



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

Annual Report
2012



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

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

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

SUPERVISORS

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

COMPANY SECRETARY

Ms. Wong Lai Yuk

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

COMPLIANCE OFFICER

Mr. Guo Ya Jun

AUTHORISED REPRESENTATIVES

Mr. Guo Ya Jun
Ms. Wong Lai Yuk

AUDITOR

BDO China
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PRINCIPAL BANKERS

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REGISTERED OFFICE

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

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Central, Hong Kong

STOCK CODE

1708

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 2012 (the “period under review”) for your review and
consideration.*

”

CHAIRMAN'S STATEMENT

RESULTS

Income and the net profit attributable to equity owners of the Company for the 2012 financial year amounted to RMB737,689,689 and RMB167,927,631, respectively (for the year ended 31 December 2011: RMB542,388,738 and RMB146,054,063), representing a growth of approximately 36% and 15%, respectively. The increase was mainly attributable to the fact that the Group was benefited from the strategic development opportunities provided by the policies of National Twelfth Five-Year Development Plan, the stable growth of intelligent traffic monitoring business as well as the active expansion of the information service business by the Company during the period under review.

DIVIDEND

During the period under review, the Board recommended the payment of a final dividend of RMB0.2 per share for the year ended 31 December 2012.

BUSINESS AND OPERATION REVIEW

The guiding objectives for overall development of the Group in 2012 were focused on innovation and market promotion of S&T products, paying attention to and actively promote the construction of the platform for development of entrepreneurship among our staffs, caring about structure and solidifying the Company's industrial layout and improving the corporate governance structure and management of cash flow. With such strategic objectives, the Company achieved good results in strengthening technological innovation, promotion of industrial operation of integration of internet of things (IOT), expansion of information service business and other aspects in 2012 under the leadership of the Board.

Promoting technological upgrade of conventional industries through innovation in IOT technology

In 2012, domestic economy developed in a slower rate and small-and-medium enterprises came under threat. Under such circumstances, the Group, through innovation in IOT technologies and financing channels, made steady steps of promoting upgrades in technology and business mode of conventional industries and provided IOT solutions to such industries, which facilitated their development in industrial transformation. At the same time, the Group accelerated establishment of information services platform to ensure its edge in the market of its core products and maintained high quality as well as high growth rate in its principal businesses.

During the period under review, the product of the Group "Reader RFS-261X series" was granted "Innovative Product Prize" in "2012 Excellent State Golden Card Project Golden Ants Awards" and drew extensive interest. During the period under review, Nanjing City Intelligent Transportation Co., Ltd. (南京城市智能交通有限公司, "ITC"), a subsidiary of the Company, was conferred the title of "2011 China RFID Top 10 Influential Successful Applications" for the "Nanjing City Intelligent Transportation Project" it undertook, which marked an important step for ITC becoming one of the first-class vehicles internet operators. In addition, ITC successfully launched "technological standards of Environmental Logo E-card for motor vehicles system", the first to pioneer in the field of RFID local logo for environmental application in China's automobile industry and marks that ITC has become a leading enterprise in domestic IOT industry.

CHAIRMAN'S STATEMENT

During the period under review, the Group concentrated its advantageous resources in, on top of consolidating its dominant position in markets including Jiangsu, Zhejiang and Sichuan, developing emerging markets such as Fujian, Hunan and Heilongjiang. The Group undertook large-scale mechanical and electrical projects including those of the Fourth Bridge in Nanjing, Lishui Longqing Yunking, Fujian Ningwu, Hunan Ganhui highway and others, which all received recognition from investors of such projects, in particular the completion of the world-class project of Fourth Bridge in Nanjing Yangtze River, which provided valuable experience for mechanical and electrical work for bridges in the future and established a reputable brand image for the Company and was conferred the title of "Advanced collectives" in the Fourth Bridge in Nanjing Yangtze River "1st May Construction Cup" Socialist Labor Competition organized by Nanjing Federation of Trade Unions and the Headquarters of the Major Road and Bridge Construction in Nanjing. As the general integrator of the customs networked control system, the Group actively participated in and led the formulation of standards for IOT front-end equipment of the General Administration of Customs during the period under review, where the "general technical standards for intelligent secured lock for containers", in the formulation of which the Group was involved, was under examination of Standardization Administration of the PRC; and the "establishment of customs logistics monitoring front-end integrated system", customs industrial standards with the Group as the principal compiler, was officially published in the year. Through participation in formulating standards for and providing important supports in standardization of customs equipment, the Group consolidated its leading position in such industry, further broaden its lead to its competitors and led the industry into healthy development under the industrial trend of transformation and upgrade. In 2012, "phase II of Jin Guan" project, one of the governmental Jin series, was officially approved, in which application of IOT was specified as the major support for implementation thereof. Feasibility studies were also conducted for the five major IOT application tasks to advance its implementation and application model. During the period under review, the Group, in cooperation with Nanjing Customs and Shanghai Customs respectively, undertook research and application of two tasks of "IOT application to public and personal export regulation" and "IOT application to specific equipment with tax relief or exemption". The tasks not only demonstrated the overall idea of phase II of Jin Guan, which was "change in construction goal to effectively solve social problems, change in the mode of inter-department and inter-region to synergy and resources sharing and change in development mode to centralized and integrated sustainability", but also implemented the development philosophy of the Group, being "to create excellent and quality lifestyle for customers". During the period under review, the Group continued to carry out its domestic initial public offering of A shares for listing, for which a formal application to China Securities Regulatory Commission has been submitted for approval of issuance of A shares and an reply has been received. The issue of A shares will provide the Company with a broader platform to enhance its competitiveness, corporate image and popularity, which will lay a sound foundation for development in the future for implementation of its core mission of "to create excellent and quality lifestyle".

Accelerating establishment of the information service platform to create a sustainability development mode

During the period under review, the Group, with its strategy for construction of and services to intelligent city, made breakthroughs in the field of intelligent transportation. On one hand, it drew numerous end-users with its strengthened popularization of vehicle E-card and completed the framework of the IOT platform through a Nanjing road monitoring network based on a front-end dual-based information gathering base. For the data side, it strengthened the processing capability of the underlying data through a seconds-speed convergence and cloud sharing system based on a massive database and implemented a disassociation of data level and application level by establishing long-term data exchange and sharing mechanism for corporate use. For the application side, it built a new framework of "three screens and cloud", which made use of internet, mobile internet and television media as medium and publicly operated services platforms as the core business operation. On the other hand, it actively undertook "3•20" projects, which not only serve in management of public order and transportation and assist in investigation of criminal cases and but also opened applications in areas such as urban management and utilities. It was especially so for a data collecting application to 25 environmental monitoring points, in which environmental data was created and monitored for punishment use and which provided strong scientific support to urban environment purification and preservation. During the period under review, the Group actively pushed ahead with establishment of intelligent digital platform to build a digital-and-intelligent-development-oriented city and to better serve enterprises, the public and the society.

CHAIRMAN'S STATEMENT

During the period under review, leveraging on its edge in IOT innovation, the Group made substantial progress in the intelligent health industry by completing preliminary construction of a traceability system for supermarkets, slaughterhouse, meat wholesale market and vegetable wholesale market and established a reputation in the service area of food traceability system. Meanwhile, the Group continued to develop application in agriculture, where construction proposal of Yangzhou City food safety information service operating platform which it undertook has gone through expert examination of the Yangzhou municipality. It also actively pushed ahead with establishment of a stereotypes packaged food traceability system which has been piloted in 40 shops in Yangzhou.

During the period under review, the Group's "Cloud Biaoju Project" was implemented smoothly and formally launched. The project was a platform based on IOT and PAAS, using sensing technology and cloud computing to provide a secure, efficient and transparent industrial supporting system for modern logistics. It was consistent with the standardized operation characteristics of the internet industry, in which the conventional complicated application management mode was discarded through updates and it launched the mobile-client-based Cloud Biaoju online app, which satisfied current customer demand for mobile office. During the period under review, Jiangsu Raifu Intelligent Tech. Co., Ltd. ("Raifu Tech"), a subsidiary of the Company, developed the "automatic identification system for crane", which passed inspection of AQSIQ. It was a recognition to the "shakedown" of Raifu Tech's monitoring and supervising on special equipment based on IOT technology, and marked Raifu Tech's leading position in the area and laid a sound foundation for the next stage application in elevator safety.

PROSPECTS

According to the Group's strategy, the Company identified its core mission as "to create excellent and quality lifestyle", based on which the Company identified its 2013-2015 strategic goal as to be centered at IOT and oriented to intelligent city construction and services to build an open platform so as to incessantly satisfy customers' demand, to increase their satisfaction and to create value for them. The strategy of the Company demonstrated the position of its values and identified the core objectives of all of its businesses from 2013 hence, which is to create excellent and quality lifestyle for the public. The general goal of the Company and goals and measures of each of its businesses will remain consistent with and assist in fulfilling the core mission.

Take opportunities for development and actively expand the market

In 2013, the Group will make good use of opportunities brought by demands for information services by leveraging its lead in visual identification and RFID technologies to maintain its position in the cognitive sector markets of intelligent traffic, customs logistics and health care and to further develop more applications of RFID in other areas such as modern logistics and food safety information services.

In 2013, the Group will comprehensively introduce a new system, which will generate solutions to clients by combining visual identification and RFID as an innovation application in transportation management and vehicles management, so as to lead in innovation projects and increase sales. It will also leverage on its edge in technologies and products, first-moving capability, participation in industry standards formulation, the core team and brand to provide clients with a basket of solutions for intelligent transportation management. It will further strengthen and expand its marketing team and revise its market business strategy to solidify its foundation in developing the market.

CHAIRMAN'S STATEMENT

In 2013, as the general integrator of the customs gateway system, the Group will strengthen establishment of high-end user network to consolidate its leading position in the industry and further develop the access control and network system; it will make use of IOT to strengthen core competitiveness and upgrade and modify its existing business; continue to focus on development and business expansion of regional platforms to ensure stability of resources and sustainability of its projects; leverage on its advantage in capital and the market to further promote intra-industry exchange and cooperation; and strengthen establishment as a service brand and push forward with service refinement and integration to establish with clients a linkage service response mechanism, which will increase clients' dependence on its products and enhance its professional service in capability and image.

In 2013, the Group will convert its edge in IOT into market competitiveness, integrate resources, facilitate major regional and industrial stereotypical projects and continue to develop applications in apparel, parking, drugs, alcohol and special equipment regulation industries. It will also cooperate with leading enterprises in different sectors of RFID technology to launch IOT application solutions and products in such sectors to strive for synergies, resources integration and collaborations; based on design, development and production of IOT products launch innovative solutions, provide system optimization products and establish refined projects to build itself as a first-class RFID product provider in industries of food supervision and regional intelligent transportation.

Increase technological innovation to consolidate core advantages

In 2013, the Group will consolidate existing terminals and expand duplicatable and associated terminals; based on resources accumulated, put into place both assets operation mode and sales mode to implement results in large-scale, duplicatable, non-competitive and on-going income projects; actively explore and develop "Client-Connection-Cloud" in IOT to build public data cloud platform and provide services of platform development, data storage and analysis; through laboratory market mechanism dynamic to expand innovation of technological products, cultivate a professional team that are market-oriented and dynamic to effectively support its business; continue to make use of its RFID technology and set up a RFID core technology workshop to research on core technology of UHF RFID application to chips design, package and tag so as to further optimize the PAAS platform for data collection and mining techniques.

Focus on information services to ensure a steady growth

In 2013, the Group will firmly undertake the following mission: providing information services to direct clients and end-users in the industrial chain to contribute to a higher living quality by incessantly satisfying customers' demand, increasing their satisfaction and creating value for them and to obtain business profit share. In 2013, the Group will focus on consolidated transportation informatization, in which existing R&D system and power will be used to strengthen investment in development of transportation informatization platform and related products to extend technological innovations; process, categorize and integrate massive data collected to build a large-scale real-time operated consolidated information management system.

In 2013, the Group will, through its establishment of the logistics PaaS platform, provide fundamental support for commencing customs logistics projects and, through its establishment of the customs three-grade logistics monitoring platform, build a national customs remote operating centre; facilitate informatization of conventional industries and construct a secure logistics information service platform as a value-added service to the whole logistics supply chain.

CHAIRMAN'S STATEMENT

In 2013, the Group will continue to provide the pharmaceutical and health industry with electronic tags and a reading and writing platform and form a visualized medicine supply chain platform; strengthen development in medical electronic business and build a transaction platform for medical supplements and healthcare services through establishing the medicine supply chain platform and community service platform, which enables more factories, medicine companies and end-users to take part in transactions and makes such transactions faster, more convenient and timely; taking advantage of governmental demand in food production safety, circulation, sales monitoring and subsidies, the Group will build a food real-time transaction information system based on a core product of tracing terminal equipment and supported by the background data access service.

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

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

By Order of the Board

Sha Min

Chairman

Nanjing, China

15 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Total Operating Income

Total operating income of the Group for the year ended 31 December 2012 was approximately RMB737,689,689, representing an increase of approximately 36% over last year. The increase was mainly due to the fact that the Group was benefited from the strategic development opportunities by the policies of National Twelfth Five-Year Development Plan, the stable growth of intelligent traffic monitoring business as well as the active expansion of information service business by the Company during the period under review.

Gross Profit

Gross profit margin of the Group for the year ended 31 December 2012 was approximately 38.5%, representing a decrease of approximately 1.1% over last year. The decrease was mainly due to the increase of raw material cost.

Selling and Distribution Costs

Selling and distribution costs of the Group for the year ended 31 December 2012 was approximately RMB19,700,038, representing an increase of approximately 50.5% over last year. The increase was mainly attributable to the active exploration of new market by the Group and the increase of salaries during the period under review.

General and Administrative Expenses

General and administrative expenses of the Group for the year ended 31 December 2012 was approximately RMB56,672,710, representing an increase of approximately 44.7% over last year. The increase was mainly attributable to the further introduction of talents and the increase in investment on research and development during the period under review.

Net Profit attributable to shareholders of the Company

For the year ended 31 December 2012, the Group recorded a net profit attributable to the shareholders of the Company of approximately RMB167,927,631, representing an increase of 15% over last year. The increase was mainly attributable to stable growth of intelligent traffic monitoring business and the active expansion of the information service business.

Construction in progress

As at 31 December 2012, the Group's construction in progress amounted to RMB105,149,762 which recorded a substantial increase as compared with that of the same period last year. The increase was mainly due to the company is constructing a research and development office building.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 December 2012, the equity of the Company's shareholders was approximately RMB926,867,699. Current assets were approximately RMB1,191,208,169, comprising cash and bank balances of approximately RMB449,609,727. Non-current liabilities were approximately RMB99,538,322. Current liabilities were approximately RMB542,777,497, mainly comprising trade and other payables and advances from customers, short-term bank loans and tax payable. As at 31 December 2012, net assets per share of the Group was approximately RMB4.3 (31 December 2011: RMB3.54). The short-term bank loans of the Group were RMB138,000,000.

PLEDGE OF ASSETS

As at 31 December 2012, bank deposits of RMB60,385,498 were pledged to the bank for projects in progress (2011: RMB42,575,000).

GEARING RATIO

For the year ended 31 December 2012, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was approximately zero (2011: zero). This was attributable to the sufficient cash and cash equivalents of the Group for the repayment of bank loans.

FOREIGN CURRENCY EXPOSURE

Since the Group mainly conducts its business in the PRC and most of the sales and purchases of the Group were denominated in RMB, the Group's operating results were not exposed to any foreign currency risk.

SUBSTANTIAL ACQUISITION AND DISPOSAL AND SIGNIFICANT INVESTMENT

On 24 May 2012, the Company entered into the Equity Transfer Agreement with Nanjing Sample Digital Technology Co., Ltd. in relation to the acquisition of 13.83% equity interest in Nanjing City Information Investment Holding Co., Ltd. at the total consideration of RMB24,400,000.

On 29 November 2012, the Company entered into the Share Transfer Agreement with Shanghai Yang Yue Investment Partnership Corporation (limited partnership) in relation to the disposal of 31% equity interest in Zhong Jian Zhi Kang Supply Chain Service Company Limited at the total consideration of RMB129,200,000.

Save as disclosed, the Group did not have any other material acquisition and disposal and material investment during the period under review.

CAPITAL COMMITMENT

As at 31 December 2012, the Group did not have any material capital commitment.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTINGENT LIABILITIES

The guarantee agreement dated 23 May 2011 was entered into by the Company, as guarantor, in favour of Bank of Jiangsu Company Ltd., (江蘇銀行股份有限公司) (the “Bank”) for the provision of guarantee on the repayment in full the principal amount, interests, fees and expenses of a loan facility granted by the Bank to Zhong Jian Zhi Kang Supply Chain Management Company Limited* (中健之康供應鏈服務有限責任公司) for an amount of RMB200,000,000. The guarantee of the Company was subsequently released on 15 June 2012. Save as disclosed, the Group did not have any material contingent liabilities.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2012, total employees' remuneration of the Group was approximately RMB39,880,000 (2011: RMB29,080,000) and the number of employees was 410 (2011: 368). The Group remunerated its staffs based on individual performance, educational background and experience and with reference to market price. The Group would grant discretionary bonus to the staffs based on individual performance as recognition of their contribution. Other benefits included contributions to the retirement scheme, medical scheme, unemployment insurance and housing allowances.

BUSINESS REVIEW

BUSINESS DEVELOPMENT

Integrated businesses

During the period under review, the Group continued to accumulate clients, focused on strategic intra-industry cooperation and enhanced synergy with industrial clients; established a marketing system focused on major projects and implemented authorized management by project area. While focusing on key areas of Hebei, Sichuan, Zhejiang, Fujian, Guangxi, Guangdong and other provinces, it won contracts of mechanical and electrical engineering projects of Ningwu highway (Nanping section), the highway between Sichuan Guangyuan and Gansu, highway of Hunan Ji Huai, Hangxinjing highway extension line (Zhijiang Bridge), the highway between Longquan and Qingyuan (Zhejiang and Fujian circles), the highway between Lijiang and Panzhihua (Panzhihua section), Beijing-Tibet highway Hohhot(Baotou section) for renovation and expansion. It also actively expanded into other areas including Hubei and Xinjiang and significantly enhanced the depth and width of its market resources. During the period under review, the Group actively implemented different major mechanical and electrical engineering projects, including the Fujian Ningwu project, the Nanjing Fourth Bridge project, the Sichuan Guangnan project, the Hebei Cangzhou coastal highway project, the Hubao renovation and expansion project and others, of which the Fujian Ningwu project and the Nanjing Fourth Bridge project have been completed and opened to traffic.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group, as a specialized company in the industry, participated in the planning of phase II of Jin Guan and in the organization of seminar for IOT and logistic system of the General Administration of Customs to discuss typical applications of customs IOT and issues such as standards, security, application pilot points and multi-lateral cooperation of customs IOT, which were common concerns. At the same time, it actively participated in studies of customs IOT of the General Administration of Customs and formulation of industrial standards and technical regulations. During the period under review, it proposed the idea of cloud regulation of assets and created a brand new business mode. In the security aspect, it promoted cooperation with E-ports in joint developing CA readers and security channel and marketing thereof, thereby forming resource barriers at the stage of planning and design. In the technology aspect, it had intensive cooperation with China Telecom, where it leveraged on the advantage of Mega Eyes system in the visual monitoring market to jointly build a complete monitoring system of radiofrequency positioning + Mega Eyes + cloud computing. In the business aspect, it met customs' demand for regulatory traceability, formulated standards for assets monitoring credit assessment and actively advanced pilot applications.

Product supply

With opportunities emerged in continued development of IOT, the Group actively participated in project planning of IOT application during the period under review. It took part in IOT application pilot project of the Shanghai Customs regarding public and personal export regulation, the IOT automatic identification system for crane technical study, the establishment of project of IOT oil-spilt emergency supplies and equipment information management system, the uSmile logistics and delivery project in cooperation with Jiangsu Courier Post, the pilot project of fast parcel sorting by China Post Express and others. During the period under review, it continued to focus on R&D of new products, where key products of intelligent transportation, clip handheld readers, environmental-friendly E-cards, automatic identification system for machine initiation and other products have obtained domestic authorized third-party verification center's certification. During the period under review, it highly valued application and protection for intellectual properties, actively declared patents, software copyrights and software products and obtained licenses of various patents and software copyrights.

Information services

During the period under review, the Group continued to make use of its existing valuable assets of clients and products series in the intelligent transportation area and formed "three screens and cloud" publicly operated services product system of all media, which identified the four kinds products of and business modes for transportation information service, insurance service, merchant alliance (consumption involving vehicles) and television transportation and defined a flattening operational organization system; explored and established a set of project investment, construction, operation and maintenance systems and trained project teams to support subsequent investment and construction of such projects; developed a set of IOT data collection and sharing middleware product platforms and established integrated solutions of data collection and sharing; used environmental-friendly E-card resources to develop a new generation of vehicle access control system and parking system to implement the parking service business model and built a parking networking fundamental platform to provide a framework for the electronic toll collection platform ("ETCP").

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, the Group continued to develop the Cloud Biaoju Project by drawing talents into the team thereof, which formed a team with high execution and cohesive ability; explored new business mode and completed the Cloud Biaoju platform and mobile clients online works which can provide stable and reliable operational service capacity; completed a series of finished products of intelligent terminal equipment and enhanced their performance, and established strategic cooperation with suppliers to obtain bulk supply capacity; and set up several pilot points to raise awareness of the Cloud Biaoju brand to form a sound foundation for its promotion.

Research and Development

During the period under review, the Group increased its investment in scientific and technological innovation, improved and pushed forward steadily for building the system of technology innovation and promoted the innovation, integration, commercialization of the software R&D platform. During the period under review, the Group undertook and researched and developed series of industrial projects concerning IOT, including expansion and maintenance of cloud computing centres, PaaS (Platform-as-a-Service) platform, R&D of the Cloud Biaoju R&D Project based on the PaaS platform, R&D of car networking unit, commercialization of electronic lock, R&D of products in cloud storage, vehicle identification system for multi-lanes, small UHF RFID readers, research of special chips, etc. During the period under review, the Group strengthened cooperation with the US company Insync in applying iApp platform to massive concurrent data collection, filtering, processing and others in industrial IOT and solved key issues between IOT massive data generation and mass data storage with iApp platform and established high-speed data collection and processing solutions.

BUSINESS PROSPECTS

SALES AND MARKETING

Strategic business

In 2013, the Group will focus on building of intelligent city to satisfy delivery needs of direct customers with high quality and efficiency; actively use end-user resources to help in forming a unified service platform through data storage and analysis; explore opportunities for new business mode and facilitate establishment of service modes of traceability certification, order integration, supply chain finance and others.

In 2013, the Group will closely monitor progress of the “phase II of Jin Guan” project. It will, through promoting and planning of the customs monitoring platform products, actively strive for approval by the General Administration of Customs on logistics information service model, including assets cloud regulation, and promote model application and service commencement of the assets cloud regulation. In 2013, the Group will give priority to marketing, strengthen business expansion, build an effective business expansion team and a national marketing system. It will comprehensively introduce a brand new mechanism to focus on projects and region selection, early entry, collaborative innovation and operational participation. It will be guided by standardized marketing, centred at core provinces and core cities and focus on targeted regions and areas with higher comprehensive competitiveness to implement its overall marketing strategies comprehensively at an early stage. It will attach importance to strategic cooperation in the industry to gain market share in a quick manner and expand channels of obtaining projects for higher profit margin thereof.

MANAGEMENT DISCUSSION AND ANALYSIS

Information services

In 2013, the Group will provide information services to direct customers and end-users in the industrial chain to enhance life quality so as to incessantly satisfy customers' demand, to increase their satisfaction and to create value for them.

In 2013, the Group will aim to establish a new win-win eco of medicine circulation by establishing a medicine transaction platform with principal business of transactional information services and transaction execution services and by establishing an innovative new retail mode with principal business of medicine retail to individuals. It will take advantage of governmental demand in food production safety, circulation, sales monitoring and subsidies, build a food real-time transaction information system based on a core product of tracing terminal equipment and supported by the background data access service to provide a foundation and basis for developing massive data services such as order integration. It will provide the governmental authorities with food tracing monitoring and real-time price monitoring services. It will provide consumers with food safety information and payment services.

Technology products

In 2013, the Group will focus on the construction and services of an intelligent city to incessantly deepen and broaden the area of IOT core technology and strengthen the establishment of core service platforms to provide strong technical support to different clients in resources accumulation.

In 2013, the Group will actively explore and develop the IOT industry. It will foster technological product innovation by laboratory market mechanism dynamics to develop the new generation electronic business online financing service platform and support logistic tracing, electronic transaction and order integration business by real-time analysis of online transactions by massive data technology. It will highly integrate information flow, logistics and cash flow to provide consumers with traceable-data-based commodity credit services, financial institutions with actual-transactions-based corporate credit information service and companies with online-pledge-based express financial services.

In 2013, the Group will integrate its own IOT products based on existing sales channels and actively cooperate with other system integrators in the industry to promote IOT technology products to raise awareness of the Company in the industry. It will improve the system of IOT products for urban intelligent transportation management in China and cooperate with domestic and foreign leading technology enterprises in the industry to build innovative IOT application products. It will integrate related technological products and industrial R&D equipment to build special terminal equipment which highlights the Company's core technological competitiveness, so as to satisfy industrial needs for application technological products and provide strong technical R&D support to the building of intelligent cities.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 48, received postgraduate education, is an executive Director and Chairman of the Company. He is responsible for devising the Group's overall strategies and policies. Mr. Sha obtained a master's degree in engineering from Southeast University in 1990. Mr. Sha was conferred the honorary titles of "Jiangsu Province Outstanding Young Entrepreneur" and "Nanjing Ten Outstanding Young Entrepreneur" in 2000 and 2001 respectively. Mr. Sha was elected as a committee member of the Nanjing City Committee of the Chinese People's Political Consultative Conference in January 2003 and a committee member of the Jiangsu Province Committee of the Chinese People's Political Consultative Conference in December 2007. In November 2010, Mr. Sha was awarded in Nanjing a title of "Individual with active contribution to the construction of China's famous software city". Mr. Sha joined the Company in December 1997 and was first appointed as an executive Director in December 1999.

Mr. Chang Yong (常勇), aged 46, received postgraduate education, is an executive Director and general manager of the Company. He is responsible for implementing the Group's strategies and business plans. He obtained a master's degree in computer application studies from Harbin Institute of Technology in March 1990. Mr. Chang worked for the computer centre of the Nanjing Bureau of Finance from 1990 to 1992. Mr. Chang became vice general manager of Sample Group in June 1993 and was mainly responsible for the expansion, operation and management of Sample Group's business. Mr. Chang joined the Company and was first appointed as an executive director and general manager of the Company in December 1997. Mr. Chang was elected as a member of the Chinese People's Political Consultative Committee of Xuanwu District in Nanjing City in 1998.

Mr. Guo Ya Jun (郭亞軍), aged 53, received postgraduate education, is an executive Director, vice general manager and financial controller of the Company. He is responsible for supervising the Company's accounting department and financial affairs. He graduated from Anhui Agricultural College in August 1982 with a bachelor's degree in agricultural economics. Mr. Guo also graduated from Southeast University in 2004 with a master's degree in business administration. Mr. Guo worked for the Finance Bureau of Lingbi County in Anhui Province from 1982 to 1992 and Nanjing Jintai Building Materials Development Company between 1993 and 1996. Mr. Guo was appointed as finance manager of Sample Group in October 1996 and became the Company's financial controller and vice general manager in December 2000. He is currently mainly responsible for the financial and administrative management of the Group. He joined the Company in December 1997 and was first appointed as an executive Director in December 1999.

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun (馬俊), aged 48, is a non-executive Director of the Company. He graduated from Nanjing University in economic management in 1995. He worked for 南京福申房地產開發有限責任公司 in 1998. He is currently the chairman and general manager of 南京福申房地產開發有限責任公司.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Xu Su Ming (許蘇明), aged 56, holds a Master Degree and is also a Doctor of Philosophy in Law. He graduated and received his bachelor degree from Southeast University in January 1982, and later graduated and received his Doctor of Philosophy in Law from Nanjing University. He is currently the professor, tutor for doctoral candidates of the Southeast University as well as a Standing Committee Member of the Chinese People's Political Consultative Conference of Nanjing City, a member of the Legislation Consultative Committee of the Chinese People's Political Consultative Conference of Nanjing City, a member of the Committee for Social and Legal Affairs of the Chinese People's Political Consultative Conference of Nanjing City and the executive council member of Nanjing Federation of Social Sciences. Mr. Xu is currently an independent director of both Jilin Guanghua Holding Group Co., Ltd (a company listed on the Shenzhen Stock Exchange, stock code: 000546) and Jiangsu JieJie Microelectronics Co., Ltd.

Mr. Li Hai Feng (李海峰), aged 42, is a Ph.D. and a Senior Engineer. He received his Bachelor Degree in theoretical mechanics from Lanzhou University in 1994, and received his Ph.D. Degree in transportation planning from Melbourne University, Australia in 2002. He worked with Road Research Laboratory of Xinjiang Transportation Research Institute from 1994 to 1998, Rapid Retrieval of Australia in 2000 and Strategic Planning, Department of Infrastructure of Victoria in Australia from 2000 to 2002. From 2002 to 2011, he worked as Senior Engineer of Institute of Road Planning of Transport Planning and Research Institute (TPRI) of Ministry of Transport, Deputy Head of Institute of Information of TPRI of Ministry of Transport, Deputy Director of Research Center for Transport Analogue and Decision-Making Support of TPRI of Ministry of Transport and director of the Institute of Information Technology of China Academy of Transportation Sciences. He is currently Deputy Chief Engineer and Senior Engineer of China Academy of Transportation Sciences, a member of the 3rd Young Experts Committee of China Highway & Transportation Society, and Deputy Secretary General of Intelligence Professional Committee of China Communications and Transportation Association. He is also Deputy Director and Secretary General of the First Technology Committee on Geographic Information System for Transportation of China, Executive Member of the Union of Technological Innovation for RFID Industry of China, review expert in the field of transport in 863 Program of Ministry of Science and Technology and National Key Technology R&D Program, a member of Central Science and Technology Committee of the China Zhi Gong Party, Deputy Director of Science and Technology Committee of China Zhi Gong Party Beijing Committee, and a member of the 10th Committee of Beijing Youth Federation.

Mr. Shum Shing Kei (沈成基), aged 42, holds a Master Degree. Mr. Shum graduated from the Hong Kong Polytechnic University and majored in accountancy. He obtained a master degree in financial management from the University of London, the United Kingdom. He is also a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants. From August 1993 to February 2002, he worked as auditing manager of Ernst & Young, Group Chief Financial Officer and Company Secretary of China Data Broadcasting Holdings Limited from March 2002 to July 2005 and qualified accountant consultant to Great Wall Motor Company Limited from September 2004 to September 2008. Mr. Shum is currently a practising partner of a certified public accountant firm in Hong Kong, mainly providing business advisory service and auditing service. He has a wealth of experience in accounting services for listed companies in Hong Kong and companies intended to be listed on the Stock Exchange of Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 57, is a supervisor of the Company. Mr Qiu was an EMBA graduate. He is now a professor of the economics and management college of Southeast University. He is also executive director of the Institute for Urban Development in Jiangsu and vice president of the Nanjing Entrepreneur Club. From 1991 to 2004, he was appointed as deputy director and director of the economics and management college of Southeast University. In 1992, he was exceptionally promoted to Professor, and received the State's Sponsorship for Special Contribution. He is a veteran in the teaching and research of economics and management affairs. He has in-depth knowledge in corporate management and industrial development. He was first appointed as a supervisor of the Company in August 2007. He is currently an independent director of Nanjing Pharmaceutical Company Limited (a company listed on the Shanghai Stock Exchange, stock code: 600713) and Nanjing Zhongbei (Group) Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000421).

Mr. Li Gang (李鋼), aged 35, is a supervisor of the Company. He studied in Nanjing University of Aeronautics and Astronautics (南京航空航天大學) from 1996 to 2000 and obtained a bachelor degree in industrial automation. From July 2000 to July 2004, he was employed by Nanjing Merit Automation Co. Ltd. (南京明維自動化有限公司) as development team leader. From July 2004 to February 2007, he worked in Nanjing Orient Computer Technology Co., Ltd. (南京東部計算機科技有限公司). During April 2007 to February 2009, he worked as the head of SIS research and development in Nanjing SCIYON Automation Group Co., Ltd. (南京科遠自動化集團). Since February 2009, Mr. Li has been working in software development department of the Company as the department head of software development research institution.

Mr. Dai Jian Jun (戴建軍), aged 42, is a supervisor of the Company. He was educated in Jiangsu Public Security Professional School from September 1988 to July 1991. He worked for Southeast University in 1991. Mr. Dai was qualified as a lawyer in PRC in 1996. Mr. Dai has been a lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a supervisor of the Company in August 2003.

SENIOR MANAGEMENT AND CORE TECHNICAL STAFF

Mr. Zhu Xiang (朱翔), aged 36, is the vice president and secretary of the Board of the Directors. He graduated from Xi'an Jiaotong University in July 2000 and obtained a MBA degree from Nanjing University in June 2006. He joined the securities department of Hainan Airlines Company Limited in July 2000 as assistant to secretary of the board of directors. He joined the Company in March 2003 and served as senior manager of the Company's investment department, general manager of the investment centre, general manager of financing and investment centre and vice president.

Mr. Xin Ke Jun (辛柯俊), aged 43, received university education, is senior engineer, vice president and director of the Company's research Institute. He graduated from the Southeast University with a bachelor degree in the thermal power profession in 1990. Mr. Xin joined Jiangsu Changshu Electricity Generating Co. Ltd (江蘇常熟發電有限公司) in 1990. In 1994, he worked in Huadong Wangju as a supervisor of pressure vessel monitoring (華東網局一級壓力容器監察). He worked for Nanjing Merit Automation Co. Ltd as the deputy general manager in 2002. In 2004, he joined Beijing State-Power Pulian Technology Co. Ltd (北京國電普聯科技有限公司) and served as the chief engineer. Mr. Xin joined the Company in 2007 and is currently the vice president and the head of research institute of the Company, the external tutor of the faculty of computer application of Southeast University and external tutor of software institute of Nanjing University.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. Du Jin (杜瑾), aged 49, received postgraduate education, is vice president and manager of the Company's logistic affairs department. She obtained an MBA degree from Asia International Open University (Macau) in 2000. She formerly worked for Jiangsu Province Telecommunication Equipment Factory from December 1985 to August 1993 and Nabisco Food (Suzhou) Company Limited, Nanjing Branch from July 1996 to July 1998. She joined the Company in August 1998, and is vice president and manager of the Company's logistics affairs department.

Mr. Wang Yue Ping (王躍平), aged 57, received postgraduate education, is general manager of Jiangsu Raifu Intelligent Tech. Co. Ltd. He graduated from the University of Manitoba in Canada in 1992 and obtained a doctoral degree in civil engineering, and worked on a postdoctoral research in mechanical engineering at Stanford University in U.S. in September 1994. He formerly worked for Singapore National Institute of Information Science (新加坡國家信息科學研究院) as researcher from October 1994 to June 2000, Singapore Senior Technology Co., Ltd (新加坡資深科技有限公司) as general manager from July 2000 to December 2002, China Transportation HEAD New Technology Co., Ltd (上海中交海德科技股份有限公司) as deputy general manager from January 2003 to December 2003. He joined Jiangsu Intellitrans Company Limited in March 2004 and served as the deputy general manager. He became the chief technical officer of Nanjing Sample Technology Company Limited in January 2009. He is currently the general manager of Jiangsu Raifu Intelligent Tech. Co. Ltd.

REPORT OF THE DIRECTORS

The Directors present the annual report and audited financial statements for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

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

RESULTS AND APPROPRIATIONS

The results and financial position of the Group for the year ended 31 December 2012 are set out on pages 37 to 161 of this annual report.

The Directors recommended the payment of a final dividend of RMB0.2 per share for the year ended 31 December 2012 (2011: RMB0.1 per share).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in the Note V(VIII) to the financial statements.

DIRECTORS AND SUPERVISORS

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

Executive Directors

Mr. Sha Min (*Chairman*)

Mr. Chang Yong (*Chief Executive Officer*)

Mr. Guo Ya Jun

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

Mr. Xu Su Ming

Mr. Li Hai Feng

Mr. Shum Shing Kei

Supervisors

Mr. Qiu Xiang Yang

Mr. Dai Jian Jun

Mr. Li Gang

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts were expired on 31 December 2012 and the further renewal of a term of 3 years shall be subject to the approval at the forthcoming annual general meeting of the Company.

Save as disclosed above, no Director or Supervisor has a service contract with the Company which is not terminable by the Company within one year without payment, other than statutory compensation.

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

Save as disclosed below, as at 31 December 2012, none of the Directors, Supervisors and chief executive officers of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (Chapter 571 of the Laws of Hong Kong)) which should be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or which they are deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO, or otherwise required to be notified to the Company pursuant to the required standard of dealings as set out in Appendix 10 of the Listing Rules.

Long Positions in Shares

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

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

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2012, the following shareholders (other than the Directors, Supervisors or chief executive officers of the Company) had interests and short positions in the shares or underlying shares of the Company which should be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO.

REPORT OF THE DIRECTORS

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS (Continued)

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1)	65,720,000 Domestic Shares	Beneficial owner/corporate	29.33%
Jiangsu Ruihua Investment Holding Group Company Ltd. ("Jiangsu Winfast")	15,000,000 Domestic Shares	Beneficial owner/corporate	6.69%
Active Gold Holding Limited	49,545,000 Domestic Shares	Beneficial owner/corporate	22.11%
Atlantis Capital Holdings Limited (Note 2)	28,889,000 H Shares	Interest of controlled corporation	12.89%
Liu Yang (Note 2)	28,889,000 H Shares	Interest of controlled corporation	12.89%
Golden Meditech Holdings 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%
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 3.58% held by Ms. Liao Qiong, 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 67.95% of equity interest of Sample Group.
- (2) Atlantis Capital Holdings Limited is 100% owned by Ms. Liu Yang. Both Atlantis Capital Holdings Limited and Ms. Liu Yang owned the 28,889,000 Shares in a capacity of interest under controlled corporation.
- (3) 12,097,000 H Shares were held by GM Investment Company Limited, which is a wholly-owned subsidiary of Golden Meditech Holdings Limited (formerly known as Golden Meditech Company Limited). By virtue of GM Investment Company Limited's interests in the Company, Golden Meditech Company Holdings Limited is deemed to be interested in the same 12,097,000 H Shares under the SFO.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2012, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2012, none of the Directors or Supervisors or any of their spouses or children under eighteen years of age has any right to subscribe any H Shares of the Company or has exercised any such kind of right during the year.

SHARE OPTION SCHEME

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

On 24 May 2012, Nanjing Sample Digital Technology Co., Ltd. ("Nanjing Sample Digital") (as the seller) entered into the Equity Transfer Agreement with the Company (as the buyer), for the acquisition of 13.83% equity interest in Nanjing City Information Investment Holding Co., Ltd. ("Nanjing City Information") at a total consideration of RMB24,400,000. Nanjing Sample Digital is a wholly-owned subsidiary of Nanjing Sample Technology Group Co., Ltd. ("Sample Group"), a substantial shareholder of the Company holding in aggregate 65,720,000 Domestic Shares (equivalent to approximately 49.67% of the total number of Domestic Shares in issue). Accordingly, Nanjing Sample Digital is regarded as a connected person of the Company pursuant to the Listing Rules. Each of Mr. Sha Min, Mr. Chang Yong and Mr. Guo Ya Jun is an executive Director who holds certain equity interest in the Nanjing Sample Group and is therefore regarded as having a material interest in the connected transaction. Save as disclosed above, no contract of significance to which the Company or any of its subsidiaries was a party, and in which a Director or a Supervisor had a direct and indirect material interest, subsisted at the end of the year or at any time during the year.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Turnover to the Group's five largest customers accounted for 38.19% (2011: 50.63%) of the total sales for the year and sales to the largest customer included therein amounted to 10.21% (2011: 14.27%). To the best of the knowledge of the Directors, none of the Directors, their associates or any management shareholders who own more than 5% of the Company's issued share capital had material interests in the Group's five largest customers.

Five Largest Suppliers

Purchase from the Group's five largest suppliers accounted for 23.55% (2011: 40.33%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 6.92% (2011: 16.89%). To the best of the knowledge of the Directors, none of the Directors, their associates or any management shareholder who own more than 5% of the Company's issued share capital had material interests in the Group's five largest suppliers.

REPORT OF THE DIRECTORS

EMOLUMENTS OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the five highest individuals of the Group are set out in Note V(XXXIX) to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 162 of this annual report.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the Note V(XXIV) to the financial statements. As at 31 December 2012, the Company had issued an aggregate of 91,800,000 H shares and an aggregate of 132,300,000 Domestic shares.

RESERVES

Details of the movements of reserves of the Group during the year are set out on page 47 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2012, the Group's reserves available for distribution amounted to RMB564,885,873 (2011: RMB427,217,076).

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained the public float prescribed under the Listing Rules throughout the year ended 31 December 2012.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2012, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2012, none of the Directors or Supervisors had the rights to subscribe for the H Shares of the Company.

COMPETING BUSINESS AND CONFLICTS OF INTERESTS

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

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003 with terms of reference. The primary duties of the audit committee are to supervise the financial reporting process and internal control of the Company and to provide comments to the Board in relation to the preparing of annual report and accounts and interim report of the Company.

The audit committee comprises three independent non-executive Directors, namely Mr. Shum Shing Kei (the chairman of the audit committee), Mr. Xu Su Ming and Mr. Li Hai Feng. The audit committee of the Company has reviewed the audited results of the Group for the period under review and has provided advice and comments thereon.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors, namely Mr. Xu Su Ming, Mr. Li Hai Feng and Mr. Shum Shing Kei a confirmation of their independence pursuant to Rule 3.13 of the Listing Rules and considers the independent non-executive Directors to be independent.

EMOLUMENT POLICY

The emolument policy of the employees and seniors management of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

CONNECTED TRANSACTIONS

Save as the connected transaction disclosed in the section headed “Directors’ and supervisors’ interests in contracts” of this report, related party transactions entered by the Group during the year ended 31 December 2012, which do not constitute connected transactions in accordance with the requirements of the Listing Rules, are disclosed in Note VI to the consolidated financial statements.

PROPOSED ISSUE OF A SHARES

On 18 October 2011, the Company announced that the Company will apply with the relevant regulatory departments in PRC in accordance with the PRC laws and regulations, and subject to other regulatory requirements, for the issue of not more than 73,900,000 A shares of RMB1.00 per share to the natural persons, legal persons and other institutional investors (other than those who were prohibited from subscribing for A shares pursuant to the relevant PRC laws, regulations and other regulatory requirements) with A share accounts at the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, and will apply to the Shenzhen Stock Exchange for the listing of and dealing in those A shares. The proposed issue of A shares has been approved at the extraordinary general meeting of the Company (“EGM”) and at the class meeting for holders of H shares and domestic shares held on 30 December 2011, with effect for 12 months starting from 30 December 2011. At the extraordinary general meeting and class meetings for holders of H shares and domestic shares held on 28 December 2012, the extension of the validity period of the shareholders’ approval and the authorisation to the board of directors for the proposed issue of A shares was approved, with the validity period extended for 12 months. As at the date of this report, the Company had formally submitted the application to the China Securities Regulatory Commission (“CSRC”) for the approval of the proposed issue of A shares, and has completed the written reply for a feedback relating to the application. Further announcement will be made by the Company as necessary or appropriate to notify the shareholders and potential investors of the Company in respect of the progress of the issue of A shares.

Please refer to the circulars of the Company dated 14 November 2011 and 15 November 2012 in relation to the proposed issue of A shares.

CORPORATE GOVERNANCE PRACTICES

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions as set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and in the Corporate Governance Code (effective from 1 April 2012) (the “Code”) as set out in Appendix 14 of the Listing Rules. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

The Company has complied with all the applicable code provisions of the Code to establish formal and transparent procedures to protect and maximize the interests of shareholders during the year.

REPORT OF THE DIRECTORS

AUDITOR

The consolidated financial report of the Group for the year ended 31 December 2012 has been audited by BDO China Shu Lun Pan Certified Public Accountants LLP. A resolution will be submitted to the forthcoming annual general meeting to re-appoint the auditors and fix their remuneration.

On behalf of the Board

Sha Min

Chairman

Nanjing, the PRC
15 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE CODE

The Company recognises the value and importance of achieving high corporate governance standards to enhance corporate performance, transparency and accountability. 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 (effective until 31 March 2012) and in the Corporate Governance Code (effective from 1 April 2012) (the “Code”) as set out in Appendix 14 of the Listing Rules. Management occasionally held meetings and discussions to evaluate the effectiveness and the compliance of the internal governance measures. The internal governance measures have been adopted on standards no less exacting than those required by the Code.

The Company has complied with all the applicable code provisions of the Code to establish formal and 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 Appendix 10 of the Listing Rules. Having made specific enquiry with 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 2012.

BOARD OF DIRECTORS AND BOARD MEETING

The Directors of the Company during the year were as follows:

Executive Directors

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

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

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

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

CORPORATE GOVERNANCE REPORT

The Board takes responsibility to oversee all major matters of the Company, including the formulation and approval of all policy matters, overall strategies, internal control and monitoring of the performance of the senior management. The Board's primary responsibilities are to direct and supervise the Company's business and affairs. The biographical details of the Directors and the relationship among the members of the Board are set out on pages 15 to 16 of this annual report. The board of Directors held at least one full Board meeting half-yearly. The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. All executive Directors, non-executive Director and independent non-executive Directors bring a variety of experience and expertise to the Company.

The roles of the Chairman and the Chief Executive Officer are segregated. Such segregation helps to reinforce their independence and accountability. The Chairman is responsible for providing leadership to, and overseeing the functioning of, the Board to ensure that it acts in the best interests of the Group and the Company's shareholders as a whole and that the Board meetings are planned and conducted effectively. On the other hand, the Chief Executive Officer is responsible for managing the day-to-day business of the Group, attending to the formulation and successful implementation of the Group's policies and assuming fully accountability to the Board for all the Group's operations.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers all the independent non-executive Directors to be independent. Independent Non-Executive Directors play a significant role in the Board by virtue of their independent judgment and their views carry significant weight in the Board's decision.

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

The Board schedules at least two meetings a year at approximately half-yearly intervals and will be met as necessary.

During the year ended 31 December 2012, the Board held six meetings, two of which were regular meetings.

The Directors can attend meetings in persons or through other means of electronic communication in accordance with the Company's articles of association. Notice of at least 14 days is given for a regular Board meeting to give all Directors an opportunity to attend. All Directors are provided with relevant materials relating to the matters brought before the meetings at least three days in advance. The following table shows the attendance of individual Directors at the Board meetings held during the year.

CORPORATE GOVERNANCE REPORT

Name of Directors	Number of attendance
Executive Directors	
Mr. Sha Min (<i>Chairman</i>)	6/6
Mr. Chang Yong (<i>Chief Executive Officer</i>)	6/6
Mr. Guo Ya Jun	6/6
Non-executive Director	
Mr. Ma Jun	6/6
Independent Non-executive Directors	
Mr. Xu Su Ming	6/6
Mr. Li Hai Feng	6/6
Mr. Shum Shing Kei	6/6

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

During the period under review, an annual general meeting was held on 25 May 2012 and two extraordinary general meetings were held on 10 August 2012 and 28 December 2012 respectively. All non-executive directors have attended these general meetings.

The directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by individual Directors in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2012 is recorded in the table below.

Name of Directors	Reading regulatory updates or newspapers, journals and updates relating to directors' duties	Attending external seminars/ programmes
Executive Directors		
Mr. Sha Min	√	√
Mr. Chang Yong	√	√
Mr. Guo Ya Jun	√	√
Non-executive Director		
Mr. Ma Jun	√	√
Independent Non-executive Directors		
Mr. Xu Su Ming	√	√
Mr. Li Hai Feng	√	√
Mr. Shum Shing Kei	√	√

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company's remuneration committee has been approved in the board meeting on 10 November 2005. The terms of references setting out the remuneration committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The remuneration committee currently consists of two independent non-executive Directors, namely Mr. Xu Su Ming (chairman of remuneration committee), Mr. Shum Shing Kei and one executive Director, namely Mr. Guo Ya Jun.

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

One meeting was held during the year by the remuneration committee to review the remuneration packages and assess the performance of executive Directors and the director's fees of the independent non-executive Directors. All members of the remuneration committee attended the said meeting. The remuneration committee plans to meet at least once a year in the coming year.

NOMINATION COMMITTEE

The Company's nomination committee was approved and established in the board meeting held on 25 August 2007. The terms of references setting out the nomination committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The nomination committee currently consists of two independent non-executive Directors, namely Mr. Xu Su Ming (chairman of nomination committee), Mr. Li Hai Feng and one executive Director, namely Mr. Chang Yong.

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

One meeting was held during the year by the nomination committee to review the nomination procedures and the current composition of the Board. All members of the nomination committee attended the said meeting.

AUDIT COMMITTEE

The Company established an audit committee on 27 August 2003. The terms of references setting out the audit committee's authority, duties and responsibilities are available on the websites of the Company and the Stock Exchange.

The audit committee currently consists of three independent non-executive Directors, namely Mr. Shum Shing Kei (the chairman of the audit committee), Mr. Xu Su Ming and Mr. Li Hai Feng.

CORPORATE GOVERNANCE REPORT

The primary duties of the audit committee are to provide an independent review and supervision of financial reporting, and examines the effectiveness of the internal controls of the Group and ensuring the external auditor are independent and the effectiveness of the audit process. The audit committee examines all matters relating to the accounting principles and policies adopted by the Group, auditing functions, internal controls and financial reporting.

The Company has complied with Rule 3.21 of the Listing Rules, which requires that at least one of the members of the Audit Committee (which must comprise a minimum of three members and must be chaired by an independent non-executive Director) is an independent non-executive Director who possess appropriate professional qualifications or accounting or related financial management expertise. Mr. Shum Shing Kei is an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise.

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

	Number of attendance
Mr. Xu Su Ming	2/2
Mr. Li Hai Feng	2/2
Mr. Shum Shing Kei	2/2

During the year, the Group's annual audited results for the year ended 31 December 2011 and the unaudited interim results for the six months ended 30 June 2012 have been reviewed by the audit committee. Besides the audit committee also reviewed the Group's annual audited results for the year ended 31 December 2012. The audit committee 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.

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2012 were performed by BDO China Shu Lun Pan Certified Public Accountants LLP. The total fee paid/payable in respect of the statutory audit and non-audit services provided by external auditors during the year ended 31 December 2012 are set out below:

	2012 RMB'000	2011 RMB'000
Services rendered		
Audit services		
– BDO China Shu Lun Pan Certified Public Accountants LLP	750	750
Non-audit services	–	–
	<u>750</u>	<u>750</u>

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board as a whole is responsible for performing the corporate governance duties including:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; and
- (d) to review the Company's compliance with the code and disclosure in the Corporate Governance Report.

FINANCIAL REPORTING

The Directors acknowledged their responsibility for the preparation of financial statements which give a true and fair view. In preparing financial statements, which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently. It is independent auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion to the Company's shareholders. The responsibility of the independent auditors are set out in the independent auditor's report on page 35 of this annual report.

COMPANY SECRETARY

The Company Secretary of the Company is Ms. Wong Lai Yuk, a member of The Hong Kong Institute of Chartered Secretaries. Ms Wong has complied with Rule 3.29 of the Listing Rules of taking no less than 15 hours of relevant professional training.

INTERNAL CONTROL

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

COMMUNICATIONS WITH SHAREHOLDERS AND INVESTORS

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company also recognizes the importance of transparency and timely disclosure of corporate information, which will enable shareholders and investors to make the best investment decisions.

CORPORATE GOVERNANCE REPORT

To promote effective communication, the Company maintains a website at www.sampletech.com.cn, where extensive information and updates on the Group's business developments and operations, financial information and other information are available for public access.

Shareholders are provided with contact details of the Company, such as telephone hotline, fax number, email address and postal address, in order to enable them to make any query that they may have with respect to the Company. They can also send their enquiries to the Board through these means. The contact details of the Company are provided in the annual report and the Company's website.

The Board welcomes views of shareholders and encourages them to attend general meetings to raise any concerns they might have with the Board or the management directly. Board members and appropriate senior staff of the Group are available at the meetings to answer any questions raised by shareholders.

Code provision A.6.7 stipulates that independent non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, shareholder(s) holding 3% (inclusive) or more of the total voting shares of the Company shall have the right to propose new motions to be included in the agenda of the Company's annual general meeting. The Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the general meetings. In addition, two or more shareholders holding not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings may request the Company to convene an extraordinary general meeting by sending a written requisition to the Board. The objects of the meeting must be stated in the written requisition.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board of the Company. Contact details are as follows:

Address: Sample Technology Park, No. 10 Maqun Street, Qixia District, Nanjing,
The People's Republic of China
Fax: (8625) 8435 6677
Email: cindyxin@sampletech.cn (Hong Kong)
irm@samples.cn (Domestic)

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sampletech.com.cn) immediately after the relevant general meetings.

REPORT OF THE SUPERVISORY COMMITTEE

To the shareholders,

For the year ended 31 December 2012 the supervisory committee of Nanjing Sample Technology Company Limited, in compliance with the provisions of the Company Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the articles of association of the Company, took an active role to work reasonably and cautiously with the principle of good faith and due diligence to protect the interest of the Company's shareholders.

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

The supervisory committee has carefully reviewed the Company's annual report, audited by BDO China Shu Lun Pan Certified Public Accountants LLP, to be proposed by the Board and agreed that it truly and fully reflects the operating results and asset position of the Company. The supervisory committee has also reviewed the report of the directors. The supervisory committee are of the opinion that the members of the Board, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager, and senior management had been found abusing their authority, damaging the interests of the Company and infringing 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
15 March 2013

AUDITOR'S REPORT

TO THE SHAREHOLDERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED:

We have audited the accompanying financial statements of Nanjing Sample Technology Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated and company income statements, the consolidated and company cash flow statements and the consolidated and company statements of changes in equity for the year then ended and the notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

II. AUDITOR'S RESPONSIBILITY

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

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

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

AUDITOR'S REPORT

III. OPINION

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its operating results and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises.

BDO China Shu Lun Pan Certified
Public Accountants LLP

Chinese Certified Public Accountant: **Yang Xiong**

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

Shanghai, the People's Republic of China

15 March 2013

CONSOLIDATED BALANCE SHEET

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note V	2012	2011
Current assets:			
Cash at bank and on hand	(I)	449,609,726.85	457,625,077.68
Notes receivable	(II)	160,000.00	856,348.50
Accounts receivable	(III)	278,576,202.98	321,076,498.92
Prepayments	(V)	48,417,202.13	3,193,664.28
Other receivables	(IV)	147,128,312.82	88,932,996.33
Inventories	(VI)	267,316,724.10	277,749,254.36
Total current assets		1,191,208,168.88	1,149,433,840.07
Non-current assets:			
Long-term equity investments	(VII)	101,386,244.94	194,007,290.40
Fixed assets	(VIII)	172,765,938.02	51,830,494.11
Construction in progress	(IX)	105,149,762.35	4,680,462.89
Construction materials	(X)	3,978,173.60	19,289,440.00
Intangible assets	(XI)	24,364,756.07	24,859,714.28
Long-term prepaid expenses	(XII)	755,341.29	—
Deferred tax assets	(XIII)	6,592,988.15	4,248,176.20
Total non-current assets		414,993,204.42	298,915,577.88
TOTAL ASSETS		1,606,201,373.30	1,448,349,417.95
LIABILITIES & SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings	(XV)	138,000,000.00	286,300,000.00
Notes payable	(XVI)	29,246,066.85	28,038,552.80
Accounts payable	(XVII)	269,751,512.77	255,291,518.57
Advances from customers	(XVIII)	25,300,107.19	1,725,195.60
Staff remuneration payables	(IXX)	221,508.60	319,916.32
Taxes payable	(XX)	52,212,021.92	54,939,104.99
Other payables	(XXI)	28,046,279.25	27,683,268.40
Total current liabilities		542,777,496.58	654,297,556.68
Non-current liabilities:			
Long-term borrowings	(XXII)	80,000,000.00	—
Deferred income tax liabilities	(XIII)	1,280,559.27	1,602,503.42
Other non-current liabilities	(XXIII)	18,257,762.50	—
Total non-current liabilities		99,538,321.77	1,602,503.42

CONSOLIDATED BALANCE SHEET (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

	Note V	2012	2011
Total liabilities		642,315,818.35	655,900,060.10
Shareholders' equity:			
Share capital	(XXIV)	224,100,000.00	224,100,000.00
Capital surplus	(XXV)	99,627,613.95	102,999,020.45
Surplus reserve	(XXVI)	41,898,314.28	34,049,480.44
Undistributed profits	(XXVII)	564,885,873.01	427,217,076.14
Difference on translation of foreign currency financial statements		(3,644,102.21)	(3,643,142.26)
Total equity attributable to the shareholders of the Company		926,867,699.03	784,722,434.77
Minority interest		37,017,855.92	7,726,923.08
Total shareholders' equity		963,885,554.95	792,449,357.85
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		1,606,201,373.30	1,448,349,417.95
Net current assets		648,430,672.30	495,136,283.39
Total asset less current assets		1,063,423,876.72	794,051,861.27

Page 37 to page 161 of the financial statements were signed by the following person in charge:

Sha Min
Director

Guo Ya Jun
Director

Sha Min
Legal representative

Guo Ya Jun
Person in charge of
accounting function

Xu Yong Hui
Person in charge of
accounting department

BALANCE SHEET OF THE COMPANY

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note XIII	2012	2011
Current assets:			
Cash at bank and on hand		98,224,649.04	76,463,577.68
Notes receivable		160,000.00	756,348.50
Accounts receivable	(I)	79,441,459.36	138,793,034.55
Prepayments		6,489,125.55	578,661.65
Other receivables	(II)	135,865,532.27	72,258,758.87
Inventories		5,203,767.52	3,821,984.27
Total current assets		325,384,533.74	292,672,365.52
Non-current assets:			
Long-term equity investments	(III)	337,463,932.94	390,084,978.40
Fixed assets		44,349,731.63	49,201,875.18
Construction in progress		98,701,702.73	—
Intangible assets		15,712,132.24	16,097,533.00
Deferred tax assets		3,533,564.81	2,532,678.79
Total non-current assets		499,761,064.35	457,917,065.37
TOTAL ASSETS		825,145,598.09	750,589,430.89
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term borrowings		60,000,000.00	130,300,000.00
Notes payable		10,364,179.25	5,743,735.80
Accounts payable		38,148,903.58	36,945,862.07
Advances from customers		1,075,684.00	635,215.60
Staff remuneration payables		109,191.50	117,886.34
Taxes payable		16,112,899.77	15,254,303.32
Other payables		735,876.91	7,610,496.57
Total current liabilities		126,546,735.01	196,607,499.70
Non-current liabilities:			
Long-term borrowings		80,000,000.00	—
Other non-current liabilities		11,910,000.00	—
Total non-current liabilities		91,910,000.00	—
Total liabilities		218,456,735.01	196,607,499.70

BALANCE SHEET OF THE COMPANY (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

	Note XIII	2012	2011
Shareholders' equity:			
Share capital		224,100,000.00	224,100,000.00
Capital surplus		98,283,776.53	101,655,183.03
Surplus reserve		41,898,314.28	34,049,480.44
Undistributed profits		242,406,772.27	194,177,267.72
Total shareholders' equity		606,688,863.08	553,981,931.19
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		825,145,598.09	750,589,430.89
Net current assets		198,837,798.73	96,064,865.82
Total assets less current liabilities		698,598,863.08	553,981,931.19

Page 37 to page 161 of the financial statements were signed by the following person in charge:

Sha Min
Director

Guo Ya Jun
Director

Sha Min
Legal representative

Guo Ya Jun
Person in charge of
accounting function

Xu Yong Hui
Person in charge of
accounting department

CONSOLIDATED INCOME STATEMENT

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2012	2011
I. Total operating income	(XXVIII)	737,689,688.95	542,388,737.94
II. Total operating cost		569,556,451.04	414,709,367.41
Operating cost	(XXVIII)	453,605,654.15	327,803,324.95
Taxes and surcharges	(XXX)	18,738,322.80	14,157,351.73
Selling and distribution expenses	(XXXI)	19,700,037.85	13,088,941.60
General and administrative expenses	(XXXII)	56,672,710.29	39,152,681.18
Financial expenses	(XXXIII)	11,369,009.23	9,254,329.57
Asset impairment losses	(XXXV)	9,470,716.72	11,252,738.38
Share of profit of associates and jointly controlled entities	(XXXIV)	4,324,931.80	11,584,523.96
Other investment income	(XXXIV)	10,225,428.74	10,104,366.18
III. Operating profit		182,683,598.45	149,368,260.67
Add: Non-operating income	(XXXVI)	24,559,920.80	22,236,679.74
Less: Non-operating expenses	(XXXVII)	403,687.36	165,264.92
IV. Total profit		206,839,831.89	171,439,675.49
Less: Income tax expenses	(XL)	37,621,268.34	25,385,612.54
V. Net profit		169,218,563.55	146,054,062.95
Net profit attributable to the shareholders of the Company		167,927,630.71	146,054,062.95
Minority interests		1,290,932.84	—
VI. Other comprehensive income	(XLIII)	(959.95)	(3,212,006.14)
VII. Total comprehensive income		169,217,603.60	142,842,056.81
Total comprehensive income attributable to the shareholders of the Company		167,926,670.76	142,842,056.81
Total comprehensive income attributable to minority shareholders		1,290,932.84	—
VIII. Earnings per share:			
(1) Basic earnings per share	(XLII)	0.749	0.652
(2) Diluted earnings per share	(XLII)	0.749	0.652
IX. Dividend	(XLI)	22,410,000.00	22,410,000.00

INCOME STATEMENT OF THE COMPANY

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XIII	2012	2011
I. Operating income	(IV)	223,484,400.12	155,520,680.41
Less: Operating cost	(IV)	111,043,228.43	75,528,456.11
Taxes and surcharges		1,998,706.51	2,755,667.12
Selling and distribution expenses		6,321,863.11	5,777,932.24
General and administrative expenses		34,941,843.23	28,020,245.30
Financial expenses		6,958,284.57	3,846,197.43
Asset impairment losses		(1,810,426.81)	4,377,800.35
Share of profit of associates and jointly controlled entities	(V)	4,324,931.80	11,584,523.96
Other investment income	(V)	10,225,428.74	4,304,514.06
II. Operating profit		78,581,261.62	51,103,419.88
Add: Non-operating income		17,287,368.67	10,067,793.58
Less: Non-operating expenses		159,525.79	109,252.04
III. Total profit		95,709,104.50	61,061,961.42
Less: Income tax expenses		17,220,766.11	8,578,856.30
IV. Net profit		78,488,338.39	52,483,105.12
V. Total comprehensive income		78,488,338.39	52,483,105.12

CONSOLIDATED CASH FLOW STATEMENT

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2012	2011
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		812,326,078.60	398,582,342.48
Refund of taxes and surcharges		10,842,839.22	9,492,380.25
Cash received relating to other operating activities (XLIV).1		194,432,378.86	259,700,533.41
Sub-total of cash inflows from operating activities		1,017,601,296.68	667,775,256.14
Cash paid for goods and services		501,429,917.72	277,447,966.56
Cash paid to and on behalf of employees		41,312,338.98	30,759,168.42
Payments of taxes and surcharges		88,152,255.78	45,364,497.51
Cash paid relating to other operating activities (XLIV).2		209,093,581.52	262,932,758.65
Sub-total of cash outflows from operating activities		839,988,094.00	616,504,391.14
Net cash flows from operating activities		177,613,202.68	51,270,865.00
II. Cash flows from investing activities			
Cash received from disposal of investments		64,600,000.00	225,000,000.00
Cash received from returns on investments		680,733.33	7,219,398.58
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,359,602.93	—
Net cash received from disposal of subsidiaries and other operating entities		—	2,773.41
Cash received relating to other investing activities (XLIV).3		6,133,000.00	—
Sub-total of cash inflows from investing activities		72,773,336.26	232,222,171.99
Cash paid to acquire fixed assets, intangible assets and other long-term assets		172,117,737.87	19,381,244.55
Cash paid to acquire investments		25,400,000.00	176,000,000.00
Net increase of pledged loans		—	—
Net cash paid to acquire subsidiaries and other operating entities		—	9,255,990.50
Cash paid relating to other investing activities		—	—
Sub-total of cash outflows from investing activities		197,517,737.87	204,637,235.05
Net cash flows from investing activities		(124,744,401.61)	27,584,936.94

CONSOLIDATED CASH FLOW STATEMENT (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2012	2011
III. Cash flows from financing activities			
Cash received from investment		28,000,000.00	—
Including: Cash received from investment from minority shareholders		28,000,000.00	—
Cash received from borrowings		288,000,000.00	355,300,000.00
Sub-total of cash inflows from financing activities		316,000,000.00	355,300,000.00
Cash repayments of borrowings		356,300,000.00	290,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		38,399,839.81	37,934,237.60
Sub-total of cash outflows from financing activities		394,699,839.81	327,934,237.60
Net cash flows from financing activities		(78,699,839.81)	27,365,762.40
IV. Effect of foreign exchange rate changes on cash and cash equivalents		5,327.27	(1,330,827.40)
V. Net increase in cash and cash equivalents		(25,825,711.47)	104,890,736.94
Add: Cash and cash equivalents at beginning of period		415,049,940.54	310,159,203.60
VI. Cash and cash equivalent at end of period		389,224,229.07	415,049,940.54

CASH FLOW STATEMENT OF THE COMPANY

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XIII	2012	2011
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		323,336,129.16	148,476,313.65
Refund of taxes and surcharges		9,917,003.02	9,083,694.09
Cash received relating to other operating activities		39,478,657.12	64,139,486.67
Sub-total of cash inflows from operating activities		372,731,789.30	221,699,494.41
Cash paid for goods and services		131,170,761.16	64,883,960.74
Cash paid to and on behalf of employees		18,384,362.95	18,726,210.53
Payments of taxes and surcharges		37,293,480.52	26,314,415.51
Cash paid relating to other operating activities		47,213,757.05	66,919,808.49
Sub-total of cash outflows from operating activities		234,062,361.68	176,844,395.27
Net cash flows from operating activities		138,669,427.62	44,855,099.14
II. Cash flows from investing activities			
Cash received from disposal of investments		64,600,000.00	150,000,000.00
Cash received from returns on investments		680,733.33	4,432,247.38
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		1,309,802.93	—
Sub-total of cash inflows from investing activities		66,590,536.26	154,432,247.38
Cash paid to acquire fixed assets, intangible assets and other long-term assets		99,357,978.46	18,908,784.55
Cash paid to acquire investments		65,400,000.00	171,000,000.00
Sub-total of cash outflows from investing activities		164,757,978.46	189,908,784.55
Net cash flows from investing activities		(98,167,442.20)	(35,476,537.17)

CASH FLOW STATEMENT OF THE COMPANY (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XIII	2012	2011
III. Cash flows from financing activities			
Cash received from borrowings		190,000,000.00	175,300,000.00
Sub-total of cash inflows from financing activities		190,000,000.00	175,300,000.00
Cash repayments of borrowings		180,300,000.00	160,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		29,478,154.79	29,902,781.25
Sub-total of cash outflows from financing activities		209,778,154.79	189,902,781.25
Net cash flows from financing activities		(19,778,154.79)	(14,602,781.25)
IV. Effect of foreign exchange rate changes on cash and cash equivalents		-	-
V. Net increase in cash and cash equivalents		20,723,830.63	(5,224,219.28)
Add: Cash and cash equivalents at beginning of period		72,318,728.78	77,542,948.06
VI. Cash and cash equivalent at end of period		93,042,559.41	72,318,728.78

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	2012						Total shareholders' equity
	Attributable to the shareholders of the Company						
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	Others	Minority interest	
I. Closing balance of prior year	224,100,000.00	102,999,020.45	34,049,480.44	427,217,076.14	(3,643,142.26)	7,726,923.08	792,449,357.85
II. Opening balance of current year	224,100,000.00	102,999,020.45	34,049,480.44	427,217,076.14	(3,643,142.26)	7,726,923.08	792,449,357.85
III. Changes during the period	-	(3,371,406.50)	7,848,833.84	137,668,796.87	(959.95)	29,290,932.84	171,436,197.10
(I) Net profits	-	-	-	167,927,630.71	-	1,290,932.84	169,218,563.55
(II) Other comprehensive income	-	-	-	-	(959.95)	-	(959.95)
(III) Shareholders contribution and capital reduction	-	-	-	-	-	28,000,000.00	28,000,000.00
1. Capital contribution by shareholders	-	-	-	-	-	28,000,000.00	28,000,000.00
(IV) Profit appropriation	-	-	7,848,833.84	(30,258,833.84)	-	-	(22,410,000.00)
1. Appropriation to surplus reserves	-	-	7,848,833.84	(7,848,833.84)	-	-	-
2. Appropriation to shareholders	-	-	-	(22,410,000.00)	-	-	(22,410,000.00)
(V) Others	-	(3,371,406.50)	-	-	-	-	(3,371,406.50)
IV. Closing balance of current period	224,100,000.00	99,627,613.95	41,898,314.28	564,885,873.01	(3,644,102.21)	37,017,855.92	963,885,554.95

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

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

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY

At 31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	2012				Total shareholders' equity
	Share capital	Capital surplus	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	224,100,000.00	101,655,183.03	34,049,480.44	194,177,267.22	553,981,931.19
II. Opening balance of current year	224,100,000.00	101,655,183.03	34,049,480.44	194,177,267.22	553,981,931.19
III. Changes during the period	-	(3,371,406.50)	7,848,833.84	48,229,504.55	52,706,931.89
(I) Net profits	-	-	-	78,488,338.39	78,488,338.39
(II) Other comprehensive income	-	-	-	-	-
(III) Shareholders contribution and capital reduction	-	-	-	-	-
(IV) Profit appropriation	-	-	7,848,833.84	(30,258,833.84)	(22,410,000.00)
1. Appropriation to surplus reserves	-	-	7,848,833.84	(7,848,833.84)	-
2. Appropriation to shareholders	-	-	-	(22,410,000.00)	(22,410,000.00)
(V) Others	-	(3,371,406.50)	-	-	(3,371,406.50)
IV. Closing balance of current period	224,100,000.00	98,283,776.53	41,898,314.28	242,406,772.27	606,688,863.08

STATEMENT OF CHANGES IN EQUITY OF THE COMPANY (continued)

31 December 2012

(All amounts in Renminbi yuan unless otherwise stated)

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

I. CORPORATE INFORMATION

(I) General information

南京三寶科技股份有限公司 (Nanjing Sample Technology Company Limited*) (the “Company”, together with its subsidiaries, the “Group”) was established in the People’s Republic of China (the “PRC”) and was approved to be reorganised into a joint stock limited company on 28 December 2000.

The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 9 June 2004. On 22 November 2010, the Company’s H shares were successfully migrated from the GEM to the mainboard of the Stock Exchange (the “Main Board”).

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

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

(II) The nature of the industry

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

(III) Scope of business

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

(IV) Principal business

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

(V) Basic organizational structure of the Company

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

I. CORPORATE INFORMATION *(Continued)*

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

As of 31 December 2012, the Group has eight wholly-owned and controlled subsidiaries, namely: 江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Limited), 江蘇瑞福智慧科技發展有限公司 (Jiangsu Raifu Intelligent Tech. Co., Ltd.), 南京三寶物流科技發展有限公司 (Nanjing Sample Logistic Company Limited), 南京物聯網研究院發展有限公司 (Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited), Sample Technology (H.K.) Co., Limited, Federal International Enterprise Limited and 南京城市智能交通有限公司 (Nanjing City Intelligent Transportation Co., Ltd.), 江蘇三寶信息技術有限公司 (Jiangsu Sample Information Technology Co., Ltd.).

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

(I) Basis of preparation of financial statements

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

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

The financial statements have been prepared in conformity with the PRC Accounting Standards, and present truly and completely the consolidated and the Company's financial position as at 31 December 2012, and the consolidation and the Company's operating results and cash flow and other related information during the year then ended.

(III) Accounting period

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IV) Reporting currency

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

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

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

1. Business combinations involving entities under common control

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

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

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

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

2. Business combinations involving entities not under common control

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

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

As for the assets other than intangible assets acquired from the acquiree in a business combination (not limited to the assets which have been recognized by the acquiree), if the economic benefits brought by them are likely to flow into the Group and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; if the fair value of any intangible asset can be measured reliably, it shall be separately recognized as an intangible asset and shall be measured in light of its fair value; As for the liabilities other than contingent liabilities acquired from the acquiree, if the performance of the relevant obligations are likely to result in any out-flow of economic benefits from the Group, and their fair values can be measured reliably, they shall be separately recognized and measured in light of their fair values; As for the contingent liabilities of the acquiree obtained in a combination, if their fair values can be measured reliably, they shall separately recognized as liabilities and shall be measured in light of their fair values.

In a business combination, the acquiree's deductible temporary differences obtained by the Group are not recognised if the deductible temporary differences do not satisfy the criteria for recognition of deferred tax assets on the date of acquisition. The Company recognises the relevant deferred tax assets and reduces goodwill accordingly if within 12 months of the acquisition date, new or updated information indicates that on the date of combination, the obtained deferred tax benefit is expected to be realised in future periods. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. All other acquired deferred tax assets shall be charged to profit or loss for the current period.

For business combinations involving entities not under common control, the agency fee paid by the acquirer such as audit, legal service and evaluation consultation and other management fees shall be recognised as the profit or loss in the period when the costs are incurred; the transaction costs for the equity securities or debt securities issued by the acquirer as the combination consideration shall be included in the amount of initial recognition of the equity securities or debt securities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VI) Preparation of consolidated financial statements

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VI) Preparation of consolidated financial statements *(Continued)*

For acquisition of subsidiaries due to business combination involving entities not under common control, the opening balance of consolidated balance sheet needs not adjustment; the revenue, expense and profit of such subsidiaries from the date of acquisition to the end of the reporting period are included in the consolidated income statement; the cash flows of such subsidiaries from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statement. In a business combination involving entities not under common control achieved in stages, the Company remeasures its previously held equity interest in the acquiree on the acquisition date in light of the fair value of such equity interest on the date of acquisition. The difference between the fair value and the carrying value is recognised as investment income for the period. If other comprehensive income was recognised regarding the equity interest previously held in the acquiree before the acquisition date, the relevant other comprehensive income is transferred to investment income in the period in which the acquisition occurs.

For disposal of subsidiaries during the reporting period, the revenue, expense and profit of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries from the beginning of the period to the date of disposal are included in the consolidated cash flow statement. Where control of a subsidiary is lost due to partial disposal of the equity investment held in a subsidiary, or any other reasons, the remaining equity investment is remeasured to fair value at the date in which control is lost. The sum of consideration received from disposal of equity investment and the fair value of the remaining equity investment, net of the fair value of the Company's previous share of the subsidiary's net assets recorded from the acquisition date, is recognised in investment income in the period in which control is lost. Other comprehensive income related to the previous equity investment in the subsidiary, is transferred to investment income when control is lost.

Where the Company acquired a minority interest, the difference between the newly acquired long-term equity investments and the newly acquired share of the subsidiary's identifiable net assets is adjusted to the capital reserve within the capital premium in the consolidated balance sheet. Where the Company partially disposed an investment of a subsidiary that do not result in a loss of control, the difference between the proceeds and the corresponding share of the net assets of the subsidiary is adjusted to the capital reserve within the capital premium in the consolidated balance sheet. If the capital premium of the capital reserve is insufficient, any excess is adjusted to retained profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VII) Determination of cash and cash equivalents

In preparing the cash flow statement, the cash on hand and deposits that are available for payment at any time of the Group are recognised as cash. The short-term (due within 3 months of the date of purchase) and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of value change are recognised as cash equivalents.

(VIII) Foreign currency transactions

1. Foreign currency transactions

Foreign currency transactions shall be translated into RMB at the spot exchange rate on the day when the transactions occurred.

Foreign currency monetary items shall be translated using the spot exchange rate at the balance sheet date. The resulting exchange differences are recognised in profit or loss for the current period, except for those differences related to the principal and interest on a specific-purpose borrowing denominated in foreign currency for acquisitions, construction or production of the qualified assets, which should be capitalised as cost of the assets. Foreign currency non-monetary items measured in historic cost shall still be translated using the spot exchange rate when the transaction occurred, and do not change the RMB amount. Foreign currency non-momentary items measured in fair value shall be translated using the spot exchange rate at the date when the fair value was determined. Exchange differences arising from the differences of exchange rate are included in profit or loss or capital reserve for the current period.

2. Translation of foreign currency financial statements

All assets and liabilities items in balance sheet are translated based on spot exchange rate on the balance sheet date; owners' equity items other than "undistributed profit" are translated at a spot exchange rate when accrued. Revenue and expense items in the income statement are translated at a spot exchange rate at the transaction occurrence date. The translation difference of foreign currency financial statements after the above translation, is stated as a separate item under the "owners' equity" item in balance sheet.

For disposal of overseas operation, the translation difference as stated in the items under shareholders' equity in balance sheet and in the foreign currency financial statements relating to overseas operation, is accounted for in the profit and loss account in the current period; for partial disposal of overseas operation, the translation difference for the foreign currency financial statements relating to the disposed overseas operation is proportionally calculated, and is accounted for in the profit and loss account in the current period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments

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

1. Classification of the financial instruments

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

2. Recognition and measurement of financial instruments

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments *(Continued)*

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

(2) Held-to-maturity investments

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

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

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

(3) Accounts receivable

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments *(Continued)*

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

(4) Available-for-sale financial assets

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

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

When disposed of, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment income; meanwhile, the corresponding portion of accumulated change in fair value previously recorded into owners' equity shall be transferred to profit or loss.

(5) Other financial liabilities

Other financial liabilities are initially measured at fair value plus relevant transaction costs, and subsequently measured at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments *(Continued)*

3. Recognition and measurement of transfer of financial assets

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments *(Continued)*

4. Conditions for derecognition of financial liabilities

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IX) Financial instruments *(Continued)*

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(X) Accounts receivable

1 Accounts receivable that are individually significant and subject to separate provision

Individually significant accounts receivable: the amount of accounts receivable are individually more than RMB10 million (including RMB10 million) and other receivables are individually more than RMB5 million (including RMB5 million).

Individually significant accounts receivable are subject to separate impairment test, and if there are objective evidence that they are impaired, the impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the receivables below the carrying amount. Accounts receivable which are not impaired according to the separate impairment test, shall be categorised into the corresponding groups for provision of bad debts.

2 Accounts receivable that are subject to provision by groups

Basis for determination of groups is as follow:

Group 1	Accounts receivable due from governments
Group 2	Accounts receivable due from non-governments
Group 3	Accounts receivable within the scope of combination
Group 4	Retention monies receivable
Group 5	Other receivables

Methods for provision of bad debts by groups

Group 1	Discounting method
Group 2	Aging analysis method
Group 3	No provisions are made
Group 4	No provisions are made
Group 5	Aging analysis method

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(X) Accounts receivable (Continued)

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XI) Inventories

1. Classification of inventories

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

2. Cost of inventories

Cost of inventories is determined using the weighted average method.

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

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

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

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

Should the factors causing any write-down of the inventories do not exist anymore, the amount of write-down will be recovered and be reversed from the provision for diminution in value of inventories that has been made. The reversed amount will be included in the current profits and losses.

Unless there is evidence clearly shows that abnormality in market price exists as of the balance sheet date, the net realisable value of inventories is determined based on the market price as of the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XI) Inventories *(Continued)*

4. Inventory system

The perpetual inventory system is adopted.

5. Amortisation of low-value consumables and packaging materials

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

(XII) Long-term equity investments

1. Determination of cost of investment

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

The initial cost of investment of a long-term equity investment obtained by the Company by cash payment shall be the purchase cost which is actually paid.

The initial cost of investment of a long-term equity investment obtained by the Company by means of issuance of equity securities shall be the fair value of the equity securities issued.

The initial cost of investment of a long-term equity investment contributed by the investors shall be the value stipulated in the investment contract or agreement (except for cash dividends or profits which are declared but not distributed) except for cases where the value stipulated in the contract or agreement is not fair.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the initial cost of investment of a long-term equity investment received the non-monetary assets transaction, shall be determined on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the initial cost of investment of a long-term equity investment received shall be the book value of the assets surrendered and the relevant taxes and expenses payable.

The initial cost of investment of a long-term equity investment obtained by the Company through debt restructurings shall be ascertained based on their fair value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

2. Subsequent measurement and recognition of profit or loss

(1) Subsequent measurement

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

(2) Recognition of profit or loss

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

3. Basis for determination of joint control and significant influence over the investees

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the significant financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control. Where the investor can jointly control over the investee with other parties, the investee is joint venture of the investor and the said parties.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties. Where the investor can exercise significant influence over the investee, the investee is an associate of the investor.

4. Impairment test method and impairment provision

Where a long-term equity investment is of below significant influence and is not quoted in an active market and its fair value cannot be reliably measured, its impairment loss shall be determined based on the difference between its carrying amount and the present value determined by discounting its future cash flows at a the prevailing market yield for similar financial assets.

For other long-term equity investments for which there are any indicators of impairment other than the goodwill arising from the business combinations, if the results of the measurement of the recoverable amount indicate the recoverable amount of such long-term equity investment is lower than its carrying amount, such difference shall be recognised as impairment loss.

Once the impairment loss for the long-term equity investment is recognised, it shall not be reversed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XIII) Fixed assets

1. Conditions for recognition of fixed assets

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

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

2. Method for depreciation of different fixed assets

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

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

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

Category	Useful lives of depreciation (years)	Estimated residual value (%)	Annual depreciation rate (%)
Buildings and structures	30	5	3.17
Machinery and equipment	10	5	9.50
Transportation equipment	5	5	19.00
Electronic and office equipment	3-10	5	9.5-31.67

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XIII) Fixed assets *(Continued)*

3. Impairment testing methods and provision for impairment methods on fixed assets

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XIII) Fixed assets *(Continued)*

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

Where any one of the following conditions is provided in the lease agreement between the Group and the lessor, assets under finance lease will be recognised:

- (1) upon the expiry of lease, the ownership of the leased asset is transferred to the Group;
- (2) The Company has the option to purchase the leased asset, the purchase consideration entered into is expected to be far less than the fair value of the leased asset upon the exercise of the option;
- (3) the lease term accounts for the majority of the useful life of the leased asset;
- (4) the present value of the minimum lease payment upon the commencement of the lease is substantially the same as the fair value of the leased asset.

On the commencement of the lease, the leased asset shall be recorded at an amount equal to the lower of the fair value of the leased asset and the present value of the minimum lease payments, and the minimum lease payments shall be recorded as the carrying amount of long-term payables. The difference between the recorded amount of the leased asset and the minimum lease payments shall be accounted for as unrecognised finance charge.

5. Explanation on other matters

Fixed assets of the Group are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, import custom duties and other related taxes, and any directly attributable expenditures for bringing the asset to working condition for its intended use. The cost of a self-constructed fixed asset comprises those expenditures necessarily incurred for bringing the asset to working condition for its intended use. The cost of a fixed asset contributed by an investor will be determined in accordance with the value stipulated in the investment contract or agreement, except where the value stipulated in the contract or agreement is not fair. Where the payment for a fixed asset is delayed beyond the normal credit conditions, which is equivalent to financing in nature, the cost of fixed assets shall be recognized on the basis of the present value of the purchase price. Fixed assets will be derecognized on disposal or when no future economic benefits are expected from its use or disposal. When a fixed asset is sold, transferred, retired or damaged, the Company shall recognise the amount of any proceeds on disposal of the asset net of the carrying amount and related taxes in profit or loss for the current period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XIV) Construction in progress

1. Types of constructions in progress

Constructions in progress are accounted for by individual projects.

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XV) Borrowing costs

1. Criteria for recognition of capitalised borrowing costs

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

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

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

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

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

2. Capitalisation period of borrowing costs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XV) Borrowing costs *(Continued)*

2. Capitalisation period of borrowing costs *(Continued)*

If different parts of the assets acquired, constructed or produced are completed separately, but such asset will not be ready for the intended use or sale until all parts have been completed, then the borrowing costs will be capitalized until the completion of all parts of the said asset.

3. Suspension of capitalisation period

Capitalisation of borrowing costs shall be suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted abnormally, when the interruption is for a continuous period of more than 3 months; if the interruption is a necessary step for making the qualifying asset under acquisition and construction or production ready for the intended use or sale, the capitalisation of the borrowing costs shall continue. The borrowing costs incurred during such period shall be recognised as profits and losses of the current period, until the acquisition and construction or production of the asset resumes.

4. Calculation of capitalisation of borrowing costs

The interest costs of specifically borrowed loans (net of the interest income earned on the unused borrowing loans as a deposit in the bank or as a temporary investment) and their ancillary costs are capitalized before the qualifying asset under acquisition and construction or production is ready for the intended use or sale.

The to-be-capitalised amount of interests on the general borrowing shall be calculated and determined by multiplying the weighted average asset disbursement (based on the average for each month end) of the part of the accumulative asset disbursements minus the specifically borrowed loans by the capitalisation rate of the general borrowing used. The capitalisation rate shall be calculated and determined according to the weighted average interest rate of the general borrowing.

Where there is any discount or premium for the borrowings, the amount of discounts or premiums that shall be amortized during each accounting period shall be determined based on the effective interest method and an adjustment shall be made to the amount of interests in each period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVI) Intangible assets

1. Valuation method of intangible assets

- (1) Intangible assets are initially measured at cost upon acquisition;

The costs of an externally purchased intangible asset include the purchase price, relevant taxes and expenses paid, and other expenditures directly attributable to putting the asset into condition for its intended use. If the payment for an intangible asset is delayed beyond the normal credit conditions and it is of financing nature in effect, the cost of the intangible assets shall be ascertained based on the present value of the purchase price.

The amount of intangible assets acquired from debt restructuring should be recorded at the fair value of such intangible assets, and the difference between the carrying amount of the restructured debt and the fair value of the intangible assets acquired from debt restructuring should be included in the profit or loss for the current period.

If the non-monetary assets transaction is commercial in nature and the fair value of the assets received or surrendered can be reliably measured, the intangible assets received in the non-monetary assets transaction, shall be measured on the basis of the fair value of the assets surrendered, unless there are concrete evidence that the fair value of the assets received is more reliable; For non-monetary assets transaction which does not meet the above conditions, the cost of of intangible assets received shall be the book value of the assets surrendered and the relevant taxes and expenses payable, and the profit or loss will not be recognised.

The intangible assets acquired in the business combinations involving entities under common control by way of absorption shall be recorded at the carrying amount of the acquirer; and the intangible assets acquired in the business combinations involving entities not under common control by way of absorption shall be recorded at its fair value.

The cost of the internally developed intangible assets includes: the costs of the material consumed for developing the intangible assets, labor costs, registration fees, amortisation of other patents and licenses and capitalised interest expenses in the development phase, and other costs which are directly attributable to bringing the intangible assets ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVI) Intangible assets *(Continued)*

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

(2) Subsequent measurement

The Company shall analyse and judge the useful life of intangible assets upon acquisition.

As for intangible assets with a definite useful life, they are amortised using the straight-line method over the term in which economic benefits are brought to an enterprise; If the term in which economic benefits are brought to an enterprise by an intangible asset cannot be estimated, the intangible asset shall be taken as an intangible asset with indefinite useful life, and shall not be amortised.

2. Estimated useful lives for the intangible assets with finite useful life:

Items	Estimated useful lives (year(s))	Basis
Land use rights	50	Terms of the land lease
Software	8	expected useful lives
Know-how	8	expected useful lives

For an intangible asset with a finite useful life, review on its useful life and amortisation method is performed at each period-end.

Upon review, useful life and amortisation method for the intangible assets are no different from the previous estimate at the end of this period.

3. Judgement basis for the intangible assets with indefinite useful lives

As of the balance sheet date, there weren't intangible assets with indefinite useful lives.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVI) Intangible assets *(Continued)*

4. Impairment provision for intangible assets

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

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

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

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

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

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

Once the impairment loss is recognised for an intangible asset, it will not be reversed in the subsequent periods.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVI) Intangible assets *(Continued)*

5. Specific criteria for the division of research phase and development phase for internal research and development projects of the Company

The expenses for internal research and development projects of the Group are divided into expenses in the research phase and expenses in the development phase.

Research phase: Scheduled innovative investigations and research activities to obtain and understand scientific or technological knowledge.

Development phase: Apply the research outcomes or other knowledge to a plan or design prior to a commercial production or use in order to produce new or essentially-improved materials, devises, products, etc.

6. Specific criteria for development phase qualified for capitalization

The expenses in the development phase for internal research and development projects are recognized as intangible assets if the following conditions are fulfilled:

- (1) it is technically feasible to complete such intangible asset so that it will be available for use or for sale;
- (2) there is intention to complete the intangible asset for use or sale;
- (3) the intangible asset can produce economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there exists usage for the intangible asset;
- (4) there is sufficient support in terms of technology, financial resources and other resources in order to complete the development of the intangible asset, and there is capability to use or sell the intangible asset;
- (5) the expenses attributable to the development stage of the intangible asset can be measured reliably.

Expenses incurred during the development stage which do not meet the above conditions, are accounted for in profit or loss for the current period when it is incurred. Expenses incurred during the research phase are accounted for in the profit or loss for the current period when it is incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVII) Long-term prepaid expenses

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

(XVIII) Estimated liabilities

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

1. Recognition criteria for estimated liabilities

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

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

2. Method of measuring the estimated liabilities

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

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

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

The expenses required have a successive range (or band), in which the possibilities of occurrence of each result are the same, and the best estimate should be determined as the middle value for the range, i.e. the average of the upper and lower limit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVIII) Estimated liabilities *(Continued)*

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

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

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

(IXX) Revenue

1. Recognition of the revenue from sales of goods and principles of measurement

(1) *Recognition of the revenue from sales of goods and general principles of measurement*

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

(2) *Specific criteria for judging recognition of the revenue from sales of goods of the Company*

Sales of goods (products) of the Company mainly consist of sales of software products and sales of special RFID equipment. For installation-free products, income is recognised after delivery and inspection by the purchaser. For products to be installed and adjusted, income is recognised after completion of the project and inspection of the client as stipulated in the relevant contracts or agreements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IXX) Revenue *(Continued)*

2. Recognition of revenue from use by others of assets and principles of measurement

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

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

3. Recognition of revenue from rendering of services and principles of measurement

Revenue from rendering of services of the Company mainly consists of technological development revenue and maintenance revenue, of which:

- (1) Technological development revenue is recognized as realized after completion of technological developing projects undertaken and inspection of the client;
- (2) Maintenance revenue is recognized as realized at the total revenue as stipulated in relevant contracts amortised over period of rendering of services thereunder.

4. Recognition of revenue from general system integration and principles of measurement

General system integration projects of the Company are integration projects for customs logistics. Revenue of such projects is recognized on a one-off basis, which is to be recognized as realized at receiving the payment or receipt after rendering the services and inspection of the party receiving the services.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IXX) Revenue *(Continued)*

5. Recognition of revenue from rendering of services and from construction contract using percentage of completion method and principles of measurement

- (1) *Recognition of revenue from rendering of services and from construction contract using percentage of completion method and general principles of measurement*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IXX) Revenue *(Continued)*

5. Recognition of revenue from rendering of services and from construction contract using percentage of completion method and principles of measurement *(Continued)*

- (2) *Specific criteria for judging recognition of revenue of the Company from rendering of services and from construction contract are determined based on governing construction contracts.*

Revenue from intelligent transportation construction development projects of the Company in progress are recognized using percentage of completion method. Specific principles are as follows:

- ① When outcome of contracts of intelligent transportation construction development projects can be reliably measured, revenue and expenses related to such contracts are recognized on the balance sheet date using percentage of completion method. The percentage of completion is determined as the proportion of work under such contracts performed to total work estimated in such contracts.
- ② When outcome of contracts of intelligent transportation construction development projects cannot be reliably measured, it shall be treated as following respectively:
 - If cost of the contracts is recoverable, sales revenue of the projects are recognized based on the actual recoverable contractual cost, which is recognized as current contractual expenses;
 - If cost of the contracts is unrecoverable, it is recognized as current contractual cost at occurrence and is not recognized as sales revenue of the projects.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IXX) Revenue *(Continued)*

5. Recognition of revenue from rendering of services and from construction contract using percentage of completion method and principles of measurement *(Continued)*

- (3) *Business characteristics relevant to revenue from rendering of services and from construction contract using percentage of completion method and general principles of measurement*

Intelligent transportation business of the Company is carried out by direct sales through tender, in which the Company directly provides customers with complete system integrating services, specifically: to design industrial solutions by itself, develop or direct procurement of software systems by itself, purchase in the market or produce by itself general equipment, engage factories certified to manufacture hardware equipment of correspondent systems to manufacture special hardware equipment and finally combine these three elements into a complete information system through overall coordination, management, installation and adjustment. Duration of intelligent transportation projects of the Company, being the period from commencement of work to the completion, is generally 12 months, where the shortest can be 6 months and the longest more than 24 months. As these projects involves higher contractual amount and spread over more than one balance sheet date and accounting period, their revenue is recognized according to their construction contracts.

(XX) Government grant

1. Types

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

2. Methods of accounting treatment

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXI) Deferred tax assets and liabilities

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXII) Related party

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXIII) Change in major accounting policies and accounting estimates

1. Change in accounting policies

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

2. Change in major accounting estimates

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

(XXIV) Correction to previous errors

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

III. TAXATION

(I) Main types of taxes and corresponding rates

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

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

Note 2: The local education surcharge changed from 1% to 2% since February 2011.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

III. TAXATION (Continued)

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

Enterprise income tax

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

(II) Tax preferential and approval document

1. VAT

The rate of output VAT is 17%, payable on the balance after deduction of the input tax. Of which, the VAT policies relating to the sales revenue of software are: (1) In accordance with the requirements of the document (財稅[2000]25號), from 24 June 2000 to the end of 2010, as for the sales of the self-developed and produced software products by the VAT general tax payers, after the VAT is levied at a statutory tax rate of 17%, the VAT refund policies will be applied for the excess of the actual VAT burden over 3%. The refunded tax will be used by the enterprise for the research and development of software products and the expansion of production, not as the taxable income for the enterprise income tax and will not levied the enterprise income tax. (2) On 28 January 2011, the State Council issued the Circular of the State Council on Printing and Distributing the Policies to Further Encourage the Development of the Software Industry and Integrated Circuit Industry (國發[2011]4號), pursuant to which, the preferential VAT policies for software industry shall continue. (3) On 16 July 2001, the Company obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 24 June 2003, Nanjing Sample Logistic Company Limited obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 11 September 2003, Jiangsu Intellitrans Company Limited obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 19 August 2004, Jiangsu Raifu Intelligent Tech. Co., Ltd. obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. On 17 September 2012, Nanjing City Intelligent Transporations Co., Ltd. obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise. The above companies selling self-developed-and-manufactured software products enjoy the said preferential VAT policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

III. TAXATION (Continued)

(II) Tax preferential and approval document

2. Enterprise income tax

On 31 October 2011, the Company obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu State Tax Bureau and Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家稅務局、江蘇省地方稅務局), for an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise, therefore, the enterprise income tax rate for the Company is 15% in 2012.

On 21 October 2008, Jiangsu Intellitrans Company Limited, a subsidiary of the Company, obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu State Tax Bureau and Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家稅務局、江蘇省地方稅務局), for an effective period of three years. This company continued to obtain the High and New Technology Enterprise certificate on 30 September 2011, with an effective period of three years. Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise, therefore, its effective tax rate is 15% during the reporting period.

On 22 December 2009, Jiangsu Raifu Intelligent Tech. Co., Ltd.(the "Raifu Company"), a subsidiary of the Company, obtained the High and New Technology Enterprise certificate jointly issued by the Jiangsu Science and Technology Bureau, Jiangsu Finance Bureau, Jiangsu State Tax Bureau and Jiangsu Local Tax Bureau (江蘇省科學技術廳、江蘇省財政廳、江蘇省國家稅務局、江蘇省地方稅務局) for an effective period of three years. After the High and New Technology review on 5 November 2012, the Company continued to be the High and New Technology Enterprise). Pursuant to article 28 of the Enterprise Income Tax Law of the People's Republic of China, the income shall be taxed at the reduced rate of 15% for the New and High Technology Enterprise. Therefore, its effective tax rate is 15% during the reporting period.

The other domestic subsidiaries of the Company were taxed at 25% enterprise income tax rate.

The offshore subsidiaries of the Company were taxed at the local applicable income tax rate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS

(I) Subsidiaries

1. Subsidiaries acquired from establishment or investment

Name of subsidiary	Type of subsidiary	Registered and operating place	Nature of business	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Equity interest held by the Company (%)	% voting rights held (%)	Consolidated or not	Minority interests
Sample Technology (H.K.) Co., Limited	Wholly-owned subsidiary	HK	Consultation and investment	USD1	Consultation for and investment in electronic products and computer networks	7.77	100	100	Yes	-
Nanjing Sample Logistic Company Limited	Wholly-owned subsidiary	PRC	Computer software	600	Development, manufacturing and sales of electronic products, computer and software and communications products	600	100	100	Yes	-
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited	Wholly-owned subsidiary	PRC	Internet of Things technology	10,000	Research and development as well as application of the Internet of Things technology	10,000	100	100	Yes	-
Jiangsu Sample Information Technology Co., Ltd.	Wholly-owned subsidiary	PRC	Internet of Things technology	5,000	Research and development as well as application of the Internet of Things technology	5,000	100	100	Yes	-

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

2. Subsidiaries acquired in a business combination involving enterprises under common control

There were no subsidiaries acquired in a business combination involving enterprises under common control during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

IV. BUSINESS COMBINATIONS AND COMBINED FINANCIAL STATEMENTS (Continued)

(I) Subsidiaries (Continued)

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

Name of subsidiary	Type of subsidiary	Registered and operating place	Nature of business	Registered capital ('0000)	Scope of business	Actual investment at end of period ('0000)	Equity interest held by the Company (%)	% voting rights held (%)	Consolidated or not	Minority interests
Jiangsu Intelltrans Company Limited	Wholly-owned subsidiary	PRC	Intelligent transportation system	10,000	Design, construction and maintenance of intelligent transportation system and computer networks engineering	13,000	100	100	Yes	-
Federal International Enterprise Limited	Wholly-owned subsidiary	HK	Electronic products	HKD1	Development and manufacturing of electronic products and computer software, etc.	HKD3,000	100	100	Yes	-
Jiangsu Railu Intelligent Tech. Co., Ltd.	Wholly-owned subsidiary	PRC	Electronic products	3,134.47	Development and manufacturing of electronic products and communications equipment, etc.	3,134.47	100	100	Yes	-
Nanjing City Intelligent Transportation Co., Ltd.	Controlled	PRC	Information technology	10,000	Consultation on computer technologies and technical services, etc.	6,635	65	65	Yes	37,017,855.92

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

(II) Notes to the changes in scope of consolidation

Name	2012
Jiangsu Sample Information Technology Co., Ltd.	Newly established wholly-owned subsidiary

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

1. New member of consolidation in the reporting period

Name	Net assets	
	at the end of 2012	Net profit for 2012
Jiangsu Sample Information Technology Co., Ltd.	48,706,095.23	(1,293,904.77)

2. No member left out of consolidation in the reporting period

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

- (VI) No business combination involving enterprises not under common control happened during the reporting period
- (VII) No reduction of subsidiary resulting from the disposal of interest which was loss of controlling power during the reporting period by sales
- (VIII) No reverse acquisition happened during the reporting period
- (IX) No combination by way of absorption happened during the reporting period
- (X) The exchange rate for main items of consolidation sheet of foreign entity.

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

(I) Cash at bank and on hand

Items	2012			2011		
	Foreign Currency	Exchange rate	RMB	Foreign Currency	Exchange rate	RMB
Cash on hand						
RMB			307,543.34			99,473.85
Bank deposits						
RMB			269,779,091.83			236,146,970.29
Hong Kong Dollars ("HKD")	43,338,708.31	0.8108	35,137,593.90	36,886,019.98	0.8107	29,903,496.40
Sub-total			304,916,685.73			266,050,466.69
Others						
RMB			144,385,497.78			191,475,137.14
Total			449,609,726.85			457,625,077.68

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

Items	2012	2011
Deposits for bank accepted bills of exchange	14,343,605.04	11,994,685.70
Deposits of guarantee letter	45,741,892.74	30,580,451.44
Deposits of letter of credit	300,000.00	—
Total	60,385,497.78	42,575,137.14

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(II) Notes receivable

1. Classification of notes receivable

Type	2012	2011
Bank accepted bills of exchange	<u>160,000.00</u>	<u>856,348.50</u>

2. There is no undue bills endorsed by the Company by the end of year

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(III) Accounts receivable (Continued)

1. Disclosure of accounts receivable by categories

Categories	2012				2011			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-
Subject to provision by groups	-	-	-	-	-	-	-	-
Including: due from governments	29,541,171.16	9.84	297,701.89	1.01	55,754,910.36	16.42	5,341,749.73	9.58
due from non-governments	270,733,434.51	90.16	21,400,700.80	7.90	283,747,722.69	83.58	13,084,384.40	4.61
Sub-total for the group	300,274,605.67	100.00	21,698,402.69	-	339,502,633.05	100.00	18,426,134.13	-
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	300,274,605.67	100.00	21,698,402.69	-	339,502,633.05	100.00	18,426,134.13	-

In the groups, provision for bad debts for accounts receivable due from governments are made using discounting method:

Category	2012		2011	
	Closing balance	Provision for bad debts	Closing balance	Provision for bad debts
Due from governments	29,541,171.16	297,701.89	55,754,910.36	5,341,749.73

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(III) Accounts receivable (Continued)

1. Disclosure of accounts receivable by categories (Continued)

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

Aging	2012			2011		
	Closing balance	Percentage	Provision for	Closing balance	Percentage	Provision for
	Amount	(%)	bad debts	Amount	(%)	bad debts
Within 1 year	165,267,096.26	61.04	4,958,012.88	262,572,094.40	92.54	7,877,162.83
1 to 2 years	93,184,327.03	34.42	7,454,746.16	13,292,653.59	4.68	1,063,412.29
2 to 3 years	4,705,813.51	1.74	1,411,744.05	5,341,664.88	1.88	1,602,499.46
Over 3 years	7,576,197.71	2.80	7,576,197.71	2,541,309.82	0.90	2,541,309.82
Total	270,733,434.51	100.00	21,400,700.80	283,747,722.69	100.00	13,084,384.40

2. The actual write-off of accounts receivable

2012

Name of unit	Nature of accounts receivable	Write-off amount	Reasons for write-off	Whether caused by related party transaction
Nanjing Gori Energy Technology Co., Ltd. (南京國瑞能源科技有限公司)	Sales	0.39	write-off balance difference	No
Total		0.39		

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(III) Accounts receivable (Continued)

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

Name of unit	Relationship with the Company	Closing balance	Age	Percentage of the total accounts receivable (%)
Headquarter for Construction of Zhejiang Zhuyong Expressway (浙江諸永高速公路建設指揮部)	non-related party	47,676,008.72	1 to 2 years	15.88
Headquarter for Construction of Main Roads and Bridges of Nanjing (南京重大路橋建設指揮部)	non-related party	24,275,279.31	Within 1 year	8.08
Foreign Capital Project Office of Shaanxi Provincial Communication Department (陝西省交通廳利用外資項目公室)	non-related party	20,978,065.57	Within 1 year	6.99
Nanping Ningwu Expressway Co., Ltd. (南平甯武高速公路有限責任公司)	non-related party	20,270,959.23	Within 1 year	6.75
Nanjing Gori Technology (Group) Co., Ltd (南京國瑞科技(集團)有限公司)	non-related party	17,847,692.18	Within 1 year	5.94
Total		<u>131,048,005.01</u>		<u>43.64</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(III) Accounts receivable (Continued)

5. There is no amount due from related parties of the Company included in balance of accounts receivable at the end of the year.
6. There were no accounts receivables derecognised due to transfer of financial assets during 2012.

Project	Derecognised amount	Relevant loss due to derecognised
Zhejiang Hangchang Expressway Company Limited (浙江杭長高速公路有限公司)	16,710,903.00	1,220,903.00
Headquarter for Construction of Main Road and Bridges of Nanjing (南京重大路橋建設指揮部)	13,000,000.00	590,000.00
Cangzhou Administration Bureau for Expressway Construction (滄州市高速公路建設管理局)	10,000,000.00	500,000.00
Foreign Capital Project Office of Shaanxi Provincial Communication Department (陝西省交通廳利用外資項目辦公室)	7,631,511.00	381,511.00
Total	47,342,414.00	2,692,414.00

7. There were no accounts receivables not completely derecognised but transferred during 2012.
8. There were no accounts receivable-backed securitisations during 2012.
9. Payment terms with customers are mainly on credit together with deposits. Invoices are normally payable within 180 days of issuance, except for certain well-established customers.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IV) Other receivables

1. The aging analysis of other receivables

Types	2012				2011			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Within 1 year (including one year)	117,660,234.79	78.14	3,449,433.05	2.93	38,592,921.21	43.24	329,688.47	0.85
1 to 2 years	14,250,361.35	9.46	9,504.37	0.07	8,860,934.90	9.93	-	-
2 to 3 years	1,990,000.00	1.32	-	-	34,943,764.29	39.15	-	-
Over 3 years	16,686,654.10	11.08	-	-	6,865,064.40	7.68	-	-
Total	150,587,250.24	100.00	3,458,937.42	2.30	89,262,684.80	100.00	329,688.47	0.37

2. Disclosure of other receivables by categories:

Types	2012				2011			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-
Subject to provision by groups	-	-	-	-	-	-	-	-
Including: Others	69,131,365.38	49.51	3,458,937.42	5.00	6,939,050.01	7.77	329,688.47	4.75
Retention monies	81,455,884.86	54.09	-	-	82,323,634.79	92.23	-	-
Sub-total for the group	150,587,250.24	100.00	3,458,937.42	2.30	89,262,684.80	100.00	329,688.47	0.37
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	150,587,250.24	-	3,458,937.42	-	89,262,684.80	100.00	329,688.47	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IV) Other receivables (Continued)

2. Disclosure of other receivables by categories: (Continued)

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

Aging	2012			2011		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	69,036,321.72	99.86	3,449,433.05	6,893,937.65	99.35	329,688.47
1 to 2 years	95,043.66	0.14	9,504.37	38,329.36	0.55	-
2 to 3 years	-	-	-	6,783.00	0.10	-
Over 3 years	-	-	-	-	-	-
Total	69,131,365.38	100.00	3,458,937.42	6,939,050.01	100.00	329,688.47

3. There is no amount due from shareholders who holds 5% or more voting right of the Company included in balance of other receivables at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IV) Other receivables (Continued)

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

Name of unit	Relationship with the Company	Closing balance	Age	Percentage of the total other receivables (%)	Nature or content
Shanghai Yangyue Investment Partnership (limited partnership) (上海仰岳投資合夥企業(有限合夥))	non-related party	64,599,999.50	Within 1 year	42.90	Share transfer monies
Nanping Ningwu Expressway Co., Ltd. (南平甯武高速公路有限責任公司)	non-related party	11,285,236.00	Within 1 year	7.49	Retention monies
Foreign Capital Project Office of Shaanxi Provincial Communication Department (陝西省交通廳利用外資項目辦公室)	non-related party	7,541,042.10	Over 3 years	5.01	Retention monies
Sichuan Guangnan Expressway Company Limited (四川廣南高速公路有限責任公司)	non-related party	5,505,535.00	1 to 2 years	3.66	Retention monies
Headquarter for Construction of Shiyao to Baihe Expressway of Hubei Province (湖北省十堰至白河高速公路建設指揮部)	non-related party	5,209,999.83	Within 1 year	3.46	Retention monies
Total		94,141,812.43		62.52	

5. There were no other receivables due from related parties of the Company at the end of the year.

6. There were no other receivables derecognised due to transfer of financial assets during 2012.

7. There were no other receivables not completely derecognised but transferred during 2012.

8. There were no other receivables-backed securitisations during 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(V) Prepayments

1. The presentation of prepayments by aging

Aging	2012		2011	
	Closing balance	Percentage	Closing balance	Percentage
	Amount	(%)	Amount	(%)
Within 1 year	48,130,940.48	99.40	2,808,882.63	87.95
1 to 2 years	153,000.00	0.32	2,298.26	0.07
2 to 3 years	2,298.26	0.01	37,522.00	1.17
Over 3 years	130,963.39	0.27	344,961.39	10.81
Total	48,417,202.13	100.00	3,193,664.28	100.00

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

Name of unit	Relationship with the Company	Closing balance	Aging	Reason of unsettlement
Nanjing Weihuan Communication Technology Development Co., Ltd. (南京維環通信技術發展有限公司)	non-related party	9,314,245.05	Within 1 year	prepayments for material procurement
Nanjing City Traffic Technology Development Co., Ltd. (南京城市交通科技開發有限公司)	non-related party	3,498,300.00	Within 1 year	prepayments for construction work
Jiangsu Runhe Technology Investments Co., Ltd. (江蘇潤和科技投資有限公司)	non-related party	3,101,365.00	Within 1 year	prepayments for construction work
Zhejiang Jinji Electronic Technology Co., Ltd. (浙江金基電子技術有限公司)	non-related party	3,048,857.90	Within 1 year	prepayments for material procurement
Zhejiang Zhedazhong Information Technology Co., Ltd. (浙江浙大中控信息技術有限公司)	non-related party	2,955,406.00	Within 1 year	prepayments for material procurement
Total		21,918,173.95		

3. There is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of prepayments at the end of the year.

4. There is no amount due from related parties of the Company included in balance of prepayments at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VI) Inventories

1. Classification of Inventories

Items	2012			2011		
	Ending balance	Provision for declines in value of inventories	Carrying amount	Ending balance	Provision for declines in value of inventories	Carrying amount
Raw materials	708,665.90	-	708,665.90	894,775.75	-	894,775.75
Commodity Stocks	6,640,299.55	994,569.00	5,645,730.55	4,514,267.82	617,784.18	3,896,483.64
Work in progress	1,705,878.75	-	1,705,878.75	105,416.07	-	105,416.07
Assets of construction contract	259,256,448.90	-	259,256,448.90	272,852,578.90	-	272,852,578.90
Total	268,311,293.10	994,569.00	267,316,724.10	278,367,038.54	617,784.18	277,749,254.36

2. Provisions for declines in the value of inventories

Type of inventory	2011	Current period provision	Current period reductions		2012
			Reversal	Write-off	
Commodity stocks	617,784.18	376,784.82	-	-	994,569.00
Total	617,784.18	376,784.82	-	-	994,569.00

3. Assets of construction contract

Items	2012	2011
Accumulated costs incurred	1,637,706,649.83	1,267,213,441.35
Add: Accumulated recognised gross profit	589,419,076.75	538,824,253.00
Less: Accumulated progress billings	1,967,869,277.68	1,533,185,115.45
The balance on the construction	259,256,448.90	272,852,578.90

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VI) Inventories (Continued)

4. Major construction projects at the end of the period

Items	Year of Commencement	Contracted value of the project	Accumulated progress of completion	Accumulated costs incurred	Accumulated recognised gross profit	Accumulated progress billings	Inventory at the year-end
JD02 Section, Mechanical & Electrical Engineering Construction for Jishou to Huaihua Expressway project of Hunan Province (Hunan Province Jihuai Expressway Construction and Development Co., Ltd.)	2012	70,810,319.00	90%	51,928,618.61	18,803,786.40	–	70,732,406.01
Mechanical and electrical construction for Longquan to Qingyuan Highway (Zhejiang-Fujian border) (Headquarter for Construction of Lishui City Longqing Yunjing Expressway)	2012	150,591,477.00	55%	49,698,064.35	26,582,490.75	15,561,118.91	60,719,436.19
L10 Section, the Tunnel and Mechanical & Electrical Engineering Construction for Linhai to Duqiao Section for Zhejiang No. 83 Provincial Highway (Headquarter for the Modification of Zhejiang Linhai No. 83 Provincial Highway)	2011	121,494,301.00	90%	65,236,451.66	43,474,837.54	57,000,000.00	51,711,289.20
Mechanical and Electrical Engineering Construction for the extension line of Hangxinjing Expressway (Zhijiang Bridge) (Hangzhou Zhijiang Bridge Development Co., Ltd.)	2012	27,166,976.00	95%	18,594,088.29	7,547,764.42	0.00	26,141,852.71
Mechanical and Electrical Engineering for Guanggan Expressway (Sichuan Guanggan Expressway Co., Ltd.)	2012	44,526,694.00	95%	33,082,608.35	12,429,148.57	22,786,263.00	22,725,493.92
Supply and Installation of Electricity Supply System and tunnel ventilation, Lighting, Fire Service along Fujian Ningde to Wuyishan Highway (Nanping section) ED6 contract segment (Nanping Ningwu Expressway Co., Ltd.)	2012	65,602,410.00	95%	48,027,549.69	16,649,852.00	50,000,000.00	14,677,401.69
Total		480,192,177.00		266,567,380.95	125,487,879.68	145,347,381.91	246,707,878.72

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VII) Long-term equity investments

1. Classification of long-term equity investments:

Items	2012	2011
Jointly controlled entities and associates	—	193,007,290.40
Other equity investments	101,386,244.94	1,000,000.00
Sub-total	101,386,244.94	194,007,290.40
Less: Impairment provision	—	—
Total	101,386,244.94	194,007,290.40

2. Particulars of long-term equity investments

Investee	Accounting method	Investment cost	Opening balance	Increase/Decrease	Closing balance	Equity Interest held (%)	Voting rights held (%)
Zhong Jian Zhi Kang Supply Chain Management Company Limited	equity method	175,000,000.00	193,007,290.40	(193,007,290.40)	0.00	50	Note
Equity method sub-total		175,000,000.00	193,007,290.40	(193,007,290.40)	0.00		
Jiangsu Information Industry Institute Union Joint Stock Company	cost method	1,000,000.00	1,000,000.00	1,000,000.00	1,000,000.00	5.26	5.26
Nanjing City Information Investment Holdings Co., Ltd.	cost method	24,400,000.00	—	24,400,000.00	24,400,000.00	13.83	13.83
Zhong Jian Zhi Kang Supply Chain Management Company Limited	cost method	74,986,244.94	—	74,986,244.94	74,986,244.94	19	19
Cost method sub-total		100,386,244.94	1,000,000.00	100,386,244.94	101,386,244.94		
Total		275,386,244.94	194,007,290.40	(92,621,045.46)	101,386,244.94		

Note:

Zhong Jian Zhi Kang Supply Chain Service Company Limited ("Zhong Jian Zhi Kang") is a joint venture company jointly invested by the Company and Nanjing Pharmaceutical Company Limited ("Nanjing Pharmaceutical"), each party owned its 50% equity interests. The chairman of the board of directors, general manager and finance manager of Zhong Jian Zhi Kang are all appointed by Nanjing Pharmaceutical. Nanjing Pharmaceutical has a control over Zhong Jian Zhi Kang's operations and finance and is its de facto controller. Nanjing Pharmaceutical therefore included Zhong Jian Zhi Kang in its consolidated financial statements, whereas the Company deconsolidated it and only accounted for its investment income by equity method.

In November 2012, the Company and Shanghai Yang Yue Investment Partnership (limited partnership) entered into a share transfer agreement to transfer the 31% equity interest in Zhong Jian Zhi Kang that held by the Company to Shanghai Yang Yue Investment Partnership (Limited Partnership). The consideration of the transfer was RMB 129,200,000, As agreed simultaneously, prior to the change of business registration for the equity transfer, the voting rights of the Company's 31% interests shall be exercised by Shanghai Yang Yue Investment Partnership (limited partnership) and the Company would not nominate any directors and supervisors and senior management to Zhong Jian Zhi Kang. As of 31 December 2012, Shanghai Yang Yue investment partnership (limited partnership) has nominated directors and supervisors and senior management to Zhong Jian Zhi Kang and has paid 50% of the consideration of the equity transfer, the remaining 50% of the consideration of the equity transfer will be paid before 31 March 2013 in accordance with the agreement. After this equity transfer, as of 31 December 2012, the Company holds 19% equity interest in Zhong Jian Zhi Kang. It will not have significant influence and will be accounted for by the equity method to the cost method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VIII) Fixed assets

1. Particulars of fixed assets

Items	1 January 2012	Addition	Disposal	31 December 2012
I. Total of original value:	92,816,751.51	132,255,690.87	2,414,149.04	222,658,293.34
1. Buildings	58,414,185.73	–	1,100,143.60	57,314,042.13
2. Machinery and equipment	–	128,560,334.74	128,560,334.74	–
3. Transportation equipment	5,566,831.35	339,752.00	979,239.90	4,927,343.45
4. Electronic and office equipment	28,835,734.43	3,355,604.13	334,765.54	31,856,573.02
		New increase in the year	Provision in the year	
II. Total of accumulated depreciation:	40,986,257.40	– 10,376,047.84	1,469,949.92	49,892,355.32
1. Buildings	19,007,070.67	– 1,903,231.09	304,831.80	20,605,469.96
2. Machinery and equipment	–	– 5,053,330.83	–	5,053,330.83
3. Transportation equipment	3,604,801.22	– 635,999.77	848,478.04	3,392,322.95
4. Electronic and office equipment	18,374,385.51	– 2,783,486.15	316,640.08	20,841,231.58
III. Total net book value of fixed Assets	51,830,494.11	–	–	172,765,938.02
1. Buildings	39,407,115.06	–	–	36,708,572.17
2. Machinery and equipment	–	–	–	123,507,003.91
3. Transportation equipment	1,962,030.13	–	–	1,535,020.50
4. Electronic and office equipment	10,461,348.92	–	–	11,015,341.44
IV. Total of Impairment Provision	–	–	–	–
1. Buildings	–	–	–	–
2. Machinery and equipment	–	–	–	–
3. Transportation equipment	–	–	–	–
4. Electronic and office equipment	–	–	–	–
V. Total of carrying amount of fixed assets	51,830,494.11	–	–	172,765,938.02
1. Buildings	39,407,115.06	–	–	36,708,572.17
2. Machinery and equipment	–	–	–	123,507,003.91
3. Transportation equipment	1,962,030.13	–	–	1,535,020.50
4. Electronic and office equipment	10,461,348.92	–	–	11,015,341.44

Depreciation charges for the year amounted to RMB10,376,047.84.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(VIII) Fixed assets (Continued)

2. There were no temporarily idle fixed assets at the end of the year.
3. There were no leased fixed assets under finance lease at the end of the year.
4. There were no fixed assets leased out under operating leases at the end of the year.
5. There were no fixed assets held for sale at the end of the year.
6. There were no fixed assets without certificates of ownership as at 31 December 2012.
7. There was no pledge of fixed assets at the end of the year.

(IX) Construction in progress

1. Projects under construction

Items	2012			2011		
	Ending balance	Provision for impairment	Carrying amount	Ending balance	Provision for impairment	Carrying amount
Complex building	98,701,702.73	-	98,701,702.73	-	-	-
Base station construction projects	6,413,059.62	-	6,413,059.62	4,680,462.89	-	4,680,462.89
Sporadic projects	35,000.00	-	35,000.00	-	-	-
Total	105,149,762.35	-	105,149,762.35	4,680,462.89	-	4,680,462.89

2. Changes of major projects under construction

Name of projects	1 January 2012	Addition	Transfer to fixed assets	Other decrease	Progress of projects	Source of fund	31 December 2012
Complex building	-	98,701,702.73	-	-	90%	Self financed	98,701,702.73
Base station construction projects	4,680,462.89	130,292,931.47	128,560,334.74	-	80%	Self financed	6,413,059.62
Total	4,680,462.89	228,994,634.20	128,560,334.74	-	-	-	105,114,762.35

(X) Constructive materials

Items	1 January 2012	Increase in the year	Decrease in the year	31 December 2012
Special equipment	19,289,440.00	23,074,992.00	38,386,258.40	3,978,173.60
Total	19,289,440.00	23,074,992.00	38,386,258.40	3,978,173.60

Note: The special equipment refers to the special smart card used in the intelligent transport public platform.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XI) Intangible assets

1. Particulars of intangible assets

Items	1 January 2012	Increase in the year	Decrease in the year	31 December 2012
1. Total of original value	34,970,524.95	1,998,915.50	–	36,969,440.45
Land use rights	17,390,032.80	–	–	17,390,032.80
Software	1,010,471.67	1,998,915.50	–	3,009,387.17
Know-how	16,570,020.48	–	–	16,570,020.48
2. Total of accumulated amortization	10,110,810.67	2,493,873.71	–	12,604,684.38
Land use rights	1,292,499.80	385,400.76	–	1,677,900.56
Software	33,300.00	162,220.25	–	195,520.25
Know-how	8,785,010.87	1,946,252.70	–	10,731,263.57
3. Total of net carrying amount	24,859,714.28	–	–	24,364,756.07
Land use rights	16,097,533.00	–	–	15,712,132.24
Software	977,171.67	–	–	2,813,866.92
Know-how	7,785,009.61	–	–	5,838,756.91
4. Total of impairment provision	–	–	–	–
Land use rights	–	–	–	–
Software	–	–	–	–
Know-how	–	–	–	–
5. Total of book value	24,859,714.28	–	–	24,364,756.07
Land use rights	16,097,533.00	–	–	15,712,132.24
Software	977,171.67	–	–	2,813,866.92
Know-how	7,785,009.61	–	–	5,838,756.91

The amortisation of intangible assets amounted to RMB2,493,873.71 for the year.

2. There was no pledge of intangible assets at the end of the year.

3. The land use right is mid-term lease (leased land in PRC).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XII) Long-term prepaid expenses

Items	1 January 2012	Increase in the period	Amortized in the period	Other decrease	31 December 2012	Reasons for other decrease
Renovation costs	–	839,268.09	83,926.80	–	755,341.29	–
Total	–	839,268.09	83,926.80	–	755,341.29	–

(XIII) Deferred tax

1. Recognised deferred tax assets and deferred tax liabilities

Items	2012	2011
Deferred tax assets		
Provision for impairment on assets	4,031,716.72	2,501,013.52
Accruals	2,561,271.43	1,747,162.68
Total	6,592,988.15	4,248,176.20
Deferred tax liabilities:		
Asset gains from business combinations involving entities not under common control	1,280,559.27	1,602,503.41
Total	1,280,559.27	1,602,503.41

2. Breakdown of deductible difference and taxable difference

Items	2012	2011
Breakdown of deductible difference		
Provision for impairment on assets	26,151,909.71	19,373,606.78
Accruals	17,075,142.86	17,060,944.67
Total	43,227,051.97	36,434,551.45
Breakdown of taxable difference		
Asset gains from business combinations involving entities not under common control	10,182,535.80	12,248,813.50
Total	10,182,535.80	12,248,813.50

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XIV) Provision for impairment on assets

Items	1 January 2012	Increase in the year	Decrease in the period Reversal	transfer	31 December 2012
Provision for bad debts	18,755,822.60	9,093,931.90	–	2,692,414.39	25,157,340.11
Provision for decline in value of inventories	617,784.18	376,784.82	–	–	994,569.00
Total	<u>19,373,606.78</u>	<u>9,470,716.72</u>	<u>–</u>	<u>2,692,414.39</u>	<u>26,151,909.11</u>

(XV) Short-term borrowings

1. Classification of short-term borrowings

Items	2012	2011
Guaranteed loan	<u>138,000,000.00</u>	<u>286,300,000.00</u>

2. Breakdown of guaranteed loan

Lender	Amount	Borrowing date	Due date	Guarantee
China Construction Bank, Da Xing Gong Branch	40,000,000.00	2012-3-5	2013-3-4	Note 1
Bank of Jiangsu, Headquarters Branch	20,000,000.00	2012-9-17	2013-9-16	Note 1
China CITIC Bank, Nanjing Branch	10,000,000.00	2012-5-23	2013-2-23	Note 2
Bank of Jiangsu, Headquarters Branch	20,000,000.00	2012-8-10	2013-8-9	Note 2
Bank of Communications, Nanjing Baixia Branch	40,000,000.00	2012-8-31	2013-8-30	Note 2
China Merchants Bank, Nanjing Branch	<u>8,000,000.00</u>	2012-12-17	2013-12-17	Note 3
Total	<u>138,000,000.00</u>			

Note 1: Nanjing Sample Technology Group Company Limited provided guarantee to the borrowings of the Company.

Note 2: The Company provided guarantee to the borrowings of its subsidiary, Jiangsu Intellitrans Company Limited.

Note 3: Nanjing Sample Technology Group Company Limited provided guarantee to the borrowings of the Company's subsidiary, Nanjing City Intelligent Transportation Co., Ltd.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XV) Short-term borrowings (Continued)

3. There were no due short-term borrowings outstanding.
4. All borrowings at the end of year are due within one year.

(XVI) Notes payable

Type	2012	2011
Bank accepted bills of exchange	<u>29,246,066.85</u>	<u>28,038,552.80</u>

The amount of notes to be due in the next accounting period is RMB29,246,066.85.

(XVII) Accounts payable

1. Balances of accounts payable

Items	2012	2011
Accounts payable	<u>269,751,512.77</u>	<u>255,291,518.57</u>

2. There is no amount due from shareholders who holds 5% or more voting right of the Company included in balance of accounts payable at the end of the year.
3. There is no amount due from related parties of the Company included in balance of accounts payable at the end of the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XVII) Accounts payable (Continued)

4. Significant accounts payable aged over 1 year

Name of unit	Closing balance	Reason of not transfer
Yunnan Hawei Transportation Facilities Co., Ltd (雲南哈威交通設施有限公司)	7,480,755.00	Payment has not due
Guizhou Hongyi Technology Co., Ltd (貴州宏屹科貿發展有限公司)	4,049,835.00	Payment has not due
Beijing Ziguang Jie Tong Technology Co. Ltd (紫光捷通科技股份有限公司)	3,300,000.00	Payment has not due
Hezhou Guanglong Materials Trading Company Limited (賀州廣龍物資貿易有限公司)	3,000,000.00	Payment has not due
Zhejiang Zhancheng Construction Group Co., Ltd. (浙江展誠建設集團股份有限公司)	2,528,169.06	Payment has not due
Total	<u>20,358,759.06</u>	

(XVIII) Advances from customers

1. Balances of advances from customers

Items	2012	2011
Advances from customers	<u>25,300,107.19</u>	<u>1,725,195.60</u>

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IXX) Staff remuneration payables

Item	1 January 2012	Increase in the year	Decrease in the year	31 December 2012
(1) Wages or salaries, bonuses, allowances and subsidies	–	29,052,385.75	29,052,385.75	–
(2) Staff welfare	–	1,678,333.50	1,678,333.50	–
(3) Social insurance	80,848.89	7,123,229.68	7,114,395.00	89,683.57
Including: Medical insurance	22,489.02	1,931,634.18	1,929,325.96	24,797.24
Basic pension contribution	50,261.40	4,480,127.96	4,474,630.44	55,758.92
Unemployment insurance	4,868.58	430,312.79	429,784.53	5,396.84
Work injury insurance	1,238.92	108,074.95	107,887.20	1,426.67
Maternity insurance	1,990.97	173,079.80	172,766.87	2,303.90
(4) Housing funds	1,900.72	2,025,938.04	2,019,618.16	8,220.60
(5) Union running costs and staff education costs	237,166.71	424,215.22	537,777.50	123,604.43
(6) Compensation to employees for termination of employment relationship	–	–	–	–
(7) Other	–	–	–	–
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Total	319,916.32	40,304,102.19	40,402,509.91	221,508.60
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XX) Taxes payable

Tax items	2012	2011
VAT	10,128,998.66	10,064,934.25
Business tax	18,385,733.74	15,649,809.25
Enterprise income tax	19,793,579.72	26,052,966.75
Individual income tax	66,836.36	50,645.83
City maintenance and construction tax	2,126,079.01	1,561,589.94
Education surcharge	1,379,416.66	1,195,597.78
Others	331,377.77	363,561.19
Total	52,212,021.92	54,939,104.99

(XXI) Other payables

1. Balances of other payables

Items	2012	2011
Other payables	28,046,279.25	27,683,268.40

2. There is no amount due to shareholders who holds 5% or more voting right of the Company included in balance of other payables at the end of the year:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXI) Other payables (Continued)

4. Significant other payables aged over 1 year:

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

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

Name of unit	Closing balance	Nature or content
Beijing Xing Jiu Ming Information Technology Development Company Limited (北京星久明信息技術發展有限公司)	7,541,042.95	Retention monies
Hunan Xiangzhu Transportation Technology Co., Ltd (湖南省湘築交通科技有限公司)	5,116,206.38	Retention monies
Zhongzi Tektronix Traffic Engineering Group Co., Ltd (中咨泰克交通工程集團有限公司)	1,500,000.00	Retention monies
Zhejiang Supcon Information Technology Co., Ltd (浙江浙大中控信息技術有限公司)	1,214,943.01	Retention monies
Bailan Youli (Beijing) Investment Co., Ltd (百聯優力(北京)投資有限公司)	1,000,000.00	Retention monies
Total	16,372,192.34	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXII) Long-term borrowing

1. Classification of long-term borrowing

Items	2012	2011
Guaranteed loan	80,000,000.00	—

2. Breakdown of guaranteed loan

Lender	Amount	Borrowing date	Due date	Annual interest rate	Guarantee
China Everbright Bank Nanjing Branch	80,000,000.00	2012-7-13	2015-7-12	6.4575%	Note 1
Total	80,000,000.00				

Note 1: Nanjing Sample Technology Group Company Limited provided guarantee to the borrowings of the Company.

(XXIII) Other non-current liabilities

Items	2012	2011
Deferred income-government subsidies for construction project of radio frequency identification (RFID) System Technology Research Center	11,910,000.00	—
Deferred income-financial assistance for national scientific and technological support projects	6,347,762.50	—
Total	18,257,762.50	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXIV) Share capital

Movements of share capital of the Company in 2012 are as follows:

Name of shareholders	1 January 2012		Increase in the year	Decrease in the year	31 December 2012	
	Amount	Percentage (%)			Amount	Percentage (%)
Nanjing Sample Technology Group Company Limited	60,770,000.00	27.12	–	–	60,770,000.00	27.12
Active Gold Holding Limited	49,545,000.00	22.11	–	–	49,545,000.00	22.11
Jiang Su Red Stone Technology Corporation (formerly known as Jiangsu Century Gold Bull Technology and Trading Co., Ltd.)	685,000.00	0.31	–	–	685,000.00	0.31
Nanjing Sample Technology Commerce City Company Limited	4,950,000.00	2.21	–	–	4,950,000.00	2.21
Sha Min	1,350,000.00	0.60	–	–	1,350,000.00	0.60
Jiangsu Winfast Investment Holding Group Co., Ltd.	15,000,000.00	6.69	–	–	15,000,000.00	6.69
Overseas public shareholders (H Shares)	91,800,000.00	40.96	–	–	91,800,000.00	40.96
Total	<u>224,100,000.00</u>	<u>100.00</u>			<u>224,100,000.00</u>	<u>100.00</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXV) Capital reserve

1. Particulars of capital reserve

Items	2012	2011
Capital premium (share capital premium)	96,217,430.61	96,217,430.61
Other capital reserves	3,410,183.34	6,781,589.84
Total	99,627,613.95	102,999,020.45

2. Particulars of movements for the period

Item	1 January 2012	Increase in the year	Decrease in the year	31 December 2012
Capital premium (share capital premium)	96,217,430.61	–	–	96,217,430.61
Other capital reserves	6,781,589.84	–	3,371,406.50	3,410,183.34
Total	102,999,020.45	–	3,371,406.50	99,627,613.95

The decreased amount of other capital reserve based on equity method included in capital reserve, the corresponding capital reserve arose from the disposal of equity interest transferred to the investment income.

(XXVI) Surplus reserve

1. Particulars of Surplus reserve

Items	2012	2011
Statutory surplus reserve	41,898,314.28	34,049,480.44

2. Particulars of movements for the period

Item	1 January 2012	Increase in the year	Decrease in the year	31 December 2012
Statutory surplus reserve	34,049,480.44	7,848,833.84	–	41,898,314.28

The increase in the amount for the year was statutory surplus reserve provided based on 10% of distributable profits.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXVII) Undistributed profits

Item	2012	2011
Undistributed profit at the beginning of the year	427,217,076.14	308,821,323.70
Add: Current net profit attributable to shareholders of the Company	167,927,630.71	146,054,062.95
Less: Provision of statutory surplus reserves	7,848,833.84	5,248,310.51
Ordinary shares dividends payable	22,410,000.00	22,410,000.00
Closing balance of undistributed profit	564,885,873.01	427,217,076.14

(XXVIII) Operating income and operating cost

1. Operating income and operating cost

Item	2012	2011
Principal operating income	730,973,118.53	537,533,918.69
Other operating income	6,716,570.42	4,854,819.25
Total operating income	737,689,688.95	542,388,737.94
Principal operating cost	451,370,110.74	324,751,142.92
Other operating cost	2,235,543.41	3,052,182.03
Total operating cost	453,605,654.15	327,803,324.95

2. Principal operations (by product)

Name of Products	2012		2011	
	Operating income	Operating cost	Operating income	Operating cost
Intelligent traffic monitoring	485,488,602.52	339,938,920.74	371,950,455.07	254,743,894.87
Customs logistics monitoring	109,407,329.15	61,996,751.60	82,296,992.34	39,468,145.81
Sales of equipment	79,578,171.57	39,578,044.30	62,202,501.30	26,483,737.38
Service	56,499,015.29	9,856,394.10	21,083,969.98	4,055,364.86
Total	730,973,118.53	451,370,110.74	537,533,918.69	324,751,142.92

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXVIII) Operating income and operating cost (Continued)

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

Name of the customers	2012	
	Total operating income	Percentage of the total operating income of the Company (%)
Mechanical and electrical construction for Longquan to Qingyuan Highway (Zhejiang-Fujian border) (Headquarter for Construction of Lishui City Longqing Yunjing Expressway	75,295,738.50	10.21
JD02 Section, Mechanical & Electrical Engineering Construction for Jishou to Huaihua Expressway project of Hunan Province (Hunan Province Jihuai Expressway Construction and Development Co., Ltd.)	63,729,287.10	8.64
Supply and Installation of Electricity Supply System and tunnel ventilation, Lighting, Fire Service along Fujian Ningde to Wuyishan Highway (Nanping section) ED6 contract segment (Nanping Ningwu Expressway Co., Ltd.)	62,322,289.50	8.45
Mechanical and Electrical Engineering for Guanggan Expressway (Sichuan Guanggan Expressway Co., Ltd.)	42,300,359.30	5.73
Jiangsu Yide Group Co., Ltd.	38,100,921.29	5.16
Total	281,748,595.69	38.19

4. Operating income represents the Group's principal operating income, including revenue received and receivable from Intelligent traffic monitoring, custom logistics monitoring and sales of equipment and service business.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXVIII) Operating income and operating cost (Continued)

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

(XXIX) Income of Project Contracts

		Total contractual amount	Accumulated cost incurred	Accumulated gross profit that has been recognised	The amount that has been settled
Fixed cost contract	Mechanical and electrical construction for Longquan to Qingyuan Highway (Zhejiang-Fujian border) (Headquarter for Construction of Lishui City Longqing Yunjing Expressway)	150,591,477.00	49,698,064.35	26,582,490.75	15,561,118.91
Fixed cost contract	L10 Section, the Tunnel and Mechanical & Electrical Engineering Construction of Linhai to Duqiao Section for Zhejiang No. 83 Provincial Highway (Headquarter for the Modification of Zhejiang Linhai No. 83 Provincial Highway)	121,494,301.00	65,236,451.66	43,474,837.54	57,000,000.00
	Total		114,934,516.01	70,057,328.29	72,561,118.91

(XXX) Taxes and surcharges

Item	2012	2011	Charge rate Standards
Business tax	14,174,442.68	10,237,503.46	3%, 5%
City construction tax	2,652,196.94	2,424,913.61	7%
Education surcharge tax	1,911,683.18	1,494,934.66	5%, 4%
Total	18,738,322.80	14,157,351.73	

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXXI) Selling and distribution expenses

Item	2012	2011
Salary and additions	8,880,822.09	5,562,907.92
Entertainment expenses	3,707,748.58	2,066,501.08
Travelling expenses	2,778,561.30	1,476,675.69
Composite fees for construction	469,596.88	973,191.30
Bidding fees	390,316.97	844,638.41
Water and electricity charges	233,409.13	723,284.20
Motor vehicle expenses	699,722.74	350,017.23
Office expenses	281,074.59	349,675.09
Telephone charges	250,067.53	252,558.33
Advertisement and promotion expenses	107,799.00	162,784.84
Postage	147,617.13	143,911.28
Depreciation charges	293,094.39	100,530.07
Others	1,460,207.52	82,266.16
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Total	19,700,037.85	13,088,941.60
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXXII) General and administrative expenses

Item	2012	2011
Salary and additions	25,629,822.38	15,833,317.97
Research and development materials fees	7,557,750.05	4,785,182.14
Depreciation charges	5,093,448.45	4,417,599.44
Technical service fees	3,636,920.88	2,285,416.20
Intangible assets amortisation	2,493,873.71	2,144,699.46
Entertainment expenses	2,281,652.24	1,435,931.82
Agency fees	2,233,854.29	1,124,694.47
Taxation charges	1,405,113.87	871,400.17
Travelling expenses	1,270,081.30	791,885.74
Consulting fees	702,727.83	648,970.03
Rental expenses	555,041.33	545,532.84
Water and electricity charges	759,082.54	498,205.07
Motor vehicle expenses	641,687.17	314,175.01
Promotion expenses	639,902.29	238,703.73
Board's fee	275,044.40	173,327.00
Others	1,496,707.56	3,043,640.09
Total	56,672,710.29	39,152,681.18

(XXXIII) Financial expenses

Item	2012	2011
Interest expenses	16,879,928.45	15,524,237.60
Less: interest income	6,603,457.34	6,153,467.71
Exchange gain and loss	92,892.59	(575,686.96)
Others	999,645.53	459,246.64
Total	11,369,009.23	9,254,329.57

Note: Interest expenses are interest on bank borrowings wholly repayable within five years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXXIV) Investment income

Item	2012	2011
Income from long-term equity investments under equity method	4,324,931.80	11,584,523.96
Income from disposal of long-term equity investments	10,225,428.74	3,012,700.92
Investment income from wealth management products	—	1,478,389.05
Interest income from entrusted loans	—	5,613,276.21
Total	14,550,360.54	21,688,890.14

(XXXV) Asset impairment losses

Item	2012	2011
Provision for bad debts	9,093,931.90	11,017,411.05
Declines in values of inventories	376,784.82	235,327.33
Total	9,470,716.72	11,252,738.38

(XXXVI) Non-operating income

1. Breakdown of non-operating income

Item	2012	2011
Total gain on disposal of non-current assets	1,329,197.93	21,712.40
Including: gain on disposal of fixed assets	1,329,197.93	21,712.40
Government grants	12,334,637.50	12,915,900.00
VAT refund	10,843,209.22	9,241,755.25
Others	52,876.15	57,312.09
Total	24,559,920.80	22,236,679.74

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXXVI) Non-operating income (Continued)

2. Particulars of government grants

Items	Specific nature and content	Form	Receiving time	2012	2011
Year 2011 special development funds for provincial industrial transformation and upgrading software industry	Subsidy	Monetary funds	April 2012	4,500,000.00	—
Fund from Nanjing Bureau of Finance (Year 2011 provincial Industry and Information transformation and upgrading IOT special funds)	Subsidy	Monetary funds	April 2012	4,000,000.00	—
Grant given by the Finance Bureau of Administration Committee of the Nanjing High and New Technology Industry Development Zone	Subsidy	Monetary funds	November 2012	2,000,000.00	—
Supporting fund for City Software from Qixia Bureau of Industry and Information	Subsidy	Monetary funds	November 2012	500,000.00	—
SME Innovation Fund	Subsidy	Monetary funds	April 2012	135,000.00	—
Subsidies from the Qixia Technology Bureau	Subsidy	Monetary funds	December 2012	40,000.00	—
Financial assistance for national scientific and technological support projects	Subsidy	Monetary funds	May 2012	1,159,637.50	—
Bureau of Industry and Information Software products registration subsidy from Nanjing Economic and Information Committee	Subsidy	Monetary funds	January 2011	—	2,000,000.00
Subsidy for software project from Jiangsu Economic and Information Technology Commission	Subsidy	Monetary funds	October 2011	—	250,000.00
Finance Bureau of Qixia District	Subsidy	Monetary funds	January 2011	—	4,500,000.00
Grant given by the Finance Bureau of Administration Committee of the Nanjing High and New Technology Industry Development Zone	Subsidy	Monetary funds	January 2011	—	60,000.00
Subsidy from Finance Settlement Centre of Qixia District, Nanjing	Subsidy	Monetary funds	December 2011	—	500,000.00
Subsidy from Supply & Sale Cooperative of Qixia District, Nanjing	Subsidy	Monetary funds	March 2011	—	486,100.00
Subsidy from Supply & Sale Cooperative of Qixia District, Nanjing	Subsidy	Monetary funds	March 2011	—	119,800.00
2010 incentive subsidies of innovation and transformation from Nanjing Government	Subsidy	Monetary funds	March 2011	—	5,000,000.00
Total				12,334,637.50	12,915,900.00

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XXXVII) Non-operating expenses

Item	2012	2011
Total loss on disposal of non-current assets	71,272.71	8,853.93
Including: Loss on disposal of fixed assets	71,272.71	8,853.93
Penalty and overdue fines	58,075.17	–
Others	274,339.48	156,410.99
Total	403,687.36	165,264.92

(XXXVIII) Auditor's remuneration

Auditor's remuneration for the year was RMB750,000.00 (2011: RMB750,000.00).

(XXXIX) Directors, supervisors and employees' emoluments

1. Directors and supervisors' emoluments

Item	2012	2011
Directors and supervisors' fees		
Executive directors	75,000.00	75,000.00
Non-executive director and independent non-executive directors	100,000.00	110,000.00
Supervisors	30,000.00	30,000.00
Sub-total	205,000.00	215,000.00
Executive directors' other emoluments		
Basic salaries and allowance	806,505.00	686,505.70
Contributions to retirement benefits/pensions schemes	97,697.25	173,349.07
Sub-total	904,202.25	859,854.77
Supervisors		
Basic salaries and allowance	139,051.80	–
Contributions to retirement benefits/pensions schemes	26,189.40	–
Sub-total	165,241.20	–
Total	1,274,443.45	1,074,854.77

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

Name	2012			Total
	Fees	Other emoluments		
		Basic salaries and allowance	Contributions to retirement	
			benefits/pensions schemes	
Executive Directors				
Mr. Sha Min	25,000.00	340,803.00	32,563.75	398,366.75
Mr. Chang Yong	25,000.00	240,698.00	32,563.75	298,261.75
Mr. Guo Ya Jun	25,000.00	225,004.00	32,569.75	282,573.75
Sub-total	75,000.00	806,505.00	97,967.25	979,202.25
Non-executive Director				
Mr. Ma Jun	30,000.00	-	-	30,000.00
Sub-total	30,000.00	-	-	30,000.00
Independent Non-Executive Directors				
Mr. Xu Su Ming	10,000.00	-	-	10,000.00
Mr. Li Hai Feng	10,000.00	-	-	10,000.00
Mr. Shum Shing Kei	50,000.00	-	-	50,000.00
Sub-total	70,000.00	-	-	70,000.00
Supervisors				
Mr. Dai Jian Jun	10,000.00	-	-	10,000.00
Mr. Li Gang	10,000.00	139,051.80	26,189.40	175,241.20
Independent supervisor				
Mr. Qiu Xiang Yang	10,000.00	-	-	10,000.00
Sub-total	30,000.00	139,051.80	26,189.40	195,241.20
Total	205,000.00	945,556.80	123,886.65	1,274,443.45

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

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

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

3. Five highest paid individuals

During the year, of the five individuals with the highest emoluments, three (2011: three) were directors. The emoluments of them were disclosed in the notes above. The emoluments of the remaining two (2011: two) individuals were as follows:

Items	2012	2011
Basic salaries and allowance	460,997.00	412,000.00
Contributions to retirement benefits schemes	32,563.75	112,000.00
Total	493,560.75	524,000.00

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

Their emoluments were within the following bands:

Items	2012 number	2011 number
Nil to HK\$1,000,000 (nil to RMB820,000.00)	2	2

(XL) Income tax expenses

Items	2012	2011
Current income tax calculated based on tax law and related regulations	40,288,024.44	26,901,485.40
Adjustment to deferred income tax	(2,666,756.10)	(1,515,872.86)
Total	37,621,268.34	25,385,612.54

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XLI) Dividends

Item	2012	2011
Final dividend proposed of RMB0.2 per share (2011: RMB0.1 per share)	44,820,000.00	22,410,000.00

The directors recommend the payment of a final dividend of RMB0.2 per share (2011: RMB0.1 per share) for the year ended 2012 on 15 March 2013.

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

Item	2012	2011
Final dividend in respect of the previous year, approved and paid during the year	22,410,000.00	22,410,000.00
Total	22,410,000.00	22,410,000.00

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

1. Basic earnings per share

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

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

Where:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

2. Diluted earnings per share

Diluted earnings per share = $P1 / (S0 + S1 + Si \times Mi \div M0 - Sj \times Mj \div M0 - Sk + \text{Addition of weighted average ordinary shares of warrants, share options and convertible bonds})$

Where P1 is the net profit attributable to common shareholders of the Company or net profit attributable to ordinary shareholders with deduction of non-recurring gains and losses, including the effect of the dilution of potential ordinary shares and P1 shall be adjusted in accordance with Accounting Standards for Business Enterprises. The Company in the calculation of diluted earnings per share shall take into account the effect of all diluted potential ordinary shares on the net profit attributable to ordinary shareholders or the net profit attributable to ordinary shareholders with deduction of non-recurring gains and losses as well as the weighted average number of shares according to their degree of sequence were included in diluted earnings per share diluted, up to diluted earnings per share minimum.

(1) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

Items	2012	2011
Consolidated net profit attributable to ordinary shareholders of the Company	167,927,630.71	146,054,062.95
Weighted average number of ordinary shares outstanding of the Company	224,100,000.00	224,100,000.00
Basic earnings per share (RMB/share)	0.749	0.652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

2. Diluted earnings per share (Continued)

(1) Basic earnings per share (Continued)

Weighted average number of ordinary shares is calculated as follows:

Items	2012	2011
Number of ordinary shares in issue at the beginning of the year	224,100,000.00	224,100,000.00
Add: Weighted average number of ordinary shares issued for the period	—	—
Less: Weighted average number of ordinary shares purchased for the period	—	—
Weighted average number of ordinary shares outstanding at the end of the year	224,100,000.00	224,100,000.00

(2) Diluted earnings per share

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

Items	2012	2011
Consolidated net profit attributable to ordinary shareholders of the Company (diluted)	167,927,630.71	146,054,062.95
Weighted average number of ordinary shares outstanding of the Company (diluted)	224,100,000.00	224,100,000.00
Diluted earnings per share (RMB/share)	0.749	0.652

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

2. Diluted earnings per share (Continued)

(2) Diluted earnings per share (Continued)

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

Items	2012	2011
Weighted average number of ordinary shares outstanding at the end of year when the basic earnings per share is calculated	224,100,000.00	224,100,000.00
Effects of convertible bonds	—	—
Effects of share options	—	—
	<hr/>	<hr/>
Weighted average number (diluted) of ordinary shares at the end of the year	224,100,000.00	224,100,000.00
	<hr/> <hr/>	<hr/> <hr/>

(XLIII) Other comprehensive income

Item	2012	2011
Difference on translation of foreign currency financial statements	(959.95)	(3,212,006.14)
	<hr/>	<hr/>
Total	(959.95)	(3,212,006.14)
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XLIV) Notes to cash flow statement

1. Cash received relating to other operating activities

Items	2012	2011
Interest income on bank deposits received	6,603,457.34	5,217,777.58
Amounts of transactions with units received	15,288,108.14	50,287,983.90
Non-operating income received	12,356,645.85	12,926,100.00
Retention monies received	141,926,405.03	191,268,671.93
Deferred income received	18,257,762.50	—
Total	194,432,378.86	259,700,533.41

2. Cash paid relating to other operating activities

Items	2012	2011
Administrative expenses paid	14,770,310.99	9,912,983.51
Operating expenses paid	13,238,908.70	6,709,865.81
Non-operating expenses paid	312,817.94	154,366.99
Amounts of transactions with units paid	24,255,051.29	49,026,801.30
Handling charges paid to banks	999,645.53	459,025.34
Retention monies paid	155,516,847.07	196,669,715.70
Total	209,039,581.52	262,932,758.65

3. Cash received relating to other investing activities

Items	2012	2011
Receipt of loan of non-financial institution	6,133,000.00	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(XLV) Supplementary information of cash flow statements

1. Supplementary information of cash flow statements

Items	2012	2011
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	169,218,563.55	146,054,062.95
Add: Provision for assets impairment	9,470,716.72	11,252,738.38
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	10,376,047.84	5,285,140.51
Amortisation of intangible assets	2,493,873.71	2,144,699.46
Amortisation of long-term prepaid expenses	83,926.80	—
Loss on disposal of fixed assets, intangible assets and other long-term assets	(1,257,925.22)	(17,613.40)
Loss on scrapped fixed assets	—	—
Loss on change in fair value	—	—
Financial expenses	16,879,928.45	15,524,237.60
Investment loss	(14,550,360.54)	(21,688,890.13)
Decrease in deferred tax assets	(2,344,811.95)	(1,223,934.94)
Increase in deferred tax liabilities	(321,944.16)	(291,937.91)
Decrease in inventories	10,055,745.44	(49,981,886.82)
Decrease of operating receivables	(69,472,898.15)	(191,396,832.32)
Increase of operating payables	46,982,340.19	135,611,081.62
Others	—	—
Net cash flows from operating activities	177,613,202.68	51,270,865.00
2. Significant investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets held under finance leases	—	—
3. Net movement in cash and cash equivalents		
Cash at the end of the period	389,224,229.07	415,049,940.54
Less: cash at the beginning of period	415,049,940.54	310,159,203.60
Add: cash equivalents at end of the period	—	—
Less: cash equivalents at beginning of the period	—	—
Net increase in cash and cash equivalents	(25,825,711.47)	104,890,736.94

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

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

Items	2012	2011
I. Information about acquisition of subsidiaries or other operating enterprises:		
1. Consideration for acquiring subsidiaries and other operating enterprises	–	14,350,000.00
2. Cash and cash equivalents paid for acquiring subsidiaries and other operating enterprises	–	14,350,000.00
Less: Cash and cash equivalents held by subsidiaries and other operating enterprises	–	5,094,009.50
3. Net cash paid for the acquisition of subsidiaries and other operating enterprises	–	9,255,990.50
4. Net assets obtained from acquisition of subsidiaries		
Current assets	–	16,947,540.70
Non-current assets	–	25,522,397.91
Current liabilities	–	19,763,627.73
Non-current liabilities	–	629,387.80
II. Information about disposal of subsidiaries or other operating enterprises:		
1. Price of disposal of subsidiaries or other operating enterprises		
2. Cash and cash equivalents received from disposal of subsidiaries or other operating enterprises	–	29,349,621.19
Less: Cash and cash equivalents held by subsidiaries and other operating enterprises	–	29,346,847.78
3. Net cash received from disposal of subsidiaries and other operating enterprises	–	2,773.41
4. Disposal of net assets of subsidiaries		
Current assets	–	29,346,847.78
Non-current assets	–	–
Current liabilities	–	–
Non-current liabilities	–	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

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

3. The composition of cash and cash equivalents:

Items	2012	2011
I. Cash	389,224,229.07	415,049,940.54
Including: Cash on hand	307,543.34	99,473.85
Bank deposit available for payment at any time	304,916,685.73	266,050,466.69
Other monetary funds available for payment at any time	84,000,000.00	148,900,000.00
II. Cash equivalents	—	—
Including: Bond investment due in three months	—	—
III. Cash and cash equivalents at the end of the period	389,224,229.07	415,049,940.54

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(All the following amounts in Renminbi yuan unless otherwise stated)

(I) General information of the controlling shareholder of the Company

Name	Relationship	Business type	Registration place	Legal representative	Nature of business	Registered capital ('0000)	Equity interest in the Company (%)	Voting share in the Company (%)	Ultimate controller	Organization code
Nanjing Sample Technology Group Company Limited	Controlling shareholders	limited liability company	PRC	Guo Ming Ke	Domestic trading, external investments and guarantee using its own assets	3,300	27.12	27.12	Sha Min	1348888-5

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(II) Information of subsidiaries of the Company:

(Unit: RMB'0000)

Full name of subsidiaries	Type of subsidiaries	Business type	Registration place	Legal representative	Nature of business	Registered capital	Equity interest held (%)	Voting share (%)	Organization code
Jiangsu Intellitrans Company Limited	Wholly-owned subsidiary	Private limited company (solely invested by legal entity)	PRC	Chang Yong	Intelligent transport	10,000	100	100	72058184-3
Jiangsu Raifu Intelligent Tech. Co., Ltd.	Wholly-owned subsidiary	Limited liability company (solely invested by Taiwan, Hong Kong and Macau legal entity)	PRC	Guo Ya Jun	Electronic products	3,134.47	100	100	74870842-0
Nanjing Sample Logistic Company Limited	Wholly-owned subsidiary	Private limited company (solely invested by legal entity)	PRC	Sha Min	Computer software	600	100	100	73314243-6
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited	Wholly-owned subsidiary	Limited company	PRC	Sha Min	Internet of things technology	10,000	100	100	56285853-5
Sample Technology (H.K.) Co., Limited	Wholly-owned subsidiary	Overseas enterprise	Hong Kong		Consultation and investment	USD1	100	100	
Federal International Enterprise Limited	Wholly-owned subsidiary	Overseas enterprise	Hong Kong		Electronic products	HKD1	100	100	
Nanjing City Intelligent Transportation Co., Ltd.	Holding subsidiary	Limited company	PRC	Zhang Liang Jun	Information technology	10,000.00	65	65	56289005-X
Jiangsu Sample Information Technology Co., Ltd.	Wholly-owned subsidiary	Limited company	PRC	Zhu Xiang	IOT technology, development & application of products	5,000	100	100	58997316-2

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(III) Particulars of other related parties of the Company

Name	Relationship with the Company	Organization code
Zhong Jian Zhi Kang Supply Chain Management Company Ltd	Previously a joint venture company after disposal it is an investing enterprise	69041941-4
Nanjing Sample Digital Science and Technology Company Limited (南京三寶數碼科技有限公司)	Other subsidiary controlled by the same controlling shareholder	73887605-X
Xuzhou Huai Hai Pharmaceutical Co., Ltd	Subsidiary of Zhong Jian Zhi Kang	68111981-5

(IV) Related party transactions

1. For the subsidiaries which are controlled by the Company and consolidated into the consolidated financial statements, the transactions amongst them and that between the Company and these subsidiaries have been eliminated.

2. Related party providing guarantees

Guarantor	Guarantee for	Guarantee Amount	Beginning date of guarantee	Terminal date of guarantee	Guarantee due or not
The Company	Jiangsu Intellitrans Company Limited	204,000,000.00	2012-8-31	2013-12-31	No (Note 1)
The Company	Jiangsu Intellitrans Company Limited	90,000,000.00	2012-3-10	2013-3-10	No (Note 1)
The Company	Jiangsu Intellitrans Company Limited	30,000,000.00	2012-8-10	2013-6-3	No (Note 1)
Sample Group	The Company	40,000,000.00	2012-3-5	2013-3-4	No
Sample Group	The Company	40,000,000.00	2012-9-17	2013-9-16	No
Sample Group	The Company	80,000,000.00	2012-7-13	2015-7-12	No
Sample Group	Nanjing City Intelligent Transportation Co., Ltd.	8,000,000.00	2012-12-17	2013-12-17	No

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

VI. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(IV) Related party transactions (Continued)

2. Related party providing guarantees (Continued)

- (1) Explanations on the guarantee provided to the related parties (subsidiary) by the Company:
 - (A) Note 1: As at 31 December 2012, the Company provided guarantee to bank to secure a loan for a total of RMB 70,000,000 in favour of its subsidiary, Jiangsu Intellitrans Company Limited.
 - (B) The Company provided guarantee for Jiangsu Intellitrans Company Limited, a subsidiary of the Company, to secure the bank accepted bills of exchange in the Headquarter Branch of Bank of Jiangsu. The guarantee amount does not exceed 50% of the face amount of the bills. As at 31 December 2011, the amount of the bank accepted bills of exchange issued by the Company through the Headquarter Branch of Bank of Jiangsu was RMB16,339,529.60 of which RMB8,144,572.21 was retention monies for bills of exchange and the remaining RMB8,194,957.39 was secured by the guarantee provided by the Company.
- (2) Explanations on the guarantee provided to the Company and subsidiaries by the related parties:
 - (A) Among the total guarantee provided to the Company by the related parties, Sample Group, as at 31 December 2012, the balances for the borrowings that the Company and the subsidiaries obtained was RMB148,000,000.
 - (B) Sample Group provided guarantee for the Company to secure the bank accepted bills of exchange in the Headquarter Branch of Bank of Jiangsu. The guarantee amount does not exceed 50% of the face amount of the bills. As at 31 December 2012, the amount of the bank accepted bills of exchange issued by the Company through the Headquarter Branch of Bank of Jiangsu was RMB1,239,751.00 of which RMB619,785.50 was retention monies for bills of exchange and the remaining RMB 619,785.50 was secured by the guarantee provided by Sample Group.

3. Other related party transactions

The Company and Sample Group, the controlling shareholder, entered into licence agreement on 1 January 2001 pursuant to which Sample Group agreed to grant a licence to the Company for the use of the trademarks “Sample” and “神保” at nil consideration 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) will begin from 1 January 2001 and expiry on 31 July 2008 whilst the licence period for (II) will begin from 1 January 2001 and expiry at 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 (“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 Supplemental Agreement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(IV) Related party transactions *(Continued)*

3. Other related party transactions *(Continued)*

When the Supplemental Agreement and the Option Agreement expired on 31 July 2008, the Company and Sample Group agreed to extend the Supplemental Agreement and the Option Agreement, and extended the effective period to 31 July 2018.

On 20 March 2011, the Company and Sample Group entered into the Registered Trademark Transfer Agreement, pursuant to which Sample Group transferred the trademark “神保” to the Company at nil consideration.

On 10 July 2011, the Company and Sample Group entered into the Registered Trademark Transfer Agreement, pursuant to which Sample Group transferred the trademark “sample” to the Company at nil consideration.

On 6 October 2011, the transfer of trademark “神保” was approved by the Trademark Office of the State Administration for Industry & Commerce.

On 6 April 2012, the transfer of trademark “Sample” was approved by the Trademark Office of the State Administration for Industry & Commerce.

4. Equity transfer with related parties

On 24 May 2012, the Company entered into an equity transfer agreement with Nanjing Sample Digital Technology Co., Ltd. Nanjing Sample Digital Technology Co., Ltd. transferred to the Company all its equity interest in Nanjing City Information Investment Holding Co., Ltd. with capital contributions of RMB20,000,000 (representing 13.83 %). The consideration for transfer was RMB24,400,000 and the commercial registration of the equity transfer was completed on 15 October 2012.

VII. CONTINGENT LIABILITIES

1. Guarantee provided to the debts of related parties:

For the particulars of the guarantees provided to the related parties, Jiangsu Intellitrans Company Limited (wholly-owned subsidiary) by the Company as at 31 December 2012, please see Note VI.(IV).2.(1).

2. Save as the above contingent matter, as at 31 December 2012, there is no other significant contingent matter which needs to be disclosed but has not been disclosed.

VIII. SIGNIFICANT COMMITMENTS

As at 31 December 2012, there is no significant commitment which needs to be disclosed but has not been disclosed.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

IX. EVENTS AFTER BALANCE SHEET DATE

As of the financial reporting date, there is no other significant post balance sheet event which needs to be disclosed but has not been disclosed.

X. SEGMENTS INFORMATION

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

The Group's revenue from principal business is analysed as follows which was derived from the different sectors of the security systems business.

Name of Products	2012		2011	
	Operating income	Operating cost	Operating income	Operating cost
Intelligent traffic monitoring	485,488,602.52	339,938,920.74	371,950,455.07	254,743,894.87
Customs logistics monitoring	109,407,329.15	61,996,751.60	82,296,992.34	39,468,145.81
Sales of equipment	79,578,171.57	39,578,044.30	62,202,501.30	26,483,737.38
Service	56,499,015.29	9,856,394.10	21,083,969.98	4,055,364.86
Total	730,973,118.53	451,370,110.74	537,533,918.69	324,751,142.92

XI. SHARE OPTION SCHEME

On 18 October 2011, the Board passed the resolution to terminate the execution of the share option scheme of the Company which was approved by the shareholders of the Company by way of resolution on 24 April 2004. The resolution was passed at the general meeting on 30 December 2011.

The Company has not granted any option under the share option scheme since the adoption of the scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's major financial instruments include trade and other receivables, trade and other payables, cash and cash equivalents and short-term bank loans. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

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

1. Credit risk

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

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as 15.88% (2011: 14.04%) and 43.64% (2011: 39.80%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at end of the reporting period in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the statement of financial position. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in Note.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XII. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

2. Liquidity risk

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

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

Company	2012 Carrying amount	Total Contractual Discounted cash flow	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year
Notes payable	29,246,066.85	29,246,066.85	29,246,066.85	-	-
Accounts payable	269,751,512.77	269,751,512.77	269,751,512.77	-	-
Other payables	28,046,279.25	28,046,279.25	28,046,279.25	-	-
Staff remuneration payables	221,508.60	221,508.60	221,508.60	-	-
Short-term borrowings	138,000,000.00	138,000,000.00	50,000,000.00	-	88,000,000.00
Total	<u>465,265,367.47</u>	<u>465,265,367.47</u>	<u>377,265,367.47</u>	<u>-</u>	<u>88,000,000.00</u>

Company	2011 Carrying amount	Total Contractual Discounted cash flow	Less than 3 months	More than 3 months but less than 6 months	More than 6 months but less than 1 year
Notes payable	28,038,552.80	28,038,552.80	28,038,552.80	-	-
Accounts payable	255,291,518.57	255,291,518.57	255,291,518.57	-	-
Other payables	27,683,268.40	27,683,268.40	27,683,268.40	-	-
Staff remuneration payables	319,916.32	319,916.32	319,916.32	-	-
Short-term borrowings	286,300,000.00	296,488,000.00	81,090,000.00	82,412,000.00	132,986,000.00
Total	<u>597,633,256.09</u>	<u>607,821,256.09</u>	<u>392,423,256.09</u>	<u>82,412,000.00</u>	<u>132,986,000.00</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

3. Market risk

(1) Interest rate risk

Interest-bearing financial assets are mainly bank balances which are all short-term in nature. Interest-bearing financial liabilities are mainly short-term bank loans with fixed interest rates which expose the Group to fair value interest rate risk.

(2) Foreign currency risk

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

(3) Price risk

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(I) Accounts receivable

1. Disclosure of accounts receivable by categories

Categories	2012				2011			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-
Subject to provision by groups	-	-	-	-	-	-	-	-
Including: due from governments	29,541,171.16	35.78	297,701.89	1.01	55,754,910.36	37.85	5,341,749.73	9.58
due from non-governments	53,014,085.91	64.22	2,816,095.82	5.31	91,558,376.32	62.15	3,178,502.40	3.47
Sub-total for the group	82,555,257.07	100.00	3,113,797.71	3.77	147,313,286.68	100.00	8,520,252.13	5.78
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	82,555,257.07	100.00	3,113,797.71	3.77	147,313,286.68	100.00	8,520,252.13	5.78

In the groups, provision for bad debts for accounts receivable due from governments are made using discounting method:

Category	2012		2011	
	Closing balance	Provision for bad debts	Closing balance	Provision for bad debts
Due from governments	29,541,171.16	297,701.89	55,754,910.36	5,341,749.73

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

Aging	2012			2011		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	38,456,476.13	75.24	1,153,694.28	85,368,387.67	93.24	2,561,051.63
1 to 2 years	13,828,551.78	26.08	1,106,284.14	5,645,912.85	6.17	451,673.03
2 to 3 years	247,058.00	0.47	74,117.40	540,425.80	0.59	162,127.74
Over 3 years	482,000.00	0.91	482,000.00	3,650.00	0.00	3,650.00
Total	53,014,085.91	100.00	2,816,095.82	91,558,376.32	100.00	3,178,502.40

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(I) Accounts receivable (Continued)

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

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

Name of unit	Relationship with the Company	Closing balance	Age	Percentage of the total accounts receivable (%)
Nanjing Gori Technology (Holdings) Co., Ltd. (南京國瑞科技(集團)有限公司)	non-related party	17,847,692.18	Within 1 year	21.62
Nanjing Bureau of Commerce (南京市商務局)	non-related party	4,674,185.00	Within 1 year	5.66
Changchun Xinglong Comprehensive Bonded Zone Investment and Construction Co., Ltd. (長春興隆綜合保稅區投資建設公司)	non-related party	4,120,000.00	Within 1 year	4.99
Xiamen Haicang Bonded Port Area Investment and Construction Management Co. Ltd. (廈門海滄保稅區投資建設管理有限公司)	non-related party	3,520,000.00	Within 1 year	4.26
Dandong Port Group Co., Ltd. (丹東港集團有限公司)	non-related party	3,230,000.00	Within 1 year	3.91
Total		<u>33,391,877.18</u>		<u>40.45</u>

4. There were no amount due from related parties of the Company included in balance of accounts receivables at the end of the year.

5. There were no accounts receivables derecognised during 2012.

6. There were no accounts receivable-backed securitisations during 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(II) Other receivables

1. Disclosure of other receivables by categories:

Categories	2012				2011			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-
Subject to provision by groups	-	-	-	-	-	-	-	-
Including: Others	64,774,680.81	46.57	3,240,423.76	5.00	102,578.99	0.14	21,180.97	20.65
Accounts receivable within the scope of combination	64,677,272.81	46.49	-	-	63,180,329.36	87.41	-	-
Retention monies	9,654,002.41	6.94	-	-	8,997,031.49	12.45	-	-
Sub-total for the group	139,105,956.03	100.00	3,240,423.76	2.33	72,279,939.84	100.00	21,180.97	0.03
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	139,105,956.03	100.00	3,240,423.76	-	72,279,939.84	100.00	21,180.97	-

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

Aging	2012			2011		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	64,740,886.36	99.95	3,237,044.31	102,578.99	100.00	21,180.97
1 to 2 years	33,794.45	0.05	3,379.45	-	-	-
2 to 3 years	-	-	-	-	-	-
Over 3 years	-	-	-	-	-	-
Total	64,774,680.81	100.00	3,240,423.76	102,578.99	100.00	21,180.97

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(II) Other receivables (Continued)

2. There is no amount due from shareholders who holds 5% or more voting right of the Company included in balance of other receivables at the end of the year.

3. Particulars of the top five of other receivables

Name of unit	Relationship with the Company	Closing balance	Age	Percentage of the total other receivables (%)	Nature or content
Shanghai Yangyue Investment Partnership (limited partnership)	non-related party	64,599,999.50	Within 1 year	46.44	Consideration of equity transfer
Sample Technology (H.K.) Co., Ltd.	wholly-owned subsidiary	64,154,204.81	Over 3 years	46.12	amounts for transaction
Fuzhou Bonded Logistics Development Company Limited	non-related party	1,617,653.00	1 to 2 years	1.16	Retention monies
Changchun Xinglong Comprehensive Bonded Zone Investment and Construction Co., Ltd.	non-related party	851,485.20	Within 1 year	0.61	Retention monies
Jiangsu Intellitrans Company Limited	subsidiary	523,068.00	Within 1 year	0.38	amounts for transaction
Total		<u>131,746,410.51</u>		<u>94.71</u>	

4. Amount due from related parties of the Company included in balance of other receivables at the end of the year

Name of unit	Relationship with the Company	Closing balance	Percentage of the total other receivables (%)
Sample Technology (H.K.) Co., Limited	wholly-owned subsidiary	64,154,204.81	46.12
Jiangsu Intellitrans Company Limited	wholly-owned subsidiary	523,068.00	0.38
Total		<u>64,677,272.81</u>	<u>46.49</u>

5. There were no other receivables derecognised during 2012.

6. There were no other receivables-backed securitisations during 2012.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(III) Long-term equity investments

Investee	Accounting method	Investment cost	2011	Increase/ Decrease	2012	Equity Interest held (%)	Voting rights held (%)
Subsidiaries:							
Jiangsu Intellitrans Company Limited	Cost method	130,000,000.00	130,000,000.00	–	130,000,000.00	100	100
Nanjing Sample Logistic Company Limited	Cost method	6,000,000.00	6,000,000.00	–	6,000,000.00	100	100
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited	Cost method	85,000,000.00	60,000,000.00	25,000,000.00	85,000,000.00	85	85
Sample Technology (H.K.) Co., Limited	Cost method	77,688.00	77,688.00	–	77,688.00	100	100
Jiangsu Sample Information Technology Co., Ltd.	Cost method	15,000,000.00	–	15,000,000.00	15,000,000.00	30	30
Associates & jointly controlled entities:							
Zhong Jian Zhi Kang Supply Chain Management Company Limited	Equity method	175,000,000.00	193,007,290.40	(193,007,290.40)	0.00	50	Note
Other investees:							
Zhong Jian Zhi Kang Supply Chain Management Company Limited	Cost method	74,986,244.94	–	74,986,244.94	74,986,244.94	19	19
Jiangsu Information Industry Institute Union Joint Stock Company	Cost method	1,000,000.00	1,000,000.00	1,000,000.00	2,000,000.00	5.26	5.26
Nanjing City Information Investment Holding Co., Ltd.	Cost method	24,400,000.00	–	24,400,000.00	24,400,000.00	13.83	13.83
Total		511,463,932.94	390,084,978.40	(52,621,045.46)	337,463,932.94		

Note: Explanation on relevant matter relating to Zhong Jian Zhi Kang Supply Chain Management Company Limited can refer to Note V(VII).2 for details.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(IV) Operating income and operating cost

1. Operating income and operating cost

Item	2012	2011
Principal operating income	218,606,547.31	154,339,158.72
Other operating income	4,877,852.81	1,181,521.69
Total operating income	223,484,400.12	155,520,680.41
Principal operating cost	109,094,236.62	72,669,396.38
Other operating cost	1,948,991.81	2,859,059.73
Total operating cost	111,043,228.43	75,528,456.11

2. Principal operations (by product)

Name of Products	2012		2011	
	operating income	operating cost	operating income	operating cost
Intelligent traffic monitoring	22,320,706.05	10,442,756.80	30,483,333.66	14,387,999.96
Customs logistics monitoring	109,407,329.15	61,996,751.60	83,582,137.47	38,356,777.41
Sales of equipment	70,468,512.11	36,649,958.22	19,189,717.61	15,869,254.15
Service	16,410,000.00	4,770.00	21,083,969.98	4,055,364.86
Total	218,606,547.31	109,094,236.62	154,339,158.72	72,669,396.38

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(IV) Operating income and operating cost (Continued)

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

Name of the customers	2012	
	Total operating income	Percentage of the total operating income of the Company (%)
Jiangsu Yide Group Co., Ltd. (江蘇一德集團有限公司)	38,100,921.29	17.05
Nanjing Feng Sheng Industry Holding Group Co., Ltd. (南京豐盛產業控股集團有限公司)	35,062,321.32	15.69
Nanjing Taixin Project Construction Co., Ltd. (南京泰新工程建設有限公司)	33,213,230.11	14.86
Nanjing Gori Technology (Holdings) Co., Ltd. (南京國瑞科技(集團)有限公司)	24,541,681.49	10.98
Nanjing meat and vegetables flow tracking system upgrade, purchase of general equipment and systems integration (Nanjing Bureau of Commerce) 南京市肉類蔬菜流通追溯系統升級通用設備購置與系統集成(南京市商務局)	12,195,977.72	5.46
Total	143,114,131.93	64.04

(V) Investment income

Items	2012	2011
Investment income from long-term equity investments under equity method	4,324,931.80	11,584,523.96
Investment income from disposal of long-term equity investments	10,225,428.74	—
Investment income from wealth management products	—	1,478,389.05
Interest income from entrusted loans	—	2,826,125.01
Total	14,550,360.54	15,889,038.02

Note: Investment income from disposal of long-term equity investments: the Company transferred its 31% equity held in Zhong Jian Zhi Kang to Shanghai Yang Yue Investment Partnership (limited partnership) the transfer price exceeding the carrying amount of the investment cost of RMB6,854,022.24 was included in investment income. Capital reserve of RMB3,371,406.50 corresponding to the portion of changes of the owners' equity in Zhong Jian Zhi Kang due to the equity transfer other than net profit or loss, which was accounted for by the equity method, was included in investment income.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

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

(Continued)

(VI) Supplementary information of cash flow statements

Items	2012	2011
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	78,488,338.39	52,483,105.12
Add: Provision for assets impairment	(1,810,426.81)	4,377,800.35
Depreciation of fixed assets, depletion of oil and gas assets, depreciation of productive biological assets	4,579,055.16	4,611,881.11
Amortisation of intangible assets	385,400.76	189,566.76
Amortisation of long-term prepaid expenses	—	—
Loss on disposal of fixed assets, intangible assets and other long-term assets	(1,270,527.45)	(19,023.40)
Loss on scrapped fixed assets	—	—
Loss on change in fair value	—	—
Financial expenses	7,958,243.43	7,492,781.25
Investment loss	(14,550,360.54)	(15,889,038.02)
Decrease in deferred tax assets	(1,000,886.02)	(268,153.03)
Increase in deferred tax liabilities	—	—
Decrease in inventories	(1,758,568.07)	29,376,935.50
Decrease of operating receivables	55,499,923.46	(44,793,497.48)
Increase of operating payables	12,149,235.31	7,292,740.98
Others	—	—
Net cash flows from operating activities	138,669,427.62	44,855,099.14
2. Significant investing and financing activities that do not involve cash receipts and payments		
Conversion of debt into capital	—	—
Convertible company bonds due within one year	—	—
Fixed assets held under finance leases	—	—
3. Net movement in cash and cash equivalents		
Cash at the end of the period	93,042,559.41	72,318,728.78
Less: cash at the beginning of year	72,318,728.78	77,542,948.06
Add: cash equivalents at end of the period	—	—
Less: cash equivalents at beginning of the year	—	—
Net increase in cash and cash equivalents	20,723,830.63	(5,224,219.28)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XIV. SUPPLEMENTAL INFORMATION

(I) Summary of non-recurring profit or loss

Item	2012	2011
Profits or losses on disposal of non-current assets	1,257,925.22	12,858.47
Tax return or exemption without proper authorization	—	—
Government grants recognised in profits or losses (excluding those government grants that are closely relevant to the enterprise's business and are received with fixed amounts or with fixed percentage based on unified standards promulgated by government)	12,334,637.50	12,915,900.00
Interests received from entities other than financial institutions recognised in profits or losses	—	3,968,288.89
Gains arising from the difference between investment cost on subsidiaries, associates and jointly controlled entities and the fair value of the net identifiable assets attributable to the enterprise	—	—
Gains or losses arising from non-monetary assets exchange	—	—
Gains or losses arising from entrusted investments or entrusted asset management	—	—
Asset impairment provided in current year due to forced majeure (e.g. natural disasters)	—	—
Gains or losses arising from debt restructuring	—	—
Corporate restructuring costs (e.g. staff replacement costs and costs during the course of integration)	—	—
Gains or losses arising from the difference between the fair value and transaction price in obviously unfair transactions	—	—
Net profit of subsidiaries acquired under common control from beginning of year to the merger date	—	—
Gains or losses arising from contingencies irrelevant to the Company's normal business	—	—
Gains or losses from changes in fair value of financial assets and liabilities held for trading except for hedging contracts and disposal of financial assets and liabilities held for trading and available-for-sale financial assets	—	1,478,389.05
Reversal of provision for bad-debts of accounts receivable subject to separate provision	—	—
Gains or losses arising from entrusted loan granted to other entities	—	5,613,276.21
Gains or losses arising from changes in fair value of investment properties under fair value model	—	—
One-off adjustments to profit or loss as required by taxation and accounting laws and regulations	—	—
Consignment fee income arising from entrusted operations	—	—
Other non-operating income and expenses other than the aforementioned items	(279,538.50)	(99,098.90)
Other profit or loss items meeting the definition of non-recurring profit or loss	10,225,428.74	3,012,700.92
Impact on income tax	(3,363,067.42)	(3,563,873.81)
Impact on minority interests (after-tax)	(412,952.95)	—
Total	19,762,432.59	23,338,440.83

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XIV. SUPPLEMENTAL INFORMATION (Continued)

(II) Return on net assets and earnings per share

	Weighted average return on net assets	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
2012			
Net profit attributable to ordinary shareholders of the Company	19.63%	0.749	0.745
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	17.32%	0.661	0.657

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XIV. SUPPLEMENTAL INFORMATION (Continued)

(III) Exceptional items in financial statements of the Company and their reasons

1. Items in the balance sheet with significant changes during comparative periods and their reasons

Items	2012	2011	2012/2011 percentage of change	Reasons of fluctuation
Notes receivable	160,000.00	856,348.50	(81.32)	It was mainly due to the decreased frequency of using notes to settle.
Prepayments	48,417,202.13	3,193,664.28	1416.04	It was mainly due to the increase of the materials cost.
Other receivables	147,128,312.82	88,932,996.33	65.44	It was mainly due to the increase of retention monies and consideration of equity transfer.
Long-term equity investments	101,386,244.94	194,007,290.40	(47.74)	It was mainly due to the transfer of equity interest of Zhong Jian Zhi Kang.
Fixed assets	172,765,938.02	51,830,494.11	233.33	It was mainly due to the base station construction projects be transferred to fixed assets
Construction in progress	105,149,762.35	4,680,462.89	2146.57	It was mainly due to the increase of projects under construction.
Construction materials	3,978,173.60	19,289,440.00	(79.38)	It was mainly due to the transfer of construction in progress.
Deferred tax assets	6,592,988.15	4,248,176.20	55.20	It was mainly due to the increase of provision for bad debts.
Short-term borrowings	138,000,000.00	286,300,000.00	(51.80)	It was mainly due to decrease of short-term borrowings but increase of the long-term borrowings.
Advances from customers	25,300,107.19	1,725,195.60	1366.51	It was mainly due to the projects are not yet completed
Long-term borrowings	80,000,000.00	–	100.00	It was mainly due to decrease of short-term borrowings but increase of the long-term borrowings.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

XIV. SUPPLEMENTAL INFORMATION (Continued)

(III) Exceptional items in financial statements of the Company and their reasons (Continued)

2. Items in the income statement with significant changes during comparative periods and their reasons

Items	2012	2011	2012/2011 percentage of change (%)	Reasons of fluctuation
Operating income	737,689,688.95	542,388,737.94	36.01	It was mainly due to the increase in projects.
Operating cost	453,605,654.15	327,803,324.95	38.38	It was mainly due to the increase in projects and the corresponding cost increased.
Taxes and surcharges	18,738,322.80	14,157,351.73	32.36	It was mainly due to the increase in the city surcharges construction tax and education surcharge tax arising from the increase in turnover tax payable by the subsidiaries.
Selling and distribution expenses	19,700,037.85	13,088,941.60	50.51	It was mainly due to the increase of income of projects and the corresponding expenses increased.
General and administrative expenses	56,672,710.29	39,152,681.18	44.75	It was mainly due to the increase of salaries.
Investment income	14,550,360.54	21,688,890.14	(32.91)	It was mainly due to the decrease of income under equity method.
Other operating expenses	403,687.36	165,264.92	144.27	It was mainly due to the increase in loss of disposal of fixed assets.
Income tax expenses	37,621,268.34	25,385,612.54	48.20	It was mainly due to the increase of taxable profits and the corresponding tax payables increased.

XV. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the Company.

Nanjing Sample Technology Company Limited

15 March 2013

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

	2012	Year ended 31 December			
		2011	2010	2009	2008
			(restated)	(restated)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total operating income	737,690	542,389	508,016	486,360	331,726
Total profit	206,840	171,440	127,727	96,111	98,929
Net profit	169,219	146,054	111,532	88,143	93,399
Non-controlling interests	1,291	—	—	(52)	253
Net profit attributable to shareholders of the Company	167,928	146,054	111,532	88,194	93,146
Basic earnings per share (RMB)	0.749	0.65	0.50	0.43	0.48

ASSETS AND LIABILITIES

	2012	At 31 December			
		2011	2010	2009	2008
			(restated)	(restated)	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets	414,993	298,916	142,367	143,244	80,434
Current assets	1,191,208	1,149,434	965,594	795,774	605,853
Current liabilities	542,777	654,298	447,843	367,347	308,029
Net current assets	648,431	495,136	517,751	428,428	297,824
Equity attributable to shareholders of the Company	926,868	784,722	658,852	569,730	373,773
Total equity	963,886	792,449	658,852	569,730	375,469