2 years	11,905	13,650
	117,091	134,259

12. SHARE CAPITAL

	Number of shares		Amount	
	At 30 June 2011 '000 (Unaudited)	At 31 December 2010 '000 (Audited)	At 30 June 2011 RMB'000 (Unaudited)	At 31 December 2010 RMB'000 (Audited)
Registered issued and fully paid:				
Domestic shares with par value of RMB1.00 each	132,300	132,300	132,300	132,300
H shares with par value of RMB1.00 each	91,800	91,800	91,800	91,800
	224,100	224,100	224,100	224,100

13. RESERVES

Movements of the reserves for the six months ended 30 June 2011 and 2010 are shown in the condensed consolidated statement of changes in equity.

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

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

15. DISCLOSURE PURSUANT TO RULE 13.22 OF THE LISTING RULES

As at 30 June 2011, the Company had provided a guarantee in favour of Bank of Jiangsu Company Limited (江蘇銀行股份有限公司) for Zhong Jian Zhi Kang Supply Chain Management Company Limited* (中健之康供應鏈服務有限責任公司) (the "JV Company"), a joint venture company which is 50% owned by the Company, to obtain loan facilities for an amount of RMB200,000,000 from the Bank. The guaranteed amount represent approximately 18.05% under the assets ratio as defined under Rule 14.07(1) of the Listing Rules.

Pursuant to Rule 13.22 of the Listing Rules, a combined statement of financial position of the affiliated company with financial assistance from the Group and the Group's attributable interest in the affiliated companies as at 30 June 2011 are presented as follows:

	Combined statement of financial position as at 30 June 2011	Group's attributable interest
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Non-current assets	87,700	43,850
Current assets	586,234	293,117
Current liabilities	(515,879)	(257,940)
Non-current liabilities	–	–
	<hr/>	<hr/>
	158,055	79,027
	<hr/>	<hr/>

FINANCIAL REVIEW

Turnover

For the six months ended 30 June 2011 (the "Review Period"), the turnover of the Group amounted to approximately RMB302,820,000, representing a decrease of approximately 1.3% over that of the corresponding period of last year. It was mainly attributed to the progress of completion of some projects was slightly affected by the construction conditions stipulated by the project owners.

Gross profit margin

The gross profit margin for the Review Period increased from 26% to 28% as compared with the corresponding period of last year. The increase was mainly due to the implementation of strategic sourcing and effective control on raw material procurement costs by the Group.

Distribution costs

Distribution costs for the six months ended 30 June 2011 was approximately RMB6,161,000, representing an increase of approximately 44.8% as compared with the corresponding period of last year. The increase was mainly due to the increases in salary cost and the marketing expenses.

Administrative expenses

The administrative expenses recorded an increase of approximately 50.9% from approximately RMB11,790,000 in the corresponding period of last year to approximately RMB17,787,000 for the Review Period. The increase was mainly attributable to the increase in salary cost and investment in research and development projects.

Liquidity and Financial Resources

The Group adopted stringent financial management policies and maintained a healthy financial condition. The net current assets as at 30 June 2011 was approximately RMB581,198,000 (At 31 December 2010: approximately RMB512,901,000).

As at 30 June 2011, the bank balances and cash of the Group amounted to approximately RMB192,352,000 (At 31 December 2010: approximately RMB310,159,000).

Capital Structure

As at 30 June 2011, the total bank borrowings of the Group was RMB235,000,000 (At 31 December 2010: RMB215,000,000).

Pledge of Assets of the Group

As at 30 June 2011, the bank deposits of RMB11,440,000 (At 31 December 2010: RMB15,216,000) are pledged for projects bidding/projects in progress and banking facilities.

Employees

As at 30 June 2011, the Group has an aggregate of 354 employees (At 30 June 2010: 430 employees). During the Review Period, the staff costs (including Directors' remuneration) was approximately RMB11,822,000 (corresponding period of 2010: approximately RMB10,580,000).

The salary and bonus policy of the Group is principally determined by the performance of the individual employee.

Gearing Ratio

The gearing ratio (being bank loans less cash and cash equivalents divided by equity) of the Group as at 30 June 2011 was approximately 5.9% (At 31 December 2010: zero). This was attributable to the increase on bank loans during the Review Period.

Risk in Foreign Exchange

The revenue and expenses of the Group were denominated in Renminbi. The Directors consider that the Group's risk in foreign exchange is insignificant.

Significant Investment Held

The Group did not have significant investment held as at 30 June 2011.

Future Plans Relating to Material Investment or Capital Asset

As at the date of this announcement, the Company has entered into the agreements with 南京三寶科技集團有限公司 (Nanjing Sample Technology Group Co. Ltd.), a substantial shareholder of the Company on 12 August 2011 for the acquisition of a land use right of a piece of land situated in 馬群科技園 (Maqun Technology Park), Qixia District, Nanjing City, Jiangsu Province of the PRC and a building erected on this land at a total consideration of RMB16,835,400. Save as disclosed, the Group has not executed any agreement in respect of proposed acquisition and did not have any other future plan of material investment or capital asset.

Contingent Liabilities

As at 30 June 2011, the Company had provided a guarantee in favour of Bank of Jiangsu Company Limited (江蘇銀行股份有限公司) for Zhong Jian Zhi Kang Supply Chain Management Company Limited* (中健之康供應鏈服務有限責任公司) (the "JV Company"), a joint venture company which is 50% owned by the Company, to obtain loan facilities for an amount of RMB200,000,000 from the Bank. Save as disclosed, the Group did not have any material contingent liabilities.

BUSINESS REVIEW AND PROSPECT

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

URBAN TRAFFIC MONITORING AND CONTROL SECTOR

The leading product for the urban traffic monitoring and control sector is the high-definition ePolice system based on video identification technology, which primarily serves the traffic and police departments in PRC.

After being successfully short-listed in the road monitoring system front-end equipments procurement project of the Public Security Bureau of Jiangsu Province (Project 320), the Group commissioned the management of four expressways in Nanjing 320 project, namely Long Pan, Long Pan Zhong, Jianning and Rehe during the period. Also, we won several contracts in Binhai, Xiamen, Shaanxi and Anhui Quanjian. During the period, the Group completed the construction of projects in Yancheng Binhai, Nanjing Long Pan Zhong Road, and Shaanxi Hanyin Phase 1, while the examination and acceptance procedure of the New Project in Feicheng and Phase 2 Checkpoint Project in Xiamen was completed smoothly.

CUSTOMS LOGISTIC MONITORING SECTOR

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

During the period under review, as a member of the logistic monitoring system standard group of the General Customs Administration, the Group strived to compile and organize the standards to formulate a standard checklist for the customs logistic monitoring system sector. Besides, being a member of the electronic customs lock standard group of the General Customs Administration, the Group also actively followed and advanced the progress of further refinement of the standard for intelligent safety lock. During the Review Period, the Group endeavored to make progress in construction of real-time visual platform for customs logistics to incorporate real-time collection of vessels and vehicles information into the intelligent logistics system of the Group, stepping up to large scale commercial use of the real-time logistics public application platform.

During the Review Period, the Group continued to work on the construction of platform for Fuzhou Customs, which is expected to be examined and accepted by the end of August. Following the completion of such project, it will materialize the sharing of information for use in checkpoints in ports and terminals, external display of electronic customs and connection between Kunshan East China System and bonded logistics. During the Review Period, the Group kept working on Dalian logistics monitoring platform and further optimized the core database, significantly improving customers' satisfaction. Meanwhile, the Group gradually created core demand as required by the development plan of Dalian Customs. Besides, it actively engaged in the construction of intranet system of Nanjing Customs for applying the job allocation design to such project so as to extend the flexibility and scalability of the project for ultimate unification of the structure with other platforms.

EXPRESSWAY MONITORING SECTOR

During the Review Period, making use of its competitive advantage, the Group successfully won several electrical and mechanical engineering projects for coastal expressways, including the lighting project for National Highway No.104, Hangchang Expressway in Zhejiang, reconstruction project for Provincial Highway No.83 in Zhejiang and Tianjin Haibin Thoroughfare project. During the Review Period, the Group carried out various important electrical and mechanical engineering projects, among which Zhejiang Zhuyong Expressway is under the stage of examination and completion and its acceptance report is expected to be issued by the end of August; Liuwu Expressway in Anhui Province, Guanghe Expressway in Guangxi Province and the project in Gui Zhou You Xiao have been completed and accepted and the Jincheng-Jiyuan Section Expressway in Shanxi has been completed and opened to traffic. On the other hand, the projects under progress included the coastal Expressway in Heibei Cangzhou, the southern part of Tianjin Haibin Thoroughfare, project in Heibei Langcang, and project in Sichuan Yagu. In the next stage, the Group will focus on the tender of Beijing-Shanghai Expressway and other major projects in Sichuan, Jiangsu and start to upgrade the urban lighting system and E&M installation work.

Besides, during the Review Period, the Group actively promoted its business in the highway software market and successfully won the Nanjing-Shanghai integrated management system project, Taizhou Bridge and Runyang Bridge projects. On the other hand, we completed the development and trial operation of the project managing system of Wuxi metro, integrated managing system for Xiandai Investment, Lianyugang engineering project managing system, engineering project managing system for Taizhou Highway Administration Bureau, Nanjing-Shanghai document managing system and upgrading work of managing platform for provincial quality supervision authorities. Among them, the Jiangliu Highway has been completed and accepted.

FUTURE DEVELOPMENT

With the significant urge of development on IOT in the PRC in 2009, the Group has continuously researched and commercialized its RFID core technology in pharmaceutical supply chain management and food safety industry. During the Review Period, the Group focused on three major sectors: intelligent transportation, intelligent logistics and intelligent pharmaceuticals and actively engaged in the development of major projects of the IOT to work on an in-depth development for the operation platform of food safety, construction of cloud computing center, Wuyao checkpoints control system, trial production and demonstrating application of safe intelligent lock, research on cloud storage core products, project for PaaS platform, car identification system for multi-lanes, mini UHF RFID reader, intelligent transfer bin, external IC tag for motor vehicles. Application solutions of three intelligent sectors have been designed and optimized.

During the Review Period, the Group kept improving and upgrading existing products to meet the technical standard for intelligent traffic projects. The newly developed RFID intelligent transfer bin and the sample of intelligent electric appliance cabinet have been put into trial operation in intelligent traffic sector and medicine circulation sector respectively. Moreover, the Group concentrated on the construction of a low-carbon and environmental friendly project in Nanjing and RFID license plate for motor vehicle as well as the related monitoring work and application. In the field of food safety, the Group completed the project of "Safe Meat" in Nanjing area during the period under review, and strived to set up a food traceability system for the meats and vegetables sold in Nanjing, the technical and implementation plans as well as overall budget of which have been prepared and formulated. Meanwhile, the Group will build a platform for the safety information of foods and drugs to raise the standard of organization and informatization of foods and drugs sold in Yangzhou. The overall informatization plan and design as well as the preliminary proposal have been completed.

During the Review Period, 中健之康供應鏈服務有限責任公司 (Zhong Jian Zhi Kang Supply Chain Management Company Limited), a joint venture of the Company, actively expanded its traditional mergers and acquisitions business and further optimized the business layout with core business of on-site sales and quick dispensing in northern part of Suzhou to establish a base combining all supply chain resources. At the same time, we reformed the operation model of medical devices, introduced financing leases to expand the market of large medical equipment in primary hospitals, developed medical devices and integrated medical services together with upstream manufacturers, explored the healthy home business, established a flagship store of healthy home concept in Nanjing and made innovations in the operating business of the medical devices and healthy community.

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 30 June 2011, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the required standard of dealings as set out in Appendix 10 of the Listing Rules.

Long Positions in Shares

Name of Directors	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Sha Min	1,350,000	Beneficial owner	0.6%
	65,720,000	Interest of controlled corporation	29.33%

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

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 30 June 2011, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1)	65,720,000 Domestic Shares	Beneficial owner/corporate	29.33%
Jiang Su Red Stone Technology Corporation ("Red Stone")	15,685,000 Domestic Shares	Beneficial owner/corporate	7.00%
Active Gold Holding Limited	49,545,000 Domestic Shares	Beneficial owner/corporate	22.11%
Atlantis Investment Management (Hong Kong) Ltd. (Note 2)	28,887,000 H Shares	Investment manager	12.89%
Liu Yang (Note 2)	28,887,000 H Shares	Interest of controlled corporation	12.89%
Atlantis Fund Management (Guernsey) Ltd.	20,500,000 H Shares	Investment manager	9.15%
Golden Meditech Company Limited (Note 3)	12,097,000 H Shares	Interest of controlled corporation	5.40%
Manygain Global Limited	10,000,000 H Shares	Beneficial owner	4.46%
GE Asset Management Incorporated	9,074,000 H Shares	Investment manager	4.05%
JP Morgan Chase & Co.	7,000,000 H Shares	Interest of controlled corporation/ Custodian corporation/approved lending agent	3.12%
Norges Bank	7,000,000 H Shares	Beneficial owner	3.12%

Note:

- (1) Sample Group directly holds 60,770,000 Domestic Shares. Sample Group is also interested in 100% of the registered capital of Nanjing Sample Technology Commerce City Company Limited* (南京三寶科技商城有限公司) ("Sample Commerce City"), which holds 4,950,000 Domestic Shares and therefore by virtue of the SFO, Sample Group is deemed to be interested in the 4,950,000 Domestic Shares held by Sample Commerce City. As such, Sample Group is the substantial and the single largest shareholders of the Company. Mr. Sha Min, the Chairman of the Company, held 47.91% of equity interest of Sample Group, together with parties acting in concert with him (including 2% held by Mr. Qi Tong Lin, 9.52% held by Mr. Sun Huai Dong, 4.67% held by Mr. Chang Yong, an executive director of the Company, and 2.27% held by Mr. Guo Ya Jun, an executive director of the Company) held an aggregate of 66.37% of equity interest of Sample Group.
- (2) Atlantis Investment Management (Hong Kong) Limited and Ms. Liu Yang hold the said shares as an investment manager. Ms. Liu Yang controls 100% of the voting rights of Atlantis Investment Management (Hong Kong) Limited.
- (3) 12,097,000 H Shares were held by GM Investment Company Limited, which is a wholly-owned subsidiary of Golden Meditech Company Limited. By virtue of GM Investment Company Limited's interests in the Company, Golden Meditech Company Limited is deemed to be interested in the same 12,097,000 H Shares under the SFO.

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 30 June 2011, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 30 June 2011, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the year.

SHARE OPTION SCHEME

A share option scheme ("Share Option Scheme") was conditionally adopted by a resolution of the shareholders of the Company on 24 April 2004. As at 30 June 2011, none of the options is granted under the Share Option Scheme.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

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

CODE OF CONDUCT FOR SECURITIES TRANSACTIONS BY DIRECTORS

The code of conduct for securities transactions by Directors adopted by the Company is on terms no less exacting than the required standard of dealings as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Company was not aware of any circumstances that the Directors did not comply with the required standards of dealings and the code of conduct for securities transactions by Directors throughout the six months ended 30 June 2011.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference in compliance with Rules 3.21 to 3.23 of the Listing Rules. The primary duty of the audit committee is to supervise the financial reporting process and internal control of the Company.

The audit committee comprises of three independent non-executive Directors, namely Mr. Xu Suming (the chairman of the audit committee), Mr. Li Haifeng and Mr. Shum Shing Kei. The audit committee of the Company has reviewed the unaudited results of the Group for the Review Period and has provided advice and comments thereon.

CODE ON CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2011, the Company has fully complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

PURCHASE, REDEMPTION OR SALES OF LISTED SECURITIES OF THE COMPANY

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

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

12 August 2011
Nanjing, the PRC

As at the date hereof, the executive Directors are Mr. Sha Min (Chairman), Mr. Chang Yong, Mr. Guo Ya Jun; the non-executive Director is Mr. Ma Jun and the independent non-executive Directors are Mr. Xu Suming, Mr. Li Haifeng and Mr. Shum Shing Kei.

* for identification purpose only