



南京三寶科技股份有限公司
NANJING SAMPLE TECHNOLOGY CO., LTD.*

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
Stock code : 1708

Annual Report 2017



* for identification purpose only

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Sha Min (Chairman)
Mr. Chang Yong
(Vice Chairman)
Mr. Zhu Xiang
(Chief Executive Officer)

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hu Hanhui
Mr. Gao Lihui
Mr. Shum Shing Kei

SUPERVISORS

Mr. Qiu Xiang Yang
Mr. Dai Jian Jun
Mr. Zou Tao

COMPANY SECRETARY

Ms. Wong Lai Yuk

AUDIT COMMITTEE

Mr. Shum Shing Kei (Chairman)
Mr. Hu Hanhui
Mr. Gao Lihui

REMUNERATION COMMITTEE

Mr. Hu Hanhui (Chairman)
Mr. Zhu Xiang
Mr. Shum Shing Kei

NOMINATION COMMITTEE

Mr. Hu Hanhui (Chairman)
Mr. Gao Lihui
Mr. Chang Yong

AUTHORISED REPRESENTATIVES

Mr. Zhu Xiang
Ms. Wong Lai Yuk

AUDITOR

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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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Central,
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 2017 (the “period under review”)
for your review and consideration.*

”

Chairman's Statement

RESULTS

Total operating income of the Group and the profit attributable to owners of the parent for the 2017 financial year amounted to approximately RMB1,672,987,895.57 and RMB208,943,752.05 respectively (for the year ended 31 December 2016: RMB1,569,750,558.83 and RMB191,025,395.61, respectively), representing an increase of 6.58% and 9.38%, respectively. The increase in total operating income was mainly attributable to the rapid growth of income from system integration, intelligent terminal and service businesses as compared with the same period last year.

DIVIDEND

During the period under review, the Board proposed to distribute a final dividend for the year ended 31 December 2017 of RMB0.25 per share, proposed to distribute to all shareholders on the basis of 10 bonus shares for every 10 shares held from undistributed profits and proposed to distribute to all shareholders on the basis of 10 shares for every 10 shares held by way of capitalisation of capital reserve.

BUSINESS AND OPERATION REVIEW

According to the Group's strategy, it identified its strategic goal for 2017 as to adhere to the development concept of the intelligence makes quality life and devote to the establishment of intelligent transportation and intelligent logistics, the two industrial ecosystems, with the value concept of linking, openness and sharing. Based on the intelligent information collection terminals of Sample Technology, it will provide urban management department, customs department and various enterprises and public institutions with high-efficient information solutions and urban residents with high-quality life services with the big data collected through the "IOT plus mobile Internet". In future, the Group will inject continuous vitality and power to the future growth of the Company. It will gradually transform from an IOT intelligent system integration supplier into an IOT intelligent system integration supplier plus big data services provider, devote itself to the investment, construction and operation management of intelligent cities and strengthen the operation and maintenance services for intelligent cities. Focusing on the above strategic targets and under the leadership of the Board, in 2017, the Company made outstanding results in focusing on building intelligent city ecosystem, making innovations in data service mode, improving the clients' satisfaction, continuously enhancing the technology innovation ability and other businesses.

Focusing on IOT service and continuously building intelligent city ecosystem

Intelligent city refers to the use of information and communication technologies to sense, analyze and consolidate all key information in core system of city operation to make intelligent response to all demands in city traffic, environmental protection, security protection and public services. Substantially, it is to use advanced information technology to achieve intelligent city management and operation and create a better life for urban residents to promote the harmonious and sustainable development of cities. During the period under review, the Group focused on the construction of expressway intelligent traffic, city intelligent transportation and regulation informationalization at customs based on the Radio Frequency Identification Device (RFID), visual identification and other core techniques of IOT. By virtue of the technological bases of IOT and on the basis of customs regulation, customs clearance logistics, intelligent warehousing and other scenes, the Group combined the IOT technology with physical businesses in a deep manner, kept launching the mobile logistics, integrated customs clearance logistics service platforms and IOT warehousing finance service platforms, and innovated the new business form of IOT+ service supply chain + the in-depth integration of physical trade and finance.

Chairman's Statement

During the period under review, the Group's project of "joint research on the planning design, optimization and application demonstration of city public delivery network" was successfully completed and passed acceptance. The project was jointly undertaken by the Group and Massachusetts Institute of Technology (hereafter referred to as the "MIT") by applying the technology of "research on the planning design and optimization of urban terminal public distribution network (APT)" on the basis of the research and development of IOT sensor equipment, and taking consideration of the specific situation of the demonstration city of Nanjing, thus achieving the establishment of APT logistics model at the municipal level and solving the problems of freight centralized integration in logistics cities as well as the planning and deployment in the last kilometer. During the project implementation period, the Company independently developed safe and intelligent locks, intelligent security turnover boxes, express delivery cabinets and other key products according to logistics informationalization regulation requirements, fully introduced and absorbed the APT technology theory of MIT and reasonably established an urban logistics distribution point and path planning model that conforms to the actual situation of our country, which enhanced the informationalization management and operation efficiency in the intelligent logistics industry, solved the planning design, optimization and application problems of city public delivery network and was of significant social benefits. The progress and effectiveness of the project were highly appraised by experts at all levels, and as a result, the Group's influence in urban public service area has been further improved.

During the period under review, the Sino-Finnish cooperation project "Cooperation R&D of Sensor of Granule from Final Gas Exhaustion Suitable for Diesel Vehicle OBD Monitoring" that the Group got involved successfully passed the acceptance. Through cooperation with the Finnish company Pegasor, digestion of the introduced techniques of Finnish party in motor vehicle granule emission measurement, the Group has studied and made an OBD monitoring exhaust granule sensor suitable for Chinese diesel vehicles, completed the test and demonstration of products and broke through the technical bottleneck of China in accurate measurement and analysis of vehicle exhaust emission. The leaders and experts who participated in the acceptance of the project gave high praise to the project and agreed that it has made up for the defects of China in the design of vehicle exhaust high-precision inspection and analysis instrument, and provided the Group with new sensor design concept and methods and testing approaches. In the continuous communication between international cooperation companies, the related technology development capability of Chinese technical personnel has been improved. Meanwhile, the project enabled the Finnish enterprises have a deep understanding of China and the Chinese market, and enhanced the possibility of further cooperation between the two sides.

During the period under review, the Project of Management System of Properties Involved in Customs' Cases of the Second Phase of Gold Gate Customs with RFID Site Collection Control Module and Integrated Services (金關工程二期海關涉案財物管理系統RFID現場採集控制模塊及集成服務項目) of the Group successfully passed the acceptance checks of the General Administration of Customs. The RFID site collection control system under the management system of properties involved in customs' cases (the "RFID Site Collection Control System") is designed by Sample Technology specifically for the smart management of the Customs' stockrooms for confiscated properties and quality goods. With the advanced RFID IOT technology and by way of real-time collection control of and judgment on digital information, alert and other means, the Group has achieved information-based, dynamic and real-time management of key and sensitive items with remote monitoring and synchronous warning, so as to precisely assure the security of key and sensitive confiscated properties. The implementation of this project enables the Group to work together with the General Administration of Customs on promoting the formation of standards and norms regarding the online monitoring of properties involved in customs' cases across the nation; assist the General Administration of Customs in the improvement of management means in relation to the dynamic monitoring of properties and goods in kind involved in customs' cases across the nation; and it promotes the establishment of a socialized

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service model for the management of properties involved in customs' cases across the nation. At the same time, as the project made use of the real estate attribute of current assets endowed by the IOT technology, it's conducive for the financial sector to restart the scale chattel pledge financing service, which can realize the exploration of "IOT + finance" model and provide a new way for the financing of entity enterprises. The project is another deep-level cooperation with the General Administration of Customs after the recognition of Sample Technology's general integrator of intranet system for customs checkpoints and control system, highlights the integrated solution capability of the Group in the fields of IOT technology and customs supervision, and consolidates the leading position of Sample Technology in the field of customs logistics safety supervision.

In addition, Sample Technology's projects covering areas of logistics monitoring, customs clearance management and anti-smuggling management have successively passed the acceptance checks of the General Administration of Customs, including Guangdong Customs security intelligent lock satellite positioning service procurement project, Nanjing customs logistics information-based management system upgrading and transformation (IOT application) phase I construction project, Nanjing customs logistics monitoring and visualization system construction project, Hangzhou customs cross-border e-commerce intelligent IOT project, Shanghai customs IOT pilot project-on-the-track monitoring project, Huangpu customs private warehouse RFID site collection control system procurement project, etc. The Group completed the construction of several key gold gate customs projects in a short period, which reflected the ability of Sample Technology in the IOT technology and customs logistics supervision again, and also contributed to the informationalization and intelligent construction of the national gold gate customs projects.

During the period under review, the Group's "Zhoushan Port Comprehensive Bonded Zone (Airport Partition) Terminals Informationalization System" project successfully passed the acceptance. The project is designed for the automated management of truck channels in customs supervision and achieved no supervision of customs checkpoints. Meanwhile, the large amount of on-site logistics data collected also became the data source for data analysis and risk control. This project not only satisfied the requirements of customs, CIQ and other supervisory authorities in fast customs clearance and inspection, efficient supervision and barrier-free logistics monitoring, but also facilitated cargo owners, logistics companies and enterprises in the port for rapid operation, thus contributing to their intelligent logistics development.

Innovating the IOT data service mode to support the leapfrog development of the Company

During the period under review, the Group consolidated various resources, actively conducted the research and development and industrial application of new technologies on the IOT industry and continuously sought for innovative IOT data service modes based on the Radio Frequency Identification Device (RFID), visual identification and other core techniques of IOT to push forward the sustainable and sound development of the Company.

During the period under review, the Group's "Application Demonstration of the Integrated Monitoring System for the City's Intelligent Transportation based on IOT Technologies" project is listed as the first batch of project investment plans in 2017 for "Internet +" significant projects within Central Budget, and received an investment within Central Budget of RMB30 million. The main contents of the project are: development of the "Internet+Intelligent Transportation" information services system and construction of the integrated monitoring services platform for urban intelligent transportation through automatic collection of static information and temporal-spatial information of all kinds of vehicles in order to achieve Internet information services linking the public security, transportation, environmental protection, public affairs and other departments and citizens. It's known that the "Internet +" significant project is an important initiative implemented by NDRC with the aim

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of encouraging enterprises to provide basic and strategic public services for industries to further promote the “Internet +” action plan, speed up industrial restructuring and upgrading and enhance the innovation capacity of various industries. A project being listed as an “Internet +” significant project will be financed by the national specific fund. The project shall have significant demonstration and leading role in the aspects of collaboration among upstream and downstream enterprises in key industries, cross-industry integration and innovation, Internet-based aggregation of resources and elements, establishment of a cooperative and win-win open industrial ecosystem, etc.

During the period under review, the Group won the bidding for the technical cooperation and research project in respect of active safety and prevention and control of key commercial vehicles of Jiangsu Provincial Communications Department. The Project will target at Two-passenger and One-dangerous Vehicles (long-distance tourist buses, Category III or above route coaches and special road vehicles carrying dangerous chemicals, fireworks and firecrackers and civil explosives) to have active safety prevention and control and will develop smart terminals specially for the vehicles, establish a comprehensive supervision platform based on technologies including IOT, cloud computing and big data, and uphold the safety management concept of “humanity” by using the latest information technology to enhance the active safety and prevention and control level of the Two-passenger and One-dangerous Vehicles and by reducing the unsafe driving practices to lower the accidents caused by vehicles. The project has been successfully completed and passed acceptance checks during the year. Meantime, the Group completed the development of Jiangsu standard systems monitoring platforms, including the construction of enterprise monitoring platform and safe driving big data analysis platform. Through integration of several systems that are independently installed in Two-passenger and One-dangerous Vehicles, the Group developed new integrated intelligent terminals which integrate GPS, advanced driving system, fatigue detection, tire pressure monitoring, on-board video monitoring, blind area monitoring and other systems.

During the period under review, the Group signed a strategic cooperation agreement with Qingyang Municipal People's Government to jointly participate in the construction of Qingyang cloud computing big data center and intelligent city related project. In the future, the Group will facilitate the development of intelligent transportation in Qingyang by using various informatization methods and big data decision-making technologies, establish an “efficient, safe, environmental-friendly, comfortable and civilized” intelligent transportation system, substantially improve the management level and operation efficiency of urban transportation system and provide comprehensive transport information service, convenient, high-efficient, fast, economic, safe, humanized and intelligent transport service for travelers and timely, accurate, complete and comprehensive information support and information-based decision-making support for transport management department and related enterprises.

During the period under review, Jiangsu Intellitrans Company Limited, a wholly-owned subsidiary of the Company won the bid for the “electrical and mechanical integration project of Meishan Dual Innovation Center Phase II in Tianfu New District (Meishan Huawei Big Data Center)”. Meishan Huawei Big Data Center integrates the application of big data, innovation of production, education and research, entrepreneurship incubation and personnel training. The Project mainly consists of jointly building a big data industrial park; jointly establishing a

Chairman's Statement

cloud computing data center; promoting the construction of a smart city and the transformation of government informatization to the purchase of cloud services; building a big data platform to enhance the level of urban management and public services; building a "Internet + Create Guest" platform to promote the development of urban innovation; and building intelligent support industries such as manufacturing service platform to help the transformation and upgrade of the industry. The project is one of the key regional big data center construction projects successfully completed by the Group after the successful bidding of cloud computing big data industry pilot demonstration base in Sichuan Province in 2016, it is the second strong-strong cooperation between Sample Technology and China's Huawei in the cloud computing big data industry. The successful bid of the project demonstrates the comprehensive service strength in cloud computing big data of Sample Technology which will assist Meishan in building regional big data ecology and accelerate the development and implementation of the big data industry.

Promoting external exchange and cooperation and further strengthening brand influence

During the period under review, the Group participated in the "2017 China International Intelligent Transportation Exhibition" (hereinafter referred to as "ITS Asia") held in Shanghai. Nanjing City Intelligent Transportation Co., Ltd., (hereinafter referred to as "Intelligent Transportation Co."), a subsidiary of the Company, presented the exhibition with new technology products and solutions and launched the integrated solution and series of products for the intelligent transportation industry based on the features of "big data, internet + and smart leading and linking future". With its data-based traffic insight organisation capability, smart transportation building capability based on the IOT, and internet-based data life operation capability, Intelligent Transportation Co. had attracted a large number of visitors, professionals, and overseas friends to communicate and exchange. At the same time, the "SmartOSS Smart City Big Data Managerial Platform" (SmartOSS 智慧城市大數據管家平台) launched by Intelligent Transportation Co. was granted the innovation product award of the fourth session of "Intelligent Transportation Cup" (智能交通杯).

During the period under review, the Group exhibited at the 2017 World IOT Exposition held in Wuxi, Jiangsu, at which it exhibited the traffic big data decision platform, traffic data steward, en route supervision system, warehouse management system, and three-dimensional prevention and control system. Such products have attracted many visitors from all walks of life to come to see and communicate, and related products have been recognized and praised by people in the industry.

During the period under review, the Group was invited to participate in the "Jiangsu, China – Cooperation Symposium for Top Universities and Institutes and the 6th session of the Cooperation Achievements Fair of Production, Teaching and Research" with the theme of "Collective Intelligence for Jiangsu and Creating the Future" (智匯江蘇·共創未來), at which The Company showed its latest achievements in intelligent transportation, intelligent logistics and other business areas, and traffic data big data analysis platform based on the IOT technology, electronic locks, electronic license plates and etc. The Company's exhibition area attracted a large number of visitors and experts from universities and institutes to consult and approach with us and reached multi-faceted cooperation intentions. During the period under review, the Group was invited to participate in the 2017 Global IOT Contest, and its D-link platform solution, a comprehensive logistics service platform based on IOT technology, was successfully entered the top 5 global rankings.

Chairman's Statement

During the period under review, the Group was rewarded many honours, including the Gold Ant Award-System Integration Award for State Gold Card Project, 2017 China RFID Standard Contribution Award, 2017 China RFID Excellent Application Achievement Award, 2016 Famous Brand Title for Nanjing Service Industry, Jiangsu Smart Logistics Demonstration Enterprise, Innovative Product Award of "Intelligent Transportation Cup", Global IOT and Smart Service Model – Golden Dragon Award, and Key Units for Key Enterprises R&D Institutions Capacity Development in Jiangsu Province. During the period under review, the Company smoothly passed the audit to obtain the "Certificate for the Qualified Unit of Implementing Standards in the Enterprise R&D Management System of Jiangsu Province"; at the same time, it was awarded the enterprise incentives for third batch of "grants for developing the R&D institute capability of the provincial-level key enterprises" by Jiangsu Provincial Enterprise R&D Institute Promotion Association. During the period under review, Jiangsu Intellitrans Company Limited, a subsidiary of the Group, was listed on the TOP6 Enterprises List in China Highway and Electromechanical Market.

Prospects

In recent years, China has achieved remarkable achievement in the development of IOT industry. Under the underground of the increasingly fierce international competition, enterprises in four major sectors, including internet companies, telecom operators, communications equipment manufacturers, and traditional industry enterprises, have taken advantage of their respective advantages to integrate industrial chain resources., fully promote the industrial ecological construction. With the rapid development of 5G, it also provides basic protection and multiple possibilities for the coming era of the internet of everything. In China, the IOT is entering a new stage of "cross-border integration, integrated innovation, and large-scale development". It has a broad development prospect, but in the face of fierce international competition, it also exist the protruding problems and challenges which are urgently needed to solve. In order to promote the healthy and orderly development of China's IOT industry, we should focus on building an industrial ecosystem with core competitiveness, accelerate the improvement of technological innovation systems, standards systems, and public service systems, and promote scale applications in industries, consumers, and smart cities; at the same time, it shall comprehensively improve its security protection capabilities and comprehensively strengthened its protection systems, standards systems, and technical products. At present, Sample Technology has stepped into the new journey of "Smart Earth, Sensing China" as its goal. In future, Sample Technology will rely on continuous technological innovation and large-scale investment in science and technology to strengthen the building of its talent team and continuously activate the pulse of its innovation and development. It is determined to become the leading IOT enterprise in China, with core technology of IOT, which can provide users with solutions for IOT and implement value-added services for IOT, and are highly recognised in the international and domestic IOT market.

Focus on core business and customer needs, and quickly carry out ecological construction activities

In the ever-changing era, the Group will further concentrate its human, financial and material resources on its core business, and continue to promote the pace of its transition to become as an intelligent system integration supplier for IOT and a big data service provider, and achieve the goals of generating profits and cash and creating value in its core business. In 2018, the Group will continue to improve its products and business structure through continuous and timely insights in customer demands, and will continue to help customers achieve their needs. The Group will put emphasis on main areas of the industry and focus on customer needs. Under the trend of guaranteeing the growth of basic transaction size, we will ensure to achieve major breakthroughs (aggressive) in focusing on customer needs (focusing), connecting ecological resources

Chairman's Statement

(energizing), and building shared ecosystems in order to overcome various challenges on Sample Technology's path of development.

Construct energizing core organisation, promote the development by self-evolution and energizing

In 2018, the Group will deploy the front-line staff to form an action team to drive the organisation to become a front office, middle office and back office energizing organizational model based on customer needs. The front office is closest to customers. They are responsible for organising internal resources to provide products and services for customers. The back office provides resources and mechanism protection to ensure that the organisation has "inside and outside resource pools" and "sharing mechanism" to attract talents; and the middle office mobilizes resources of the back resources to become the business partners of the front office, energizing the front office and working together to serve for customers' needs. In 2018, the Group will build a platform in actual operation to construct an energizing core organisation that will drive the change of the Company's internal organization ecosystem. Through shaping a strong individual and encouraging truly powerful innovation and disruptive capabilities, the Group will strive to build a solid and strong organisation by combining strengths of brand, connection, operation, capital, human resources and product.

Take aggressive strategies to meet the arrival of a new era and promote the continuous growth of corporate

In 2018, the Group will apply an aggressive strategy to meet the arrival of a new era. It will no longer continue the previous thinking and path dependence, and make more efforts to cultivate and recruit talents, and invest more capital to nurture and expand its customers. It will concentrate on all the forces and take a mighty momentum to achieve results in the targeted markets. In 2018, the Group will continue to steadily advance the development of traditional businesses and actively expand a number of smart city projects. It will continue to focus on the development of internet business and promote innovation business to continue to grow bigger and stronger. It will also apply collaborative innovation of product in the industry to explore a diversified marketing model, drive the R&D momentum of product, increase customer stickiness, and thereby establish the brand awareness in the industry and promote the long-term growth of the Company and increase its corporate value.

On behalf of Sample Technology, I would like to extend my heart-felt gratitude to our customers, suppliers and shareholders for their unfailing support and faith. I will lead every staff member to continue to innovate development with dedicated efforts to enable the Group to achieve another pinnacle of performance.

By Order of the Board

Sha Min

Chairman

Nanjing, China

28 March 2018

Management Discussion and Analysis

FINANCIAL REVIEW

Total Operating Income

Total operating income of the Group for the year ended 31 December 2017 was approximately RMB1,672,987,895.57, representing an increase of approximately 6.58% over last year. The increase was mainly due to the growth of income from the intelligent terminal sales business as compared to that of last year.

Gross Profit

Gross profit margin of the Group for the year ended 31 December 2017 was approximately 26.76%, representing a increase of approximately 0.91% over last year. The increase was mainly due to the decrease in the proportion of cross-border trade and services business with low gross margin in the total operating income.

Selling and Distribution Costs

Selling and distribution costs of the Group for the year ended 31 December 2017 was approximately RMB43,989,687.42, representing a decrease of approximately 1.69% over last year. The decrease was mainly attributable to the efforts devoted in self-media promotion which reduced the business promotion expenses to a certain extent.

Administrative Expenses

Administrative expenses of the Group for the year ended 31 December 2017 was approximately RMB128,449,308.95, representing an increase of approximately 9.89% over last year. The increase was mainly attributable to the increases of investment on research and development and the remuneration for the relevant management staff during the Review Period.

Net Profit Attributable to Owners of the Parent Company

For the year ended 31 December 2017, the Group recorded a net profit attributable to the owners of the parent company of approximately RMB208,943,752.05, representing an increase of 9.38% over last year. The increase was mainly attributable to the increase in operating income and the corresponding increase in operating profit of the Group during the Review Period.

Management Discussion and Analysis

Inventories

As at 31 December 2017, the inventories amounted to approximately RMB1,042,819,367.79, an increase of 69.65% as compared to the same period of last year. The increase was mainly attributable to the substantial increase in construction unsettled assets formed by construction contracts during the period under review.

Non-current assets due within one year

As at 31 December 2017, the non-current assets due within one year reduced from RMB120,000,000.00 in 2016 to RMB0. The decrease was mainly due to the asset management plans invested by the Company and its subsidiary, Jiangsu Ruifu Intelligent Tech. Co., Limited, were matured.

Other current assets

As at 31 December 2017, other current assets were approximately RMB 40,268,878.13, representing a decrease of 74.89% as compared to the same period of last year. The decrease was mainly due to the decrease in export tax refund after the disposal of the equity interest of Jiangsu Cross-border E-Commerce Services Co., Ltd. by the Company during the review period.

FINANCIAL RESOURCES AND LIQUIDITY

For the year ended 31 December 2017, the shareholders' equity of the Group was approximately RMB1,951,447,709.20. Current assets were approximately RMB3,004,394,145.71, comprising cash and bank balances of approximately RMB763,119,652.92. Non-current liabilities were approximately RMB115,070,105.05. Current liabilities were approximately RMB1,484,616,419.05, mainly comprising trade and other payables and advances from customers, short-term borrowings and tax payable. As at 31 December 2017, net assets per share of the Group was approximately RMB6.16 (31 December 2016: RMB5.58). The short-term borrowings of the Group were RMB345,300,000.

PLEDGE OF ASSETS

As at 31 December 2017, bank deposits of RMB37,035,398.72 were pledged to the bank for projects in progress (2016: RMB46,148,367.38) and details of pledge of assets are set out in the Note V (LVI) to the financial statements.

GEARING RATIO

For the year ended 31 December 2017, gearing ratio (being bank loan and long-term loan less cash and cash equivalents divided by equity) of the Group was approximately zero (2016: zero). This was attributable to the sufficient cash and cash equivalents of the Group for the repayment of bank loans.

Management Discussion and Analysis

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 16 February 2017, the Company and Nanjing Sample Technology Group Company Limited entered into the Equity Transfer Agreement, pursuant to which the Company has conditionally agreed to dispose of and Sample Group has conditionally agreed to acquire 82.61% equity interest in Jiangsu Cross-border e-Commerce Services Co., Ltd., a non-wholly owned subsidiary of the Company. The total Consideration for the Disposal pursuant to the Equity Transfer Agreement was RMB59,000,000. The disposal was completed on 26 May 2017.

On 18 April 2017, the Company as the purchaser entered into an Equity Transfer Agreement with Nanjing Sample Technology Group Company Limited as the vendor in relation to the sale and purchase of the entire equity interest of Nanjing Intelligent Urban Constructive Investment Co., Ltd. for a consideration of RMB7,830,000. The acquisition was completed on 20 April 2017.

Save as disclosed above, the Group did not have any other material acquisition and disposal investment during the Review Period.

CAPITAL COMMITMENT

As at 31 December 2017, the Group did not have any material capital commitment.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in this report, the Company did not commit any future plan for material investment or capital assets.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, total employees' remuneration of the Group was approximately RMB63,012,940.37 (2016: RMB65,755,498.05) and the number of employees was 335 (2016: 477). 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.

Management Discussion and Analysis

BUSINESS REVIEW

Business development

In the expressway intelligent transportation business domain, while the Group continuously consolidated the improvement of the existing business, it continued to promote refined management in all phases of projects. At the same time it developed new business projects in all aspects by active participation in bidding major projects, proactive commencement of strategic cooperation within the industry, expanded the clientele of the industry, secured both the increases in business revenue and client satisfaction of the sector. During the period under review, the Group actively implemented major projects and made effective progress in carrying out projects such as the mechanical and electrical engineering project of Huashixia to Jiu Zhi expressway in Qinghai province, electrical and mechanical engineering project of Wenzhou Ring Expressway Southwest Line, electrical and mechanical modification and extension project of Licheng-Changzhi Highway in Shanxi Province and ETC modification project Phase II in Heilongjiang. The targeted missions of the aforesaid projects are completed on schedule during the year. During the period under review, the Group focused on constant enhancement of its data service capability, active exploring the application of transportation big data analysis in new areas, established a platform for big data analysis of vehicle flow of tunnels and a platform for big data analysis related to transportation for Wuhu Traffic Police, which realised further breakthrough in the application scenarios of the projects.

In the city intelligent transport business domain, the Group took strengthening its capability in total solutions of city intelligent transportation as its core, continued to consolidate various elements including the data collection terminals for internet-of-things and the intelligent information management platform, so as to construct the public transport service ecological system based on intelligent city. During the period under review, the Group made effective exploration on large-scale multimodal transport projects, and actively participated in city public transportation functional integrated projects for Xuzhou city north coach station and the first and last stops of the bus line Xingshanzi-Jiuli, and the Xuyi harbour industrial park project. During the period under review, the Group successfully won the bid of the integrated pipe corridor project of Chengdong Avenue, Xuzhou which is a project in the field of intelligent pipe corridor construction. Meanwhile, we leveraged on the advantage of Sample's technology in platform to explore and strengthen external cooperation and exchange, and attempted the new model of cloud + terminal joint establishment and operation.

In the customs logistics business domain, the Group successfully won the bid of the integrated information project of Wuwei Comprehensive Bond Zone in Gansu during the period under review, continually expanding business in the integrated information domain. Meanwhile, through promoting the progress of the application project of nationwide supervision of penalty and goods confiscation of the General Administration of Customs, the Group has coverage over the applications in 42 direct customs areas across China and effectively established an entrance for customs business throughout the nation. On the other hand, the Group further improved the transformation and upgrade of the business model, and maintained the large scale of integrated project and promoted innovative business. It achieved innovation in mobile internet custom clearance model through the launching of mobile logistics application services and solved some barriers in the custom clearance logistics, which attracted general attention in the industry and the market response was vigorous. During the period under review, the Group completed the modification of all custom areas under Jiangsu province. At the same time, it realized a technological breakthrough in the Cloud Toll-Gate system, which realised centralized and visible processing from front-end to Cloud with the use of big data processing technology, and achieved a high degree of stability and maintainability. During the period under review, the implementation in Jiangsu was completed and it has been gradually extending across China.

Management Discussion and Analysis

As for the cross border trade and service business, on 16 February 2017, the Company and Nanjing Sample Technology Group Company Limited (“Sample Group”) entered into the Equity Transfer Agreement, pursuant to which the Company conditionally agreed to dispose of and Sample Group conditionally agreed to acquire 82.61% equity interest in Jiangsu Cross-border e-Commerce Services Co., Ltd. (“Jiangsu Cross-border”), a non-wholly owned subsidiary of the Company. The total consideration for the disposal pursuant to the Equity Transfer Agreement is RMB59,000,000 (equivalent to approximately HK\$65,555,555.56). On 15 May 2017, the resolution regarding the disposal was considered and passed by the Shareholders of the Company at the extraordinary general meeting of the Company. On 26 May 2017, all required procedures for the Equity Transfer were completed. The disposal would improve the operational efficiency of the principal business of the Group by relocating more resources to such businesses.

During the period under review, the Group made successive innovations in new data service mode and achieved remarkable results. During the period under review, the Group signed strategic cooperation agreement with Qingyang Municipal People’s Government to jointly participate in the construction of Qingyang cloud computing big data center and intelligent city related project. In the future, the Group will facilitate the development of intelligent transportation in Qingyang by using various informatization methods and big data decision-making technologies, and provide comprehensive transport information service, transport service and accurate and complete information support for travellers, transport management department and related enterprises. During the period under review, Jiangsu Intellitrans Company Limited, a wholly-owned subsidiary of the Company won the bid for the “electrical and mechanical integration project of Meishan Dual Innovation Center Phase II in Tianfu New District (Meishan Huawei big data center)”, with contract sum of approximately RMB247 million. The project mainly includes the joint construction of the big data industrial park, joint establishment of the cloud computing data center, building a big data platform, enhancing city management and the standard of public services. The successful bidding of the project highlighted the excellent comprehensive service capability of Sample Technology in the area of cloud computing big data.

Research and development

During the period under review, the Group actively participated in the work of the national internet-of-things standard working group led by the China Electronics Standardization Institute of the Ministry of Industry and Information Technology. The Group took part in the drafting of the national standard “Internet-of-things Information Sharing and Exchange Part 1: Overall Structure” and “Internet-of-things Information Sharing and Exchange Part 2: Universal Technical Requirements”. Approval by the Standardization Administration of China has been obtained and they are now pending official publication, signaling a historic breakthrough. The Group also actively participated in the compilation of the national standard “Internet-of-things for Intelligent City Application Guide”, for which several rounds of revision have been made and application for approval was submitted to the Standardization Administration of China.

Management Discussion and Analysis

During the period under review, the Group completed the acceptance inspection of the “863 Plan” project, two provincial technology projects, one Jiangsu province key laboratories appraisal project and one annual appraisal project of the Coordination Innovation Centre under the provincial Education Bureau. It also actively promoted and carried out the implementation of a number of government projects including “Internet +” project of the NDRC, Internet-of-things project of MIIT, industry and information industry transformation and upgrading fund project of provincial Economic and Information Commission, and municipal software and information service sector fund project. During the period under review, the Group effectively promoted the research and development of vehicle-logo fixed reader and make progressive achievement in having obtained the encryption modules, electronic logo specimen and relevant documents. It also completed the research and development work for high price-performance reader module and high price-performance fixed reader.

During the period under review, the Group was invited to participate in four major industrial exhibitions successively, namely the first Jiangsu Cooperation Symposium for Top Universities and Institutes, the first Jiangsu Development Summit, the 13th Nanjing Soft Expo and the World Internet-of-things Expo, which increased the Company’s industrial influence and attracted keen attention of industry and government customers. In addition, the Group was awarded 2017 Science and Technology (Third Prize) of Jiangsu Province People’s Government and second-class award in Scientific and Technological Progress of the Ministry of Education of China. During the period under review, the Group attached great importance to the application and protection of intellectual property rights, actively filed applications for 18 patents and 16 software copyrights, conducted 3 software products assessments, and was granted 1 patent, 16 software copyrights and 3 software product licenses.

BUSINESS OUTLOOK

Future business development plan

In 2018, the Group will continue to focus on two core industries of intelligent transportation and intelligent logistics, centralize the resources of the Group, use information technologies such as the internet-of-things and “internet +” as its core to build the ecological system of an intelligent city, and promote innovation of the business model of the Company.

Regarding the intelligent transportation domain, the Group will continue to consolidate the sourcing of goods over the internet-of-things and the “internet +” informationalization of management platform, and on top of which, to provide data service based on big data related to transportation. It will unceasingly improve municipal and communal service product lines and create total solutions. The Group will pursue innovation in new city transportation business activities, taking commercial vehicles as target customers to form the new business activities of “data + cash flow”, provide safe operation data services, build up the after-sale market related services for commercial vehicles, create a new profit model for intelligent transportation and constantly enhance its capability for intelligent transportation public service based on the concept of intelligent city.

Management Discussion and Analysis

Regarding the intelligent logistics domain, on the basis of its successful development of the “Jiangsu Province Technical Standards for Vehicle Mounted Active Prevention and Control Terminals”, the Group will actively provide technical and resources support for share-participated companies and partners, establish safety monitoring platform for the logistics of hazardous chemicals, in an effort of further improving and consolidating the intelligent logistics ecology of Sample Technology.

In the aspect of custom logistics business, the Group will continue to consolidate its own strength, and increase market share, further increase its market share of the customs logistics business and lift the degree of satisfaction of customers; drawing on new IT and internet-of-things technologies, the Group will realise interaction between custom data and service applications, and pursue whole process visibility for the entire process of custom clearance logistics monitoring and data service business and the service supply chain, which will prepare the Group for the next step of providing good services to import and export companies, facilitate the reform and realising integration of the Customs’ area monitoring and custom clearance which will reduce enterprises’ logistics cost and help achieve an efficient and convenient custom clearance environment.

As for the areas of municipal construction and key communal engineering projects, the Group will first further implement and promote the projects won in 2017, while actively exploring new cooperation projects with domestic renowned leading enterprises, and take this as a new source of profit growth for the intelligent city business cluster. While maintaining a healthy development, the Group will focus on opening up the resources platform of Sample Technology to converge capability with the aim of innovating traditional business model, optimizing the allocation of partners for various parts of its business to build an industrial ecology jointly.

Research and development strategies

In 2018, the Group will continue to rely on the National Radio Frequency Identification Device (RFID) System Engineering and Technology Research Center, carry out prospective R&D related to the core industries, strengthen cooperation with the relevant companies, universities and colleges, R&D institutes, consolidate the R&D strengths of all parties, focus on the business development needs of the core industries of the Company, conduct R&D and introduce a group of new products to the market; make planning on the intelligent city ecosystem of the Company, make good use of the industry status and influences of the national engineering centre, expand resource cooperation in the industries or related domains, supplement the businesses of the ecosystem through cooperation with external parties; enhance the competitiveness of the products and services of the Company, the barrier of competition of the industries and protect the development strategies of the internet-of-things industry of the Company through core technologies, accumulation of intellectual property rights and upgrade and repetitive computing of core products.

Biographical Details of Directors, Supervisors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sha Min (沙敏), aged 53, a senior engineer and senior economist, 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. He joined the Company in December 1997 and was first appointed as an executive Director and Chairman in December 1999. He is currently the president of China RFID Association, a committee member of the 12th Chinese People's Political Consultative Conference of Jiangsu Province, vice-chairman of Federation of Industry and Commerce of Jiangsu Province, chairman of ITS Association of Nanjing City, vice-chairman of Federation of Industry and Commerce of Nanjing, vice president of Nanjing Software Industry Association, vice-chairman of Nanjing Enterprises Association, president of Jiangsu Badminton Association and President of Nanjing Alumni Association of Southeast University etc. Mr. Sha is currently a non-executive director of Jiangsu NandaSoft Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8045).

Mr. Chang Yong (常勇), aged 51, a senior economist, received postgraduate education, is an executive Director, vice chairman 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 July 1990 to September 1992. He worked as a manager of Nanjing Kentucky Fried Chicken Company Limited from September 1992 to March 1993. 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 president of the Company in December 1997, then became the vice-president of the Company in May 2014.

Mr. Zhu Xiang (朱翔), aged 41, a senior economist, received postgraduate education, is an executive Director and president of the Company. He obtained a MBA degree from Nanjing University in June 2006. He joined Hainan Airlines Company Limited as assistant to secretary of the board of directors from July 2000 to February 2002. He worked for strategic development department of 江蘇金盛投資置業集團 as head of investment and assistant to manager from March 2002 to October 2002. He joined the Company in March 2003 and was appointed as executive Director and president in May 2014, and successively served as senior manager of the Company's investment department, general manager of the investment centre, secretary of the board of directors and vice president.

NON-EXECUTIVE DIRECTOR

Mr. Ma Jun (馬俊), aged 53, received university education, is a non-executive Director of the Company. He graduated from Nanjing University in economic management in 1995. He serves as the chairman and general manager of 南京福申房地產開發有限責任公司 from February 1998 till present. Mr. Ma was appointed as non-executive Director of the Company in May 2010.

Biographical Details of Directors, Supervisors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shum Shing Kei (沈成基), aged 47, holds a Master Degree, is an independent non-executive Director of the Company. 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. 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 practicing partner of a certified public accountant firm in Hong Kong, mainly providing business advisory service and auditing service. Mr. Shum was appointed as independent non-executive Director of the Company in May 2011. Mr. Shum is currently the independent non-executive director of Zhejiang Shibao Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1057 and listed on Shenzhen Stock Exchange, stock code: 002703), the independent non-executive director of China Futex Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8506), the chief financial officer and company secretary of Asia Cassava Resources Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0841), the company secretary of Yusei Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 0096), the company secretary of Jiangsu NandaSoft Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8045) and the company secretary of Chengdu PUTIAN Telecommunications Cable Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 1202).

Mr. Hu Hanhui (胡漢輝), aged 62, professor and instructor of doctorate students, is an independent non-executive Director of the Company. He had served as the Associate Head of Department of Management Science and Engineering in Nanjing Institute of Technology, the Deputy Director of the Technology Research Institution and the president of the University's Union in Southeast University, a part-time researcher of the Humanities and Social Science Research Institution of Education Department in Dongbei University of Finance and Economics, a member of Professional Committee in China Development Bank and a member of the "Expert Group of Basic Requirements on Entrepreneurship Education in High Schools" in Ministry of Education. Currently, Mr. Hu has served as the Director of the Research Institution of Entrepreneur Group Economics and Industrial Organization of School of Economics and Management in Southeast University and an independent director of Nanjing Textiles Import & Export Corp., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600250). Mr. Hu was appointed as an independent non-executive Director of the Company in May 2016.

Mr. Gao Lihui (高立輝), aged 54, received doctoral education, is a senior economist and an independent non-executive Director of the Company. Mr. Gao holds a diploma from The Business School of Yangzhou University in the PRC, a master degree in Business Administration from The School of Business and Economics of Maastricht University in the Netherlands and a doctoral degree in management from The School of Business of Nanjing University. Mr. Gao is currently the chairman of Nanjing Ju Bian Asset Management Limited Company. Prior to that, Mr. Gao had been appointed as the officer of the Jiangsu Province of Bank of China, the deputy manager of the Gulou branch of Bank of Nanjing, the manager of Danfeng Street branch of Bank of Nanjing and the general manager of the Business department of HengFeng Bank. Mr. Gao was appointed as an independent non-executive Director of the Company in May 2017.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Mr. Qiu Xiang Yang (仇向洋), aged 62, received doctoral education, 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 the president of the Institute for Urban Development in Jiangsu and vice president of the Nanjing Entrepreneur Club. From February 1991 to June 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 strategic 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), Zhong Dian Environmental Protection Limited* (a company listed on the Shenzhen Stock Exchange, stock code: 300172), Neoglory Prosperity Inc.* (a company listed on the Shenzhen Stock Exchange, stock code: 002147), Tianjin Tai Da Limited* (a company listed on the Shenzhen Stock Exchange, stock Code: 000652) and Nanjing Kangni Mechanical & Electrical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code 603111).

Mr. Dai Jian Jun (戴建軍), aged 48, a practising lawyer, is a supervisor of the Company. He was educated in Jiangsu Police Institute 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 practicing lawyer of Jiangsu Zhi Bang Law Firm since 1996. He was appointed as a supervisor of the Company in August 2003. Mr. Dai is currently an independent director of Nanjing Canatal Data-Centre Environmental Tech. Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 603912) and an executive director of Nanjing Heyuxin Real Estate Co., Ltd.

Mr. Zou Tao (鄒濤), aged 48, received doctoral education and is a senior engineer. Mr. Zou graduated from the Xidian University in 1996 with a Master degree in Computer Device and Equipment Professional and graduated from the Nanjing University in 1999 with a Doctor degree in Computer Application Professional. He worked as the head of the development department of Fujitsu Nanda Software Technology, Co., Ltd from July 1999 to August 2003. In 2003, he departed to Japan and worked as project officer in the SOFTWISE Corporation in Japan. He joined Research Institution of the Company in 2011, and acted as Associate Dean of the Research Institution and deputy director of the National Radio Frequency Identification Device (RFID) System Engineering and Technology Research Center. He is currently a member of the state IOT basic standard working group and a member of Jiangsu software engineering standardization technical committee. Mr. Zou was appointed as a supervisor of the Company in May 2016.

SENIOR MANAGEMENT

Ms. Miao Yun (繆雲), aged 48, received postgraduate education, is a senior accountant, a non-practicing member of China Certified Public Accountant Association, the vice president and chief financial officer of the Company. She graduated from Nanjing University with MBA postgraduate in July 2007. She became a non-practicing member of China Certified Public Accountant Association in 2002. Ms. Miao worked in the financial department of Jinling Petrochemical Alkylbenzene Plant from July 1992 to September 1993, served as financial manager of Jintung Petrochemical Corporation Ltd. from October 1993 to February 2005 and chief financial officer of Jiangsu Sidiw Corporation Group from March 2005 to July 2013. Ms. Miao has served as the chief financial officer of the Company since May 2014 and vice president of the Company since March 2017.

Biographical Details of Directors, Supervisors and Senior Management

Ms. Yu Hui (于暉), aged 41, holds a bachelor degree and is studying the EMBA of Shanghai Advanced Finance Institute. She is the vice president of the Company. Ms. Yu served in the Chinese People's Liberation Army from 1994 to 2003. From 2003 to 2012, she worked for the Enterprise Division of Nanjing Industry and Commerce Bureau. She joined the company in 2012 as General Manager of the Strategic Promotion Center. Ms. Yu has served as Vice President of the Company since March 2017.

Mr. Xie Jinliang (解金亮), aged 41, having postgraduate education, acted as secretary to the board of directors of the Company. Mr. Xie graduated from Qingdao University with a bachelor degree. From March 2002 to April 2007, he worked for Qingdao Technology Property Right Exchange, and has served successively as project manager, department manager and assistant president. From May 2007 to January 2013, he worked for Jiangsu Kanion Pharmaceutical Co., Ltd, and has served successively as investment consultant, manager of the securities department and representative of securities affairs. He joined the Company in February 2013 and successively served as investment manager, general manager of the securities department and secretary to the board of directors. Mr. Xie has served as the secretary to the board of directors of the Company since May 2014.

Report of the Directors

The Directors present the annual report and audited financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

A review of the business of the Group for the year ended 31 December 2017 and a discussion on the Group's future business development are provided respectively in the "Chairman's Statement" on pages 3 to 10 and "Management Discussion and Analysis" on pages 11 to 17. An analysis of the Group's performance during the year ended 31 December 2017 using financial key performance indicators is provided in the "Five-Year Financial Summary" on page 208. In addition, the financial risk management of the Group can be referred in note VIII to the financial statements on pages 182 to 186.

Key risks and uncertainties affecting the Company

In recent years, the continuous and steady growth in the macro economy and fixed asset investment in China has provided a favourable environment for the development of the IOT industry. As the downstream customers of the Company mainly concentrate in industries such as road and transportation, custom logistics and city construction, the Company's operating results are more closely related to the State's policy orientation for investment in such sectors. During the period under review, government's support for the informatization and intelligent development of the Company's downstream industries was strong, and the Group's results grew steadily. In the future, if there is a sustaining slowdown in the growth of the macro economy and fixed asset investment in China or the government's policy orientation changes, investment in the informatization and intelligent development of the downstream industries may decrease which will have an adverse effect on the Company's results. Therefore, the Group faces the risks of a slowdown in the growth of the macro economy and fixed asset investment and change in industry policy of China. In addition, the Company is also subject to the risk of significant change in customers, risk in technology R&D, management risk caused by rapid expansion, market competition risk, etc.

In view of the above risks, while fully capitalising on the current favourable policy environment, the Group will closely follow the policy orientation and actively develop new business in line with the policy directions; continue to emphasize on and actively drive market development on the basis of establishing long-term friendly cooperation relationship with key customers; continue to strengthen investment in technology R&D, reinforce protection and daily management of its core technologies, strictly implement the confidentiality system for its technology, and enhance the incentive system for R&D; further improve and strictly implement various internal control systems, and attach importance to the introduction and nurturing of outstanding management talents; and consolidate and fully leverage on its advantages to increase the revenue and market share of its core business. Through such measures, the Company aims to mitigate the impact of the above risks.

Report of the Directors

COMPLIANCE WITH LAWS AND REGULATIONS

The Group recognizes the importance of compliance with legal and regulatory requirements and the risks of violating relevant regulations. The Group has allocated system and human resources to ensure continuous compliance with laws, rules and regulations, and maintains a good working relationship with regulatory authorities through effective communication. In addition, relevant employees and operating units will also pay attention to any changes in applicable laws, rules and regulations from time to time. In order to protect the intellectual property rights of the Group, the Group has registered its domain name and has registered or applied for trademarks, patents, software copyrights in various categories in China and took all appropriate actions to safeguard its intellectual property rights. During the period under review, the board of directors is not aware of any incident of non-compliance of relevant laws and regulations that had a material impact on the company.

MAJOR RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group recognises that employee is one of the its most valued assets. The Group aims at maintaining a caring environment for its employees and values their personal development. The Group provides a harmonious and safe workplace, promotes diversity in its employees, and provides competitive remuneration and benefits and career development opportunities based on their merits and performance. The Group also puts ongoing efforts to provide adequate trainings and development resources to the employees so that they can keep abreast of the latest development of the market and the industry and, at the same time, to improve their performance and self-fulfilment in their positions.

The Group maintains good relationship with its customers and suppliers. The Group enhances the relationship by continuous interaction with customers to gain insight on the changing market demand so as to provide customers with quality services and product experience. The Group also maintains constant communication with its suppliers to actively and effectively strengthen the working relationship, which helps ensure their timely delivery according to specification, and in turn, ensure the stability the Group's business.

RESULTS AND APPROPRIATIONS

The results and financial position of the Group for the year ended 31 December 2017 are set out on pages 50 to 207 of this annual report.

The Board proposed to distribute a final dividend of RMB0.25 per share (2016: RMB0.15 per share) for the year ended 31 December 2017, proposed to distribute to all shareholders on the basis of 10 bonus shares for every 10 shares held from undistributed profits (2016: no bonus share issue) and proposed to distribute to all shareholders on the basis of 10 shares for every 10 shares held by way of capitalization of capital reserve (2016: no capitalisation issue).

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT PROPERTY

The company owns an office park at No. 10 Maqun Avenue, Qixia District, Nanjing City, the People's Republic of China. The area of the land is approximately 118 mu. on which it has office buildings with floor area of approximately 39,000 square meters, of which about 30,500 square meters belongs to investment property for rental purpose. The remaining part is self-used by the Company.

Report of the Directors

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 (*Vice Chairman*)

Mr. Zhu Xiang (*Chief Executive Officer*)

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

Mr. Shum Shing Kei

Mr. Hu Hanhui

Mr. Gao Lihui (Appointed on 15 May 2017)

Mr. Geng Nai Fan (Resigned on 15 May 2017)

Supervisors

Mr. Qiu Xiang Yang

Mr. Dai Jian Jun

Mr. Zou Tao

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) and Supervisors has entered into a service contract with the Company. The service contracts will be expired on 31 December 2018 and the further renewal of a term of 3 years shall be subject to the approval at the annual general meeting of the Company.

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

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

Save as disclosed below, as at 31 December 2017, 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.

Report of the Directors

Long Positions in Shares

Name of Director	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Sha Min (Note 1)	1,350,000	Beneficial owner	0.43%
	159,128,400	Interest of controlled corporation	50.23%
Chang Yong (Note 2)	159,128,400	Interest of controlled corporation	50.23%

Notes:

- (1) Mr. Sha Min ("**Mr. Sha**") directly holds 1,350,000 Domestic Shares and is indirectly interested in 60.40% of equity interest of Jiangsu Sample Holding Limited* (江蘇三寶控股有限公司) ("**Jiangsu Sample**") which in turn owns the entire equity interest in Nanjing Sample Technology Group Company Limited ("Sample Group") which in turn owns directly 159,128,400 Domestic Shares. Under the SFO, Mr. Sha is deemed to be interested in all 160,478,400 Domestic Shares. Du Yu (杜予) is the spouse of Mr. Sha. Under the SFO, Du Yu is also deemed to be interested in 160,478,400 Domestic Shares in which Mr. Sha is interested.

Sample Group directly holds 159,128,400 Domestic Shares, representing approximately 50.23% of the issued share capital of the Company and Sample Group is owned as to 100% by Jiangsu Sample which in turn is held as to 60.40% by Tibet Zhuo Xin Venture Capital Management Co., Ltd.* (西藏卓鑫創業投資管理有限責任公司) ("**Tibet Zhuo Xin**"). Tibet Zhuo Xin is owned as to 90% by Shanghai Jiaxin Enterprise Management Center (limited partnership)* (上海佳鑫企業管理中心有限合夥) ("**Shanghai Jiaxin**") which in turn is beneficially owned as to 99% and 1% by Mr. Sha and his spouse, Du Yu (杜予). Under the SFO, Mr. Sha is deemed to be interested in the entire equity interest in each of Sample Group, Jiangsu Sample, Tibet Zhuo Xin and Shanghai Jiaxin.

- (2) Mr. Chang Yong ("**Mr. Chang**"), is indirectly interested in 38.96% of equity interest of Jiangsu Sample which in turn owns the entire equity interest in Sample Group which in turn owns directly 159,128,400 Domestic Shares. Under the SFO, Mr. Chang is deemed to be interested in all 159,128,400 Domestic Shares.

Sample Group, directly holds 159,128,400 Domestic Shares, representing approximately 50.23% of the issued share capital of the Company and Sample Group is owned as to 100% by Jiangsu Sample which in turn is held as to 38.96% by Tibet Zhuo Cai Venture Capital Management Co., Ltd.* (西藏卓財創業投資管理有限責任公司) ("**Tibet Zhuo Cai**"). Tibet Zhuo Cai is owned as to 90% by Shanghai Lianqi Enterprise Management Center (limited partnership)* (上海聯啟企業管理中心有限合夥) ("**Shanghai Lianqi**") which in turn is beneficially owned as to 99% by Mr. Chang. Under the SFO, Mr. Chang is deemed to be interested in the entire equity interest in each of Sample Group and Jiangsu Sample.

Report of the Directors

SHARES DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as to the knowledge of the Directors, as at 31 December 2017, 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 as recorded in the register required to be kept by the Company under Section 336 of the SFO.

Long position in Shares:

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Nanjing Sample Technology Group Company Limited ("Sample Group") (Note 1)	159,128,400 Domestic Shares	Beneficial owner	50.23%
Jiangsu Sample Holding Limited* ("Jiangsu Sample") (Note 1)	159,128,400 Domestic Shares	Interest of controlled corporation	50.23%
Tibet Zhuo Xin Venture Capital Management Co., Ltd.* (Note 1)	159,128,400 Domestic Shares	Interest of controlled corporation	50.23%
Tibet Zhuo Cai Venture Capital Management Co., Ltd.* (Note 1)	159,128,400 Domestic Shares	Interest of controlled corporation	50.23%
Shanghai Jiaxin Enterprise Management Center (limited partnership)* (Note 1)	159,128,400 Domestic Shares	Interest of controlled corporation	50.23%
Shanghai Lianqi Enterprise Management Center (limited partnership)* (Note 1)	159,128,400 Domestic Shares	Interest of controlled corporation	50.23%
Active Gold Holding Limited (Note 2)	49,545,000 Domestic Shares	Beneficial owner	15.64%
Jian Ying Sample High Growth Investment Fund (Note 2)	49,545,000 Domestic Shares	Interest of controlled corporation	15.64%
Pengda Value Fund SPC (acting for and on behalf of DTC SP) (Note 3)	19,527,000 H Shares	Beneficial owner	6.16%

Report of the Directors

Name of Shareholders	Number of Shares	Nature of Interest	Approximate Percentage of the Registered Capital of the Company (%)
Cinda Asset Management (Cayman) Limited (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%
Cinda International Holdings Limited (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%
China Cinda Asset Management Co., Ltd (Note 3)	19,527,000 H Shares	Interest of controlled corporation	6.16%

Notes:

- (1) Sample Group directly holds 159,128,400 Domestic Shares. As such, Sample Group is the substantial and the single largest shareholder of the Company. Sample Group is 100% held by Jiangsu Sample which in turn is held by Tibet Zhuo Xin and Tibet Zhuo Cai as to 60.40% and 38.96% equity interests respectively. Tibet Zhuo Xin is in turn held by Shanghai Jiaxin and Nanjing Juge Enterprise Management Center (limited partnership)* (南京聚格企業管理中心(有限合夥)) ("Nanjing Juge") as to 90% and 10% equity interests respectively. Mr. Sha, the Chairman of the Company and his spouse, Du Yu (杜予), respectively held 99% and 1% in each of Shanghai Jiaxin and Nanjing Juge. On the other hand, Tibet Zhuo Cai is in turn held by Shanghai Lianqi and Nanjing Runge Enterprise Management Center (limited partnership)* (南京潤格企業管理中心(有限合夥)) ("Nanjing Runge") as to 90% and 10% equity interests respectively. Mr. Chang, the Vice Chairman of the Company, held 99% in each of Shanghai Lianqi and Nanjing Runge.
- (2) Active Gold Holding Limited is indirectly wholly owned by Jian Ying Sample High Growth Investment Fund.
- (3) Pengda Value Fund SPC(acting for and on behalf of DTC SP), directly owns 19,527,000 H Shares, is 100% owned by Cinda Asset Management (Cayman) Limited which in turn is 100% owned by Cinda (BVI) Limited which in turn is 100% owned by Cinda International Holdings Limited. Cinda International Holdings Limited is owned as to 63% by Sinoday Limited which in turn is 100% owned by China Cinda (HK) Holdings Company Limited which in turn is 100% owned by China Cinda Asset Management Co., Ltd.

DIRECTORS' AND SUPERVISORS' INTERESTS IN UNDERLYING SHARES BY DERIVATIVES

Save as disclosed above, as at 31 December 2017, none of the Directors or Supervisors is authorized to subscribe for any H Shares of the Company. As at 31 December 2017, 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.

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

Other than the service contracts of Directors and supervisors 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.

PERMITTED INDEMNITY PROVISION

The Company has taken out and maintained directors' liability insurance which provides appropriate cover for the directors of the Group. At no time during the year ended 31 December 2017 and up to the date of this report, was or is there any permitted indemnity provision being in force for the benefit of any of the directors of the Group.

MAJOR CUSTOMERS AND SUPPLIERS

Five Largest Customers

Turnover to the Group's five largest customers accounted for 48.64% (2016: 33.56%) of the total sales for the year and sales to the largest customer included therein amounted to 19.83% (2016: 11.57%). 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 27.83% (2016: 36.32%) of the total purchase for the year and purchase to the largest supplier included therein amounted to 8.44% (2016: 21.8%). 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.

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND EMPLOYEES AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors, supervisors and employees and the five highest individuals of the Group are set out in Note V(LI) 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 208 of this annual report.

Report of the Directors

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in the Note V(XXXIII) to the financial statements. As at 31 December 2017, the Company had issued an aggregate of 91,800,000 H shares and an aggregate of 225,023,400 domestic shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the laws of the PRC, being the jurisdiction in which the Company was established, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders of the Company.

RESERVES

Details of the movements of reserves of the Group during the year are set out on page 66 in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Group's reserves available for distribution amounted to RMB1,078,088,852.07 (2016: RMB923,552,272.40).

INFORMATION OF TAX DEDUCTION FOR HOLDERS OF LISTED SECURITIES

Shareholders are taxed and/or enjoy tax relief for the dividend income received from the Company in accordance with the relevant tax rules and regulations of the People's Republic of China ("PRC"). A corporate profit tax at the rate of 10% is applicable to dividends payable to Shareholders. In accordance with the relevant tax rules and regulations of the PRC, during the reporting period, the Company has an obligation to withhold for payment of the 10% corporate profit tax from the payment of the final dividend of the year to non-resident enterprises (including HKSCC (Nominees) Limited, other corporate nominees or trustees, and other entities or organisations that are all considered as non-resident enterprise shareholders) whose names are registered on the H shares register of members. No corporate tax at the rate of 10% will be withheld in respect of final dividend of the year to natural persons whose names are registered on the H shares register of members of the Company.

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 2017.

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.

Report of the Directors

EQUITY-LINKED AGREEMENTS

As at 31 December 2017, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

Save as disclosed above, for the year ended 31 December 2017, none of the Directors or Supervisors was granted subscription rights to subscribe for the H Shares of the Company. As at 31 December 2017, 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, risk management 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. Hu Hanhui and Mr. Gao Lihui. 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. Hu Hanhui, Mr. Gao Lihui 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.

Report of the Directors

UPDATE ON DIRECTORS' INFORMATION

Pursuant to Rule 13.51B(1) of the Listing Rules, the change in information of the Directors for the year ended 31 December 2017 are set out below:

- 1) Mr. Gao Lihui was appointed as the independent non-executive director of the Company on 15 May 2017.
- 2) Mr. Geng Nai Fan resigned as the independent non-executive director of the Company on 15 May 2017.
- 3) Mr. Sha Min was appointed as a non-executive director of Jiangsu NandaSoft Technology Company Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8045) on 3 November 2017.
- 4) Mr. Shum Shing Kei was appointed as an independent non-executive director of China Futex Holdings Limited (a company listed on the Hong Kong Stock Exchange, stock code: 8506) on 11 December 2017.
- 5) Mr. Qiu Xiang Yang was appointed as an independent director of Nanjing Kangni Mechanical & Electrical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code 603111) on 9 November 2017.
- 6) Mr. Dai Jian Jun was appointed as an independent director of Nanjing Canatal Data-Centre Environmental Tech. Co., Ltd. (this company was listed on the Shanghai Stock Exchange in October 2017, stock code: 603912) on 8 October 2015.

Save as disclosed above and elsewhere in this report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules for the year ended 31 December 2017.

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 recommended by the Remuneration Committee, having regard to market competitiveness, individual performance and achievement.

RETIREMENT FUND OBLIGATION

The Group makes monthly contribution to certain defined contribution plan, pension schemes operated by Chinese provincial and municipal governments. The relevant provincial and municipal governments promised to fulfil the benefit obligations pursuant to these retirement schemes for all existing and future retired employees. Apart from these contributions, the Group has no other retirement benefit obligations. Contributions to these pension scheme is paid when incurs.

Report of the Directors

CONNECTED TRANSACTIONS

On 16 February 2017, the Company and Nanjing Sample Technology Group Company Limited (“**Sample Group**”) entered into the Equity Transfer Agreement, pursuant to which the Company agreed to dispose of and Sample Group agreed to acquire 82.61% equity interest in Jiangsu Cross-border e-Commerce Services Co., Ltd., a non-wholly owned subsidiary of the Company (the “**Disposal**”). The total Consideration for the Disposal is RMB59,000,000. The Disposal constituted a connected transaction for the Company which was approved by shareholders at the extraordinary general meeting held on 15 May 2017. For details of the Disposal, please refer to the circular of the Company dated 13 April 2017.

On 18 April 2017, the Company and Sample Group entered into an Equity Transfer Agreement, pursuant to which Sample Group agreed to dispose of and the Company agreed to acquire the entire equity interest in Nanjing Intelligent Urban Constructive Investment Co., Ltd. (the “**Acquisition**”) for a consideration of RMB7,830,000. For details of the Acquisition, please refer to the announcement of the Company dated 18 April 2017.

Each of Mr. Sha Min, the chairman of the Board, an executive Director and a controlling Shareholder of the Company, and Mr. Chang Yong, the vice chairman of the Board and an executive Director, are respectively interested in 60.40% and 38.96% of equity interest in Jiangsu Sample Holding Limited which in turn owns the entire equity interest in Sample Group, a controlling shareholder of the Company. Therefore, the above-mentioned transactions constituted connected transactions of the Company.

RELATED PARTY TRANSACTIONS

Details of the related party transactions entered into by the Group during the year ended 31 December 2017 are set out in note X to the financial statements of this annual report. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for the transactions described in the section headed “Connected Transactions” in this Report of the Directors, in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with.

PROPOSED ISSUE OF A SHARES

On 13 April 2017, the Company announced that the Company will apply to the CSRC and other relevant PRC regulatory authorities in accordance with Chinese laws and regulations and other regulatory requirements to issue not more than 40,000,000 A shares at par value of RMB1.00 each to the qualified inquiring subscribers and domestic natural persons, legal persons and investors who have opened securities accounts on the Shanghai Stock Exchange (excluding those prohibited by laws and regulations) and will also apply to Shanghai Stock Exchange for listing and trading of such A shares. The proposed issue of A shares was approved by the Shareholder at the extraordinary general meeting of the Company held on 12 June 2017 and at the class meetings of domestic Shareholders and the H Shareholders held on 12 June 2017, the validity period is 12 months from 12 June 2017. The Company will make announcement to inform the shareholders and potential investors of the Company of the progress of Issue of A Shares, as when appropriate and necessary.

For details of the proposed issue of A Shares, please refer to the circular of the Company dated 17 May 2017.

Report of the Directors

CORPORATE GOVERNANCE PRACTICES

During the year, the Company continued to strengthen its internal governance measures in order to comply with the provisions contained in the Corporate Governance Code (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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance (“ESG”) Report within three months after publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

AUDITOR

The consolidated financial report of the Group for the year ended 31 December 2017 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 to authorise the Directors to fix their remuneration.

Nanjing, the PRC
28 March 2018

On behalf of the Board
Sha Min
Chairman

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 Corporate Governance Code (the “Code”) as set out in Appendix 14 of the Listing Rules. The 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 2017.

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 (*Vice Chairman*)

Mr. Zhu Xiang (*Chief Executive Officer*)

Non-executive Director

Mr. Ma Jun

Independent Non-executive Directors

Mr. Shum Shing Kei

Mr. Hu Hanhui

Mr. Gao Lihui (Appointed on 15 May 2017)

Mr. Geng Nai Fan (Resigned on 15 May 2017)

Each of the Directors has entered into a service contract with the Company. The service contracts will be expired on 31 December 2018 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, risk management and monitoring 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 18 to 21 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 good corporate governance practices and procedures are established and 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 2017, the Board held eight 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.

Corporate Governance Report

SHAREHOLDERS AND SHAREHOLDERS' GENERAL MEETINGS

During the year, the Company convened one annual general meeting and 3 extraordinary general meetings. The Company convened and held the shareholders' general meetings strictly in compliance with the regulations and requirements of the articles of association of the Company and the rules governing the procedures of the shareholders' general meeting of the Company, which ensured all of the Company's shareholders, especially the minority shareholders, could enjoy equal rights and fully exercise their voting rights.

THE ATTENDANCE OF DIRECTORS AT THE BOARD MEETINGS AND SHAREHOLDERS' GENERAL MEETINGS

The Board has convened 8 plenary Board meetings and 4 shareholders' general meetings for the year ended 31 December 2017. The attendance of the Directors at the meetings was as follows:

Name of Directors	Board meeting	General meeting
Executive Directors		
Mr. Sha Min (<i>Chairman</i>)	8/8	4/4
Mr. Chang Yong (<i>Vice Chairman</i>)	8/8	4/4
Mr. Zhu Xiang (<i>Chief Executive Officer</i>)	8/8	4/4
Non-executive Director		
Mr. Ma Jun	8/8	4/4
Independent Non-executive Directors		
Mr. Shum Shing Kei	8/8	4/4
Mr. Hu Hanhui	8/8	4/4
Mr. Gao Lihui (Appointed on 15 May 2017)	4/4	3/3
Mr. Geng Nai Fan (Resigned on 15 May 2017)	4/4	1/1

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.

The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. The participation by each Director in the continuous professional development programme with appropriate emphasis on the roles, functions and duties of a director of a listed company in 2017 is recorded in the table below.

Corporate Governance Report

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. Zhu Xiang	√	√
Non-executive Director		
Mr. Ma Jun	√	√
Independent Non-executive Directors		
Mr. Shum Shing Kei	√	√
Mr. Hu Hanhui	√	√
Mr. Gao Lihui (Appointed on 15 May 2017)	√	√
Mr. Geng Nai Fan (Resigned on 15 May 2017)	√	√

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. Hu Hanhui (chairman of remuneration committee), Mr. Shum Shing Kei and one executive Director, namely Mr. Zhu Xiang.

The role and function of the remuneration committee included determining the policy for the remuneration of directors, making recommendation to the board 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, making recommendations to the board of the remuneration of non-executive Directors, assessing performance of executive directors and approving the terms of executive directors' service contracts. 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.

Two meetings were held during the year by the remuneration committee to review the directors' fees of the newly appointed director and the directors, supervisors and senior management's remuneration proposals.

Corporate Governance Report

Details of the attendance of the remuneration committee meetings are as follows:

	Number of attendance
Mr. Hu Hanhui	2/2
Mr. Shum Shing Kei	2/2
Mr. Zhu Xiang	2/2

No Director or any of his/her associates is involved in deciding his/her own remuneration at the meeting of the remuneration committee.

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. Hu Hanhui (chairman of nomination committee), Mr. Gao Lihui and one executive Director, namely Mr. Chang Yong.

Building a diverse culture is important to the success of the Company. Educational background and age diversity in addition to meritocracy are areas of focus for the Company's employee base. The same diversity principle is also applied to the composition of the Board to enhance the effectiveness of the Board and its corporate governance standard (the "**Diversity Policy**").

The nomination committee has been delegated the authority to review and assess the diversity of the Board and its skills and experience by way of consideration of a number of factors, including but not limited to, ethnicity, gender, age, cultural and educational background, and professional experience. The committee will give due consideration to the Diversity Policy when identifying and selecting suitably qualified candidates. The ultimate decision will be based on merit and contribution the chosen candidate will bring to the Board.

The nomination committee is responsible for developing measurable objectives to implement the Diversity Principle and for monitoring progress towards the achievement of these objectives.

The primary duties of the nomination committee are to review the structure, size and composition of the Board on a regular basis, to determine the policy, procedures and criteria of nomination of directors 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 appointment of new director and consider the recommendations of candidates of senior management.

Corporate Governance Report

Details of the attendance of the nomination committee meeting are as follows:

	Number of attendance
Mr. Hu Hanhui	1/1
Mr. Gao Lihui (Appointed on 15 May 2017)	0/0
Mr. Chang Yong	1/1
Mr. Geng Nai Fan (Resigned on 15 May 2017)	1/1

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. Hu Hanhui and Mr. Gao Lihui.

The primary duties of the audit committee are to provide an independent review and supervision of financial reporting, and examines the effectiveness of the risk management and 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. Shum Shing Kei	2/2
Mr. Hu Hanhui	2/2
Mr. Gao Lihui (Appointed on 15 May 2017)	1/1
Mr. Geng Nai Fan (Resigned on 15 May 2017)	1/1

During the year, the Group's annual audited results for the year ended 31 December 2016 and the unaudited interim results for the six months ended 30 June 2017 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 2017 with a recommendation to the Board for approval. 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.

Corporate Governance Report

No member of the audit committee is a former partner of the existing auditing firm of the Company during the one year after he/she ceases to be a partner of the auditing firm.

AUDITOR'S REMUNERATION

The audit works of the Group for the year ended 31 December 2017 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 2017 are set out below:

	2017 RMB'000	2016 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 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 pages 45 to 49 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.

Corporate Governance Report

INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for assessing and determining the nature and extent of the risks they are willing to take in achieving the Group's strategic objectives and ensuring that the Group is responsible for maintaining a sound and effective risk management and internal control system and reviewing its effectiveness. The Board oversees the management in the design, implementation and monitoring of the risk management and internal control system and is responsible for the risk management and internal control system, including financial monitoring, operation monitoring, compliance monitoring and risk management monitoring to protect the interests of shareholders.

Risk management and internal control system aim to manage the risk in the process of achieving the Group's strategic objectives rather than to completely eliminate it, and provide reasonable protection rather than absolute guarantee.

The Group has an internal audit functional department and directly reports to the audit committee on the risk management and internal control of the Company under the support and cooperation of other departments. The internal audit manager reports to the chief executive officer and chief financial officer on the day-to-day administrative work. The audit committee reports to the board of any significant matters. The internal audit functional department regularly conducts internal control assessments to determine the risks that may affect the Group's business, including major operations, financial processes and data security.

The Board of Directors conducted a risk assessment based on a number of different factors and conducted continuous review to determine the status of monitoring and effectiveness of risk management of the Group. As at the end of the reporting period, the Company had no significant monitoring errors causing any unforeseen consequences or emergencies. Also, no matter was found that would cast significant impact on the company's financial status.

The following are the main procedures for the Board to continuously monitor the effectiveness of the Company's risk management and internal control systems:

- Establish an internal control and risk management implementation team and improve the organizational structure so that the powers and responsibilities of monitoring level are clearly defined;
- Organize working meetings for internal control and risk management standard, promote the norms of internal control amongst staff and enhance staff awareness of the importance and necessity of internal control system;
- Analyze internal control deficiencies, risk identification and evaluation, and test the effectiveness of internal control according to the enterprise risk management model by collecting and sorting the daily workflow and internal control system of various departments, business and financial modules of the company;
- Develop risks lists at the corporate level, process level, information system level, identify problems in internal control and risk management in a timely manner, and strive to minimize its impact through continuous improvement of corporate governance and proactive management;

Corporate Governance Report

- Establish a comprehensive accounting system to provide management with financial and operational performance indicators, as well as financial information for reporting and disclosure, to maintain complete accounting records and to ensure reliable use of financial data on business and announcements to avoid serious errors, losses or fraud;
- Internal audit functions will make analysis and independent assessment of the adequacy and effectiveness of the company's risk management and internal control systems. The responsible person of internal audit reports to the audit committee any questions found during its day-to-day work, including major internal control deficiencies (if any);
- The audit committee reviews the annual audited report submitted by the external auditor to the management of the Group (including an explanatory letter about the audit to the management);
- Establish a set of guidelines and procedures for handling and posting inside information to enable timely processing and publication of inside information.

Establish a reporting policy to encourage employees on confidential basis to report to management of any possible misconduct on any matter regarding the Group. The Group will keep confidential all information received and protect the identity and interests of whistleblowers. During the year, the Board authorised the audit committee to review the work of the internal audit functional departments and the external auditors, review the regular reports on risk management and regulatory compliance that prepared by the management, and review the adequacy and effectiveness of the Group's risk management and internal control systems. During the review, the audit committee also assessed and considered the resources, qualifications and experience of staff of the Group's accounting, internal audit and financial reporting functions and its training plans and budget. The Board considers that the Group's risk management and internal control systems for the year ended 31 December 2017 were effective and adequate and were in compliance with corporate governance requirements.

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.

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 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.

Corporate Governance Report

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 or class 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: No. 10 Maqun Avenue, Qixia District, Nanjing, City
The People's Republic of China
Fax: (8625) 8435 6677
Email: irm@samples.cn

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.

CHANGE IN CONSTITUTIONAL DOCUMENT

During the period under review, the shareholders of the Company approved the amendment of the Company's Articles of Association to amend the scope of business of the Company and to reflect the change of shareholding of the shareholder, details of which was disclosed in the Company's circular dated 30 October 2017. Save as disclosed, there has been no significant change in the Company's Articles of Association during the year ended 31 December 2017.

Report of the Supervisory Committee

To the shareholders,

For the year ended 31 December 2017 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, Chief Executive Officer 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, Chief Executive Officer, 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
28 March 2018

Auditor's Report

Xin Hui Shi Bao Zi (2018) No. ZA11024

TO THE SHAREHOLDERS OF NANJING SAMPLE TECHNOLOGY COMPANY LIMITED:

1. AUDIT OPINION

We have audited the accompanying financial statements of Nanjing Sample Technology Company Limited (hereinafter “the Sample Technology Company”), which comprise the consolidated and the parent company balance sheets as at 31 December 2017, and the consolidated and the parent company income statements, the consolidated and the parent company cash flow statements and the consolidated and the parent company statements of changes in equity for the financial year of 2017 and the relevant notes to the financial statements.

In our opinion, the accompanying financial statements are prepared, in all material respects, in accordance with the requirements of Accounting Standards for Business Enterprises and present fairly the consolidated and the parent company's financial position of Sample Technology Company as at 31 December 2017 and the consolidated and the parent company's financial performance and cash flows for 2017.

2. BASIS FOR FORMING THE AUDIT OPINION

We conducted our audit in accordance with China Standards on Auditing (“CSAs”). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of Sample Technology Company in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants (“CICPA Code”), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We confirm that the following are key audit matters that need to be communicated in the audit report.

Auditor's Report

Key audit matters

How our audit addressed the matter

(1) Recognition of income

The revenue of system integration projects of Sample Technology Company for 2017 amounted to 1,012,150,600 yuan, representing 60.50% of the total revenue. According to Note III (XXII) of the financial statements attached thereunder, the revenue of the Company's system integration project was recognized according to the percentage of completion method. The progress is mainly based on the external evidence provided by the independent third party, such as the owner or inspector, as confirmation of the completion progress. We are concerned that the completion progress confirmation by independent third party, such as the owner or inspector, may be different from the actual progress of the completion which may cause the risk that the amount of revenue not recognized in the appropriate period.

To understand, evaluate and test the relevant control of recognition of revenue of the company, review the contract, interview with the management, understand and evaluate the company's revenue recognition policy, the implementation of the letter verification and make project site visit to view and interview so as to understand the project progress.

(2) Investment property measured at fair value

As at 31 December 2017, Sample Technology Company's financial statements showed the investment property measured at fair value of 219,390,300 yuan which belonged to Sample Technology Company's special assets with a significant amount. According to the accounting policy of Sample Technology Company, the investment property measured at fair value and the fair value change is included in the current profit and loss. As there's no reference transaction price in the active market can be made directly for Sample Group's investment property, therefore, Sample Technology Company determined the fair value of investment property by using the valuation technique (please refer to note IX to the financial statements).

We evaluated the control related to the determination of investment property by Sample Technology Company. We understood and evaluated the valuation method of investment property and discussed the specific application of valuation method with valuation experts. Valuation parameters and discount rates used in the valuation process are considered and evaluated.

4. OTHER INFORMATION

The management of Sample Technology Company is responsible for the other information. The other information comprises the information included in the annual report 2017 of Sample Technology Company, other than the financial statements and our auditor's report thereon.

Our audit opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

Combined with our audit of the financial statements, our responsibility is to read the other information. In this process, we consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Based on the work we have performed, if we conclude that there is a material misstatement for the other information, we should report the facts. In this regard, there's no matter that need to be reported.

5. RESPONSIBILITIES OF MANAGEMENT AND GOVERNANCE LAYER FOR THE FINANCIAL STATEMENTS

The management of Sample Technology Company (referred as "the Management") is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Standards for Business Enterprises, and for the design, implementation and maintenance of internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing these financial statements, the Management is responsible for assessing Sample Technology Company's ability to continue as a going concern, disclosing matters related to going concern and using the going concern assumption unless management either intend to liquidate the company, cease operations, or have no realistic alternative but to do so.

The governance layer are responsible for overseeing Sample Technology Company's financial reporting process.

Auditor's Report

6. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing must detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- (1) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (2) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but it's not for the purpose to comment on the effectiveness of internal control.
- (3) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- (4) conclude on the appropriateness of management's use of the going concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Sample Technology Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required in our auditor's report to draw the attention of the reporting user to the related disclosures in these financial statements or, if such disclosures are inadequate, we should issue qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Sample Technology Company to cease to continue as a going concern.
- (5) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- (6) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Sample Technology Company to express an audit opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Auditor's Report

We communicate with the governance layer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance layer with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance layer, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

BDO China Shu Lun Pan Certified
Public Accountants LLP

Chinese Certified Public Accountant: **Pan Yong Xiang**
(Project partner)

Chinese Certified Public Accountant: **Feng Jian Li**

Shanghai, the People's Republic of China

28 March 2018

Consolidated Balance Sheet

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note V	2017	2016
Current assets:			
Cash at bank and on hand	(I)	763,119,652.92	1,227,426,333.37
Settlement reserves		-	-
Loans to banks and other financial institutions		-	-
Financial assets calculated by fair value with its change included in loss and profit of current year		-	-
Derivative financial assets		-	-
Notes receivable	(II)	16,708,270.20	810,000.00
Accounts receivable	(III)	589,865,277.78	526,069,368.54
Prepayments	(IV)	66,721,485.56	42,815,450.27
Premiums receivable		-	-
Reinsurance accounts receivable		-	-
Receivables from subcontracting reserves		-	-
Interest receivable	(V)	-	394,890.00
Dividends receivable		-	-
Other receivables	(VI)	484,891,213.33	179,291,491.38
Financial assets held under resale agreements		-	-
Inventories	(VII)	1,042,819,367.79	614,699,178.91
Assets held for sale		-	-
Non-current assets due within one year	(VIII)	-	120,000,000.00
Other current assets	(IX)	40,268,878.13	160,390,998.50
Total current assets		3,004,394,145.71	2,871,897,710.97
Non-current assets:			
Loans and advances		-	-
Available-for-sale financial assets	(X)	111,782,201.95	44,520,000.00
Held-to-maturity investment		-	-
Long-term receivables		-	-
Long-term equity investments	(XI)	43,822,612.31	5,436,528.36
Investment Property	(XII)	219,390,300.00	215,250,600.00
Fixed assets	(XIII)	229,877,091.68	259,370,746.71
Construction in progress	(XIV)	874,604.36	1,271,607.11
Construction materials	(XV)	-	12,853.20
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets	(XVI)	32,884,438.58	15,599,914.81
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses	(XVII)	8,152,163.37	9,358,650.83
Deferred income tax assets	(XVIII)	32,303,033.76	28,391,637.47
Other non-current assets	(XIX)	1,707,300.00	-
Total non-current assets		680,793,746.01	579,212,538.49
TOTAL ASSETS		3,685,187,891.72	3,451,110,249.46

Consolidated Balance Sheet

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY	Note V	2017	2016
Current liabilities:			
Short-term borrowings	(XX)	345,300,000.00	611,644,210.96
Borrowings from central bank		—	—
Deposits from customers and interbank		—	—
Loans from banks and other financial institutions		—	—
Financial liabilities calculated by fair value with its change included in loss and profit of current year		—	—
Derivative financial liabilities		—	—
Notes payable	(XXI)	30,056,123.84	35,288,100.72
Accounts payable	(XXII)	884,708,041.68	639,256,306.14
Advances from customers	(XXIII)	116,843,058.33	48,367,297.32
Financial assets sold under repurchase agreements		—	—
Handling charges and commissions payable		—	—
Payroll payables	(XXIV)	6,416,109.99	4,529,581.34
Taxes payable	(XXV)	45,030,437.72	37,640,623.70
Interest payable	(XXVI)	675,962.63	1,188,634.41
Dividends payable	(XXVII)	6,688,575.00	—
Other payables	(XXVIII)	31,500,358.26	77,955,804.95
Reinsurance accounts payable		—	—
Reserve funds for insurance contracts		—	—
Receivings from vicariously traded securities		—	—
Receivings from vicariously sold securities		—	—
Liabilities held for sale		—	—
Non-current liabilities due within 1 year	(XXIX)	11,250,000.00	29,110,000.00
Other current liabilities	(XXX)	6,147,751.60	6,601,021.14
Total current liabilities		1,484,616,419.05	1,491,581,580.68
Non-current liabilities:			
Long-term borrowings	(XXXI)	67,850,000.00	109,100,000.00
Bonds payables		—	—
Including: preferred shares		—	—
perpetual capital securities		—	—
Long-term payables		—	—
Long-term payroll payables		—	—
Special payables		—	—
Estimated liabilities		—	—
Deferred income	(XXXII)	37,991,374.17	10,397,156.83
Deferred income tax liabilities	(XVIII)	9,228,730.88	8,969,147.98
Other non-current liabilities		—	—
Total non-current liabilities		115,070,105.05	128,466,304.81
Total liabilities		1,599,686,524.10	1,620,047,885.49

Consolidated Balance Sheet

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY (Continued)	Note V	2017	2016
Owners' equity:			
Share capital	(XXXIII)	316,823,400.00	316,823,400.00
Other equity instruments		—	—
Including: preferred shares		—	—
perpetual capital securities		—	—
Capital reserves	(XXXIV)	444,930,544.69	417,341,904.48
Less: treasury stocks		—	—
Other comprehensive income	(XXXV)	27,277,917.91	33,105,840.34
Special reserves		—	—
Surplus reserves	(XXXVI)	84,326,994.53	77,443,332.15
Provision for general risk		—	—
Undistributed profits	(XXXVII)	1,078,088,852.07	923,552,272.40
		<hr/>	<hr/>
Total owners' equity attributable to the parent company		1,951,447,709.20	1,768,266,749.37
Minority interest		134,053,658.42	62,795,614.60
		<hr/>	<hr/>
Total owners' equity		2,085,501,367.62	1,831,062,363.97
		<hr/>	<hr/>
TOTAL LIABILITIES AND OWNERS' EQUITY		3,685,187,891.72	3,451,110,249.46
		<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements.

Page 50 to page 207 of the financial statements were signed by the following person in charge:

Sha Min
Director

Zhu Xiang
Director

Sha Min
Legal representative

Miao Yun
Person in charge of
accounting function

Li Cheng Yang
Person in charge of
accounting department

Balance Sheet of the Parent Company

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ASSETS	Note XV	2017	2016
Current assets:			
Cash at bank and on hand		243,000,140.69	460,882,029.06
Financial assets calculated by fair value with its change included in loss and profit of current year		—	—
Derivative financial assets		—	—
Notes receivable		15,172,032.70	410,000.00
Accounts receivable	(I)	178,762,466.20	150,822,144.41
Prepayments		38,270,298.13	4,479,405.02
Interest receivable		—	274,087.41
Dividends receivable		—	—
Other receivable	(II)	191,658,737.83	73,734,604.15
Inventories		53,521,906.39	48,810,839.18
Assets held for sale		—	—
Non-current assets due within one year		—	60,000,000.00
Other current assets		1,215,401.78	81,692,926.45
Total current assets		721,600,983.72	881,106,035.68
Non-current assets:			
Available-for-sale financial assets		94,505,231.07	44,520,000.00
Held-to-maturity investment		—	—
Long-term receivables		—	—
Long-term equity investments	(III)	491,882,398.36	360,133,270.81
Investment Property		219,390,300.00	215,250,600.00
Fixed assets		131,665,347.27	139,693,394.92
Construction in progress		874,604.36	—
Construction materials		—	—
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil and gas assets		—	—
Intangible assets		8,955,656.65	9,429,244.86
Development expenditures		—	—
Goodwill		—	—
Long-term deferred expenses		—	—
Deferred income tax assets		8,834,969.38	7,111,274.26
Other non-current assets		—	—
Total non-current assets		956,108,507.09	776,137,784.85
TOTAL ASSETS		1,677,709,490.81	1,657,243,820.53

Balance Sheet of the Parent Company

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY	Note XV	2017	2016
Current liabilities:			
Short-term borrowings		195,300,000.00	190,000,000.00
Financial liabilities calculated by fair value with its change included in loss and profit of current year		—	—
Derivative financial liabilities		—	—
Notes payable		4,219,492.00	3,111,080.72
Accounts payable		102,660,752.54	138,913,922.53
Advances from customers		17,259,057.62	22,558,899.78
Payroll payables		2,822,557.48	2,237,052.87
Taxes payable		15,060,142.26	6,751,456.18
Interest payable		431,395.97	441,950.67
Dividends payable		6,688,575.00	—
Other payables		7,903,009.13	9,435,625.39
Liabilities held for sale		—	—
Non-current liabilities due within 1 year		11,250,000.00	9,110,000.00
Other current liabilities		—	10,009.52
Total current liabilities		363,594,982.00	382,569,997.66
Non-current liabilities:			
Long-term borrowings		67,850,000.00	79,100,000.00
Bonds payables		—	—
Including: preferred shares		—	—
perpetual capital securities		—	—
Long-term payables		—	—
Long-term payroll payables		—	—
Special payables		—	—
Estimated liabilities		—	—
Deferred income		32,306,765.82	3,550,148.72
Deferred income tax liabilities		8,892,113.14	8,271,158.14
Other non-current liabilities		—	—
Total non-current liabilities		109,048,878.96	90,921,306.86
Total liabilities		472,643,860.96	473,491,304.52

Balance Sheet of the Parent Company

At 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

LIABILITIES & OWNERS' EQUITY (Continued)	Note XV	2017	2016
Owners' equity:			
Share capital		316,823,400.00	316,823,400.00
Other equity instruments		—	—
Including: preferred shares		—	—
perpetual capital securities		—	—
Capital reserves		417,473,099.68	417,473,099.68
Less: treasury stocks		—	—
Other comprehensive income		35,342,451.12	35,342,451.12
Special reserves		—	—
Surplus reserves		84,326,994.53	77,443,332.15
Undistributed profits		351,099,684.52	336,670,233.06
Total owners' equity		1,205,065,629.85	1,183,752,516.01
TOTAL LIABILITIES AND OWNERS' EQUITY		1,677,709,490.81	1,657,243,820.53

The accompanying notes form an integral part of these financial statements.

Page 50 to page 207 of the financial statements were signed by the following person in charge:

Sha Min
Director

Zhu Xiang
Director

Sha Min
Legal representative

Miao Yun
Person in charge of
accounting function

Li Cheng Yang
Person in charge of
accounting department

Consolidated Income Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
I. Total operating income		1,672,987,895.57	1,569,750,558.83
Including: Operating incomes	(XXXVIII)	1,672,987,895.57	1,569,750,558.83
Interest incomes		—	—
Earned premiums		—	—
Incomes from handling charge and commission		—	—
II. Total operating cost		1,460,468,409.69	1,388,706,754.43
Including: Operating cost	(XXXVIII)	1,225,214,079.72	1,164,041,866.56
Interest expenses		—	—
Handling charges and commissions		—	—
Surrender value		—	—
Net payments for insurance claims		—	—
Net provision for insurance contracts		—	—
Expenditures for insurance policy dividend		—	—
Reinsurance costs		—	—
Taxes and surcharges	(XXXIX)	7,811,320.82	3,780,162.36
Selling and distribution expenses	(XL)	43,989,687.42	44,743,761.05
Administrative expenses	(XLI)	128,449,308.95	116,889,889.29
Financial expenses	(XLII)	23,627,434.96	25,096,749.50
Asset impairment losses	(XLIII)	31,376,577.82	34,154,325.67
Add: Gain on fair value change (with “-” for losses)	(XLIV)	4,139,700.00	4,227,700.00
Investment incomes (with “-” for losses)	(XLV)	17,772,419.06	22,734,356.44
Including: Share of profit of associates and jointly controlled entities	(XLV)	-1,413,423.92	-2,280,696.00
Income on disposal of assets (with “-” for losses)	(XLVI)	16,793.21	11,160.38
Currency exchange gains (with “-” for losses)		—	—
Other income	(XLVII)	7,199,551.69	—
III. Operating profit (with “-” for losses)		241,647,949.84	208,017,021.22
Add: Non-operating income	(XLVIII)	5,443,938.85	22,434,536.49
Less: Non-operating expenses	(XLIX)	227,603.74	518,119.79
IV. Total profit (with “-” for total losses)		246,864,284.95	229,933,437.92
Less: Income tax expenses	(LII)	42,927,426.95	35,916,040.30
V. Net profit (with “-” for net losses)		203,936,858.00	194,017,397.62
(I) Classified by business continuity			
1. Net profit from the continuing operations (with “-” for net losses)		197,216,286.60	183,703,446.73
2. Net profit from the discontinued operations (with “-” for net losses)		6,720,571.40	10,313,950.89
(II) Classified by ownership			
1. Minority interests		-5,006,894.05	2,992,002.01
2. Net profit attributable to the shareholders of parent company		208,943,752.05	191,025,395.61

Consolidated Income Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
VI. Net other comprehensive income, net of tax		-5,828,239.39	2,443,558.72
Net other comprehensive income attributable to the owners of parent company, net of tax		-5,828,239.39	2,443,558.72
(1) Other comprehensive income that will not be reclassified subsequently to profit or loss		-	-
1. Changes of net liabilities or net assets arising from the re-measurement of defined benefit plans		-	-
2. Share of other comprehensive income in the investees at equity method that cannot be reclassified into profit and loss		-	-
(II) Other comprehensive incomes that will be reclassified subsequently to profit and loss		-5,828,239.39	2,443,558.72
1. Share of other comprehensive income in the investees at equity method that can be reclassified into profit and loss		-	-
2. Profit and loss from changes in fair value of available-for-sale financial assets		-	-
3. Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets		-	-
4. Effective portion of profit or loss from cash flows hedges		-	-
5. Converted difference in foreign currency statements		-5,828,239.39	2,443,558.72
6. Other		-	-
Net other comprehensive incomes attributable to minority shareholders, net of tax		-	-
VII. Total comprehensive income		198,108,618.61	196,460,956.34
Total comprehensive income attributable to the owner of parent company		203,115,512.66	193,468,954.33
Total comprehensive income attributable to minority shareholders		-5,006,894.05	2,992,002.01

Consolidated Income Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
VIII. Earnings per share:			
(1) Basic earnings per share (yuan/share)		0.659	0.603
(2) Diluted earnings per share (yuan/share)		0.659	0.603
IX. Dividend	(LIII)	47,523,510.00	95,047,020.00

Business combination under the same control occurred in the current period, the net profit realized by the acquiree before the combination was ____0____yuan, the net profit realized by the acquiree in the previous period was ____0____ yuan.

The accompanying notes form an integral part of these financial statements.

Income Statement of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XV	2017	2016
I. Operating income	(IV)	404,463,282.11	336,279,813.00
Less: Operating cost	(IV)	277,639,969.12	225,820,352.18
Taxes and surcharges		4,631,757.74	1,663,228.73
Selling and distribution expenses		16,856,343.68	17,752,439.06
Administrative expenses		51,277,548.49	52,859,989.86
Financial expenses		11,819,090.94	11,908,805.73
Asset impairment losses		9,975,033.56	14,121,657.29
Add: Gain on fair value change (with "-" for losses)		4,139,700.00	4,227,700.00
Investment incomes (with "-" for losses)	(V)	35,998,724.61	34,886,735.85
Including: Share of profit of associates and jointly controlled entities		-896,066.14	-644,417.19
Income on disposal of assets (with "-" losses)		11,830.12	—
Other income		5,068,618.30	—
II. Operating profit (with "-" for losses)		77,482,411.61	51,267,776.00
Add: Non-operating income		726,010.06	8,142,396.55
Less: Non-operating expenses		50,000.00	34,369.98
III. Total profit (with "-" for total losses)		78,158,421.67	59,375,802.57
Less: Income tax expenses		9,321,797.83	5,794,480.21
IV. Net profit (with "-" for net losses)		68,836,623.84	53,581,322.36
(I) Net profit from the continuing operations (with "-" for net losses)		—	—
(II) Net profit from the discontinued operations (with "-" for net losses)		—	—

Income Statement of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XV	2017	2016
V. Net other comprehensive income after tax			
(I) Other comprehensive income that can not be reclassified into profit and loss in the future			
1. Changes recalculating and setting the net liabilities or net assets of benefit plan		—	—
2. Share of other comprehensive income in the investees can not be reclassified into profit and loss at equity method		—	—
(II) Other comprehensive incomes that can be reclassified into loss and profit in the future			
1. Share of other comprehensive income in the investees can be reclassified into profit and loss at equity method		—	—
2. Profit and loss on the change in fair value of available-for-sale financial assets		—	—
3. Held-to-maturity investment reclassified to loss and profit of available-for-sale financial assets		—	—
4. Valid part of hedging loss and profit of cash flow		—	—
5. Converted difference in foregin currency statements		—	—
6. Other		—	—
VI. Total comprehensive income		68,836,623.84	53,581,322.36
VII. Earnings per share:			
(1) Basic earnings per share (yuan/share)		—	—
(2) Diluted earnings per share (yuan/share)		—	—

The accompanying notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		1,588,793,372.08	1,500,719,566.79
Net increase in customers' deposits and interbank placements		—	—
Net increase in loans from the central bank		—	—
Net increase in funds borrowed from other financial institutions		—	—
Cash received from receiving premium of original insurance contract		—	—
Net cash received from reinsurance		—	—
Net increase in deposits of the insured and investment		—	—
Net increase in disposal of financial assets calculated by fair value with its change included in loss and profit of current period		—	—
Cash received from interests, handling charges and commissions		—	—
Net increase in funds borrowed		—	—
Net increase in repurchase business funds		—	—
Refund of taxes and surcharges		25,116,798.93	51,476,070.76
Cash received relating to other operating activities (LIV).1		106,122,433.01	42,036,488.03
Sub-total of cash inflows from operating activities		1,720,032,604.02	1,594,232,125.58
Cash paid for goods and services		1,441,846,681.80	1,257,527,636.16
Net increase in loans and advances to customers		—	—
Net increase in deposits with the central bank and other banks		—	—
Cash paid for compensation under original insurance contract		—	—
Cash paid for interests, handling charges and commissions		—	—
Cash paid for policy dividends		—	—
Cash paid to and on behalf of employees		63,409,716.12	65,463,507.74
Payments of tax charges		73,661,255.40	57,434,660.57
Cash paid relating to other operating activities (LIV).2		610,711,600.88	288,316,934.80
Sub-total of cash outflows from operating activities		2,189,629,254.20	1,668,742,739.27
Net cash flows from operating activities		-469,596,650.18	-74,510,613.69

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
II. Cash flows from investing activities			
Cash received from disposal of investments		58,450,115.02	—
Cash received from returns on investments		5,027,998.75	24,802,762.37
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	40.00
Net cash received from disposal of subsidiaries and other operating entities		—	—
Cash received relating to other investing activities	(LIV).3	182,165,000.00	150,107,846.25
Sub-total of cash inflows from investing activities		245,643,113.77	174,910,648.62
Cash paid to acquire fixed assets, intangible assets and other long-term assets		4,676,660.97	13,313,512.28
Cash paid to acquire investments		223,637,325.95	1,500,000.00
Net increase of pledged loans		—	—
Net cash paid to acquire subsidiaries and other operating entities		479,200.62	5,495,398.28
Cash paid relating to other investing activities	(LIV).4	44,465,187.89	31,636,683.03
Sub-total of cash outflows from investing activities		273,258,375.43	51,945,593.59
Net cash flows from investing activities		-27,615,261.66	122,965,055.03
III. Cash flows from financing activities			
Cash received from capital contributions		15,750,000.00	6,585,000.00
Including: Cash received from investment by minority shareholders of subsidiaries		15,750,000.00	6,585,000.00
Cash received from borrowings		1,021,147,940.90	850,118,433.47
Proceeds from bonds issued		—	—
Cash received relating to other financing activities	(LIV).5	34,885,482.69	—
Sub-total of cash inflows from financing activities		1,071,783,423.59	856,703,433.47
Cash repayments of borrowings		957,807,627.57	779,712,339.08
Cash payments for interest expenses and distribution of dividends or profits		69,548,934.69	135,562,570.11
Including: Payments for distribution of dividends or profits to minority shareholders of subsidiaries		—	—
Cash paid relating to other financing activities		—	—

Consolidated Cash Flow Statement

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note V	2017	2016
Sub-total of cash outflows from financing activities		<u>1,027,356,562.26</u>	<u>915,274,909.19</u>
Net cash flows from financing activities		<u>44,426,861.33</u>	<u>-58,571,475.72</u>
IV. Effect of foreign exchange rate changes on cash and cash equivalents		<u>-2,708,661.28</u>	<u>3,409,854.87</u>
V. Net increase in cash and cash equivalents		<u>-455,493,711.79</u>	<u>-6,707,179.51</u>
Add: Cash and cash equivalents at beginning of period		<u>1,181,577,965.99</u>	<u>1,188,285,145.50</u>
VI. Cash and cash equivalent at end of period		<u>726,084,254.20</u>	<u>1,181,577,965.99</u>

The accompanying notes form an integral part of these financial statements.

Cash Flow Statement of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XV	2017	2016
I. Cash flows from operating activities			
Cash received from sales of goods or rendering of services		411,047,134.71	350,070,510.61
Refund of taxes and surcharges		2,953,519.21	5,007,093.29
Cash received relating to other operating activities		14,365,012.07	15,467,038.10
		<hr/>	<hr/>
Sub-total of cash inflows from operating activities		428,365,665.99	370,544,642.00
		<hr/>	<hr/>
Cash paid for goods and services		407,487,097.86	201,898,182.58
Cash paid to and on behalf of employees		25,053,335.68	25,652,670.24
Payments of taxes and surcharges		21,667,020.55	19,715,378.38
Cash paid relating to other operating activities		27,289,644.82	39,309,708.40
		<hr/>	<hr/>
Sub-total of cash outflows from operating activities		481,497,098.91	286,575,939.60
		<hr/>	<hr/>
Net cash flows from operating activities		-53,131,432.92	83,968,702.40
		<hr/> <hr/>	<hr/> <hr/>
II. Cash flows from investing activities			
Cash received from disposal of investments		58,155,312.00	—
Cash received from returns on investments		24,023,406.74	35,318,862.97
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		—	6,750,040.00
Net cash received from disposal of subsidiaries and other operating entities		59,497,296.60	—
Cash received relating to other investing activities		171,040,000.00	100,100,000.00
		<hr/>	<hr/>
Sub-total of cash inflows from investing activities		312,716,015.34	142,168,902.97
		<hr/>	<hr/>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		1,753,365.06	7,670,250.21
Cash paid to acquire investments		338,011,055.07	22,800,000.00
Net cash paid to acquire subsidiaries and other operating entities		7,830,000.00	—
Cash paid relating to other investing activities		—	80,700,000.00
		<hr/>	<hr/>
Sub-total of cash outflows from investing activities		347,594,420.13	111,170,250.21
		<hr/>	<hr/>
Net cash flows from investing activities		-34,878,404.79	30,998,652.76
		<hr/> <hr/>	<hr/> <hr/>

Cash Flow Statement of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Note XV	2017	2016
III. Cash flows from financing activities			
Cash received from capital contributions		—	—
Cash received from borrowings		195,300,000.00	190,000,000.00
Proceeds from bonds issued		—	—
Cash received relating to other investing activities		-62,806,672.06	—
		<hr/>	<hr/>
Sub-total of cash inflows from financing activities		132,493,327.94	190,000,000.00
		<hr/>	<hr/>
Cash repayments of borrowings		199,110,000.00	217,860,000.00
Cash payments for interest expenses and distribution of dividends or profits		54,752,943.27	112,662,579.14
Cash paid relating to other financing activities		—	12,426,317.07
		<hr/>	<hr/>
Sub-total of cash outflows from financing activities		253,862,943.27	342,948,896.21
		<hr/>	<hr/>
Net cash flows from financing activities		-121,369,615.33	-152,948,896.21
		<hr/>	<hr/>
IV. Effect of foreign exchange rate changes on cash and cash equivalents		—	—
		<hr/>	<hr/>
V. Net increase in cash and cash equivalents		-209,379,453.04	-37,981,541.05
Add: Cash and cash equivalents at beginning of period		450,179,744.33	488,161,285.38
		<hr/>	<hr/>
VI. Cash and cash equivalent at end of period		240,800,291.29	450,179,744.33
		<hr/>	<hr/>

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Current period												
	Owners' equity attributable to the parent company											Total owners' equity	
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less Treasury stock	comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Minority interest	
I. Closing balance of prior year	316,823,400.00	-	-	-	417,341,904.48	-	33,105,840.34	-	77,443,332.15	-	923,552,272.40	62,795,614.60	1,831,062,363.97
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-	-	-
Business combination under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,341,904.48	-	33,105,840.34	-	77,443,332.15	-	923,552,272.40	62,795,614.60	1,831,062,363.97
III. Changes during the period (with "-" for decrease)	-	-	-	-	27,588,640.21	-	-5,827,922.43	-	6,883,662.38	-	154,536,579.67	71,250,043.82	254,439,003.05
(I) Total comprehensive income	-	-	-	-	-	-	-5,828,238.39	-	-	-	208,943,752.05	-5,006,894.05	198,108,618.61
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	-	-	-	-	-	76,264,937.87	76,264,937.87
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-	76,264,937.87	76,264,937.87
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Current period												
	Owners' equity attributable to the parent company											Total owners' equity	
	Other equity instruments					Other							
	Share capital	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less Treasury stock	comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Minority interest	
(III) Profit appropriation													
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	6,883,662.38	-	-54,407,172.38	-	-47,523,510.00
2. Provision for general risk	-	-	-	-	-	-	-	-	6,883,662.38	-	-6,883,662.38	-	-
3. Distribution to owners' (shareholders)	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-47,523,510.00	-	-47,523,510.00
(IV) Internal transfer of owners' equity													
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves made up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve													
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	27,588,640.21	-	316.96	-	-	-	-	-	27,588,957.17
IV. Closing balance of current period	316,823,400.00	-	-	-	444,930,544.69	-	27,277,917.91	-	84,326,394.53	-	1,078,088,882.07	134,053,658.42	2,085,501,367.82

The accompanying notes form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Previous period												
	Owners' equity attributable to the parent company												
	Other equity instruments				Other								
	Share capital	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Minority interest	Total owners' equity
I. Closing balance of prior year	316,823,400.00	-	-	-	417,042,894.68	-	30,662,281.62	-	72,085,199.91	-	832,932,029.03	53,830,665.49	1,723,376,470.73
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-	-	-
Business contribution under common control	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,042,894.68	-	30,662,281.62	-	72,085,199.91	-	832,932,029.03	53,830,665.49	1,723,376,470.73
III. Changes during the period (with "+" for decrease)													
(I) Total comprehensive income	-	-	-	-	239,039.80	-	2,443,558.72	-	5,338,132.24	-	90,620,243.37	8,964,949.11	107,685,883.24
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	2,443,558.72	-	-	-	191,025,395.61	2,992,002.01	196,460,956.34
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-	6,585,000.00	6,585,000.00
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-	6,585,000.00	6,585,000.00
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Previous period												
	Owner's equity attributable to the parent company												
	Other equity instruments					Other							
	Share capital	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Provision for general risk	Undistributed profits	Minority interest	Total owners' equity
(III) Profit appropriation	-	-	-	-	-	-	-	-	5,338,182.24	-	-101,405,182.24	-	-95,047,020.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	5,338,182.24	-	-5,338,182.24	-	-
2. Provision for general risk	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Distribution to owners' (shareholders)	-	-	-	-	-	-	-	-	-	-	-95,047,020.00	-	-95,047,020.00
4. Others	-	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal transfer of owners' equity	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	299,039.80	-	-	-	-	-	-	-612,052.90	-313,043.10
IV. Closing balance of current period	316,823,400.00	-	-	-	417,341,904.48	-	33,105,940.34	-	77,443,332.15	-	923,552,272.40	62,795,614.60	1,831,082,363.97

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments					Current period					Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
I. Closing balance of prior year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	77,443,332.15	336,670,233.06	1,183,752,516.01
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	77,443,332.15	336,670,233.06	1,183,752,516.01
III. Changes during the period (with "-" for decrease)											
(I) Total comprehensive income	-	-	-	-	-	-	-	-	6,883,662.38	14,429,451.46	21,313,113.84
(II) Owners' contribution by shareholders	-	-	-	-	-	-	-	-	-	68,836,623.84	68,836,623.84
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments					Current period					Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
(III) Profit appropriation											
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	6,883,662.38	-54,407,172.38	-47,523,510.00
2. Distribution to owners' (or shareholders)	-	-	-	-	-	-	-	-	6,883,662.38	-6,883,662.38	-
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal transfer of Owners' equity											
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve											
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of current period	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	84,326,994.53	351,099,684.52	1,205,065,629.85

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments				Previous period				Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less Treasury stock	Other comprehensive income	Special reserve	
I. Closing balance of prior year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	1,225,218,213.65
Add: Change of accounting policy	-	-	-	-	-	-	-	-	-
Correction of accounting errors for prior period	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
II. Opening balance of current year	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	1,225,218,213.65
III. Changes during the period (with "+" for decrease)									
(I) Total comprehensive income	-	-	-	-	-	-	-	-	-41,465,697.64
(II) Owners' contribution and capital reduction	-	-	-	-	-	-	-	-	53,581,322.36
1. Capital contribution by shareholders	-	-	-	-	-	-	-	-	-
2. Capital invested by other equity instrument holders	-	-	-	-	-	-	-	-	-
3. Share payment included in the owner's equity	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-

Statement of Changes in Equity of the Parent Company

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

ITEMS	Other equity instruments					Previous period					Total owners' equity
	Paid-up capital (Share capital)	Preferred shares	Perpetual capital securities	Other	Capital reserve	Less: Treasury stock	Other comprehensive income	Special reserve	Surplus reserve	Undistributed profits	
(III) Profit appropriation	-	-	-	-	-	-	-	-	5,358,132.24	-100,405,152.24	-95,047,020.00
1. Appropriation to surplus reserves	-	-	-	-	-	-	-	-	5,358,132.24	-5,358,132.24	-
2. Distribution to owners' (or shareholders)	-	-	-	-	-	-	-	-	-	-95,047,020.00	-95,047,020.00
3. Others	-	-	-	-	-	-	-	-	-	-	-
(IV) Internal transfer of Owners' equity	-	-	-	-	-	-	-	-	-	-	-
1. Capital reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
2. Surplus reserves transferred to capital (or share capital)	-	-	-	-	-	-	-	-	-	-	-
3. Surplus reserves make up for losses	-	-	-	-	-	-	-	-	-	-	-
4. Other	-	-	-	-	-	-	-	-	-	-	-
(V) Special reserve	-	-	-	-	-	-	-	-	-	-	-
1. Appropriation in the current period	-	-	-	-	-	-	-	-	-	-	-
2. Utilized in the current period	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-
IV. Closing balance of current period	316,823,400.00	-	-	-	417,473,099.68	-	35,342,451.12	-	77,443,332.15	336,670,233.06	1,183,752,516.01

The accompanying notes form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION

(I) Company Overview

1. 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 Unified social credit code of the Company is 91320100726074332B and the legal representative of the Company is Sha Min.

The registered capital of the Company is 316,823,400 yuan.

The addresses of the registered office and principal place of business of the Company are located at No. 10 Maqun Avenue, Qixia District, Nanjing City.

2. The nature of the industry

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

3. Scope of business

Computer networks, industrial automation engineering design, installation; electronic products, electronic computer development, manufacture, testing, sale of self-production products, system integration; electronic computer technology consulting and information services; technology testing of electronic products and technical services; computer software development; security engineering design, construction, maintenance; research and development of ITS-based basic information collection technology and equipment (excluding commodities under the special control of the State and projects with special approval). (Projects that require approval under law, business can be carried out after the approval by the relevant departments)

4. Principal business

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

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION (Continued)

(I) Company Overview (Continued)

5. 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, Securities Department, Technology Management Department, Development Planning Department, Human Resources Department, Information Service Department, Administration Department, Marketing Department, Legal Affairs Department, Engineering Technology Department, Office of the President and other functional departments.

6. The financial statements was approved by the board of directors on 28 March 2018.

(II) Scope of consolidated financial statements

The Company's subsidiaries within the consolidated financial statements during the reporting period are as follows:

Name of subsidiaries	Referred to as
江蘇智運科技發展有限公司 (Jiangsu Intellitrans Company Ltd.*)	Jiangsu Intellitrans
江蘇瑞福智能科技有限公司 (Jiangsu Ruifu Intelligent Tech. Co., Limited*)	Ruifu
南京三寶物流科技有限公司 (Nanjing Sample Logistic Company Ltd.*)	Logistic
南京物聯網研究院發展有限公司 (Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd.*)	Wu Lian Wang
Sample Technology (H.K.) Co., Ltd.	Sample HK
Federal International Enterprise Ltd.	Federal
南京城市智能交通股份有限公司 (Nanjing City Intelligent Transportation Co., Ltd.*)	Intelligent Transportation
徐州三寶智能科技發展有限公司 (Xuzhou Sample Intelligent Technology Development Co., Ltd.*)	Xuzhou Sample
南京三寶弘正視覺科技有限公司 (Nanjing Sample Hongzheng Vision Technology Co., Ltd.*)	Hongzheng Vision
江蘇思瑞德物聯科技有限公司 (Jiangsu Siruide IOT Technology Co., Ltd.*)	Siruide
南京數字城市投資建設有限公司 (Nanjing Intelligent Urban Constructive Investment Co., Ltd.)	Urban Constructive
南京森遠勝商務信息諮詢合夥企業 (有限合夥) (Nanjing Senyuansheng Business Information Consulting Partnership (limited partnership))	Senyuansheng

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

I. BASIC CORPORATE INFORMATION *(Continued)*

(II) Scope of consolidated financial statements *(Continued)*

For details of the scope of consolidated financial statements and its changes in the reporting period, please refer to “Note VI. Changes in the scope of consolidation” and “VII. Interests in Other Entities”.

II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(I) Basis of preparation

The Group is on a going concern basis and the financial statements have been prepared based on the actual transactions and matters incurred and in accordance with the Accounting Standards for Business Enterprises-Basic Standards and all specific accounting standards promulgated by the Ministry of Finance, the application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as “ASBEs”) as well as Information Disclosure Rule No. 15 of Public Offerings Company-Financial Reporting General Provisions issued by CSRC.

(II) Going concern

The Group has ability to continue as a going concern for at least 12 months since the end of the reporting period and there’s no significant events affecting its ability to continue as a going concern.

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES

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

The financial statements have been prepared by the Group in conformity with the China Accounting Standards for Business Enterprises, and present truly and completely the consolidated and the Company’s financial position as at 31 December 2017, and the consolidated and the Company’s operating results and cash flow and other related information during the year then ended.

(II) Accounting period

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

(III) Operating period

The Group’s operating period is 12 months.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(IV) Reporting currency

The reporting currency of the Company and its domestic subsidiaries is Renminbi (“RMB”). The reporting currency for the offshore subsidiaries and 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 assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party at 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 reserve 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 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(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 current period after verification.

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 acquisition, the economic benefits brought by the deductible temporary differences is expected to be realized. If the goodwill is insufficient to be deducted, any remaining deferred tax benefits shall be recognised in profit or loss for the current period. Save as above, all other acquired deferred tax assets recognised under business combination 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 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VI) Preparation of consolidated financial statements

1. Scope of consolidation

The scope of consolidation of the consolidated financial statements of the Group is based on controlling interests, and all the subsidiaries (including separate entities controlled by the Group) are included in the consolidated financial statements.

2. Consolidation method

The consolidated financial statements are prepared by the Group based on the financial statements of the Company and its subsidiaries and in accordance with the other relevant information. In preparation of the Group's consolidated financial statements, the Group will treat the enterprise group as a single accounting entity. The Group's overall financial condition, operating results and cash flow are reflected based on the relevant accounting standards, measurement and presentation requirements and in accordance with the unified accounting policy.

The subsidiaries that are within the scope of the consolidation shall have the same accounting policies and the accounting periods with those of the Group. In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Group and subsidiaries, the financial statements of subsidiaries are adjusted in accordance with the accounting policies and accounting period of the Group. For subsidiaries acquired from a business combination involving entities not under common control, its financial statements are adjusted based on the fair value of the identifiable net assets on the date of acquisition. For subsidiaries acquired from a business combination involving entities under common control, its financial statements are adjusted based on the carrying value of the assets, liabilities of the acquiree (including goodwill incurred in the acquisition of the acquiree by ultimate controlling party) in the financial statements of the ultimate controlling party.

The owner's equity, the net profit or loss and the comprehensive income attributable to minority shareholders of a subsidiary of the current period are presented separately under the owners' equity in the consolidated balance sheet, the net profit and the total comprehensive income in the consolidated income statement respectively. Where losses attributable to the minority shareholders of a subsidiary exceed the minority shareholders' interest entitled in the shareholders' equity of the subsidiary at the beginning of the period, the excess is allocated against the minority shareholders interest.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

2. Consolidation method *(Continued)*

(1) Acquisition of subsidiaries or business

For acquisition of subsidiaries or business 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 or business 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 or business 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 the beginning of the control by the ultimate controlling party.

An investor that may impose control over the investee under joint control due to additional investment shall be deemed a party participating in the combination, and shall be adjusted at current status when the ultimate controlling party begins the control. The equity investment held before gaining the control of the combined party is recognized as relevant profit or loss, other comprehensive income and changes in other net assets at the later of the date of acquisition of the original equity and the date when the combining and the combined parties are under joint control, and shall be written down to the opening balance of retained earnings or current profit or loss in the comparative reporting period.

For acquisition of subsidiaries due to business combination involving entities not under common control during the reporting period, the opening balance of consolidated balance sheet needs not be adjusted; the revenue, expense and profit of such subsidiaries or business 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 or business from the date of acquisition to the end of the reporting period are included in the consolidated cash flow statement.

In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the equity of acquiree held before acquisition date shall be remeasured by the Group at the fair value of such equity on the acquisition date and the difference between fair value and carrying amount shall be recognised as investment income in current period; if the acquiree's equity held before the acquiring date contains other comprehensive income and the other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions under the equity method, the related other comprehensive income and changes in other owner's equity shall be transferred to investment gains or losses on the date of acquisition, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(VI) Preparation of consolidated financial statements (Continued)

2. Consolidation method (Continued)

(2) Disposal of subsidiaries or business

① General treatment

For disposal of subsidiaries or business during the reporting period, the revenue, expense and profit of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of such subsidiaries or business from the beginning of the period to the date of disposal are included in the consolidated cash flow statement.

Where control of the investee is lost due to partial disposal of the equity investment, 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 difference between the sum of the Company's previous share of the subsidiary's net assets recorded from the acquisition date or combination date and the sum of goodwill, is recognised in investment income in the period in which control is lost. Other comprehensive income or net profit and loss related to the previous equity investment in the subsidiary, changes in equity except the other comprehensive income and profit distribution, are transferred to investment income of the current period when control is lost, except the other comprehensive income as a result of the changes arising from the remeasurement of the net assets and net liabilities of the investee's defined benefit plan.

When the Company's shareholding decreased thereby losing control as a result of the additional investment by other investor, the accounting treatment shall be made in accordance with the above principles.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

2. Consolidation method *(Continued)*

(2) Disposal of subsidiaries or business *(Continued)*

② Disposal of subsidiary achieved by stages

When disposal of equity interests of subsidiaries through multiple transactions until control is lost, generally transactions in stages are treated as a package deal in accounting if the transaction terms, conditions, and economic impact of all transactions of disposal of the subsidiary's equity interests satisfy one or more of the following:

- i. These transactions are achieved at the same time or the mutual effects on each other are considered;
- ii. A complete set of commercial results can be achieved with reference to the series of transactions as a whole;
- iii. Achieving a transaction depends on at least achieving of one of the other transaction;
- iv. One transaction recognized separately is not economical, but it is economical when considered together with other transactions. If losing control of a subsidiary in disposal of equity interests through multiple transactions is recognized as a package deals, these transactions shall be in accounting treated as loss control of a subsidiary in disposal of equity interests achieved. However, the differences between price on each disposal and the Company's share in the subsidiary's net assets corresponding to the investment disposal before the loss of the control shall be recognized in other comprehensive income in the consolidated financial statements, and included in profit or loss for the period when the control is lost.

If all transactions in disposal of equity interests of subsidiaries until losing control are not a package deals, accounting treatment for partial disposal of equity investments of subsidiary without losing control shall be applied before control is lost. When control is lost, general accounting treatment for disposal of a subsidiary shall be used.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

2. Consolidation method *(Continued)*

(3) Acquisition of minority interest of subsidiary

The Group shall adjust the share premium in the capital reserve of the consolidated balance sheet with respect to any difference between the long-term equity investment arising from the purchase of minority interest and the net assets attributing to the parent company continuously calculated on the basis of the newly increased share proportion as of the acquisition date (or date of combination) or, adjust the retained earnings in case the share premium in the capital reserve is insufficient for offsetting.

(4) Partial disposal of equity investment in subsidiary without losing control

The difference between disposal consideration of long-term equity investment in subsidiaries partially disposed by the Group without losing control and the share of net assets continuously calculated from the date of acquisition or combination date shall be adjusted to share premium in the capital reserve in the consolidated balance sheet. Adjustments shall be made to retained earnings in the event that the share premiums in the capital reserves are not sufficient for offsetting.

(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 subject to an insignificant risk of change in value 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 at the balance sheet date 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 attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalized as cost of those assets.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(VIII) Foreign currency transactions *(Continued)*

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; owner's equity items other than "undistributed profit" are translated at a spot exchange rate when occurred. Revenue and expense items in the income statement are translated at a spot exchange rate at the transaction occurrence date.

For disposal of overseas operation, the translation difference in the foreign currency financial statements relating to overseas operation be transferred from the owner's equity to the profit and loss account in the current period.

(IX) Financial instruments

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

1. Classification of the financial instruments

The financial instruments was classified at the time of initial recognition as: financial assets or financial liabilities are measured at fair value and its change shall be recognised in the profit or loss for the current period, including financial assets or liabilities for trading and held-to-maturity investments; accounts receivable; available-for-sale financial assets and other financial liabilities etc.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

2. Recognition and measurement of financial instruments

- (1) Financial assets or financial liabilities are measured at fair value and its change shall be recognised in the profit or loss for the current period

When acquired, the financial assets or financial liabilities shall be initially recognised 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 current period.

The interest or cash dividend which was gained in the holding period are recognized as investment income. At the end of the period, the change 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 gains and losses arising from the change in fair value shall be adjusted.

- (2) Held-to-maturity investments

Held-to-maturity investments are initially recognised the sum of its fair value at the time of acquisition (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 during the holding period. 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.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(IX) Financial instruments *(Continued)*

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

(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, 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 current period.

(4) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised the sum of its 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 other comprehensive income. However, measurement at cost shall be used when there is no quoted price in an active market and the fair value of investments in equity instruments cannot be reliably measured and derivative financial assets is linked to equity instruments where equity instrument shall be settled by delivery.

When disposed, the difference between the consideration obtained and the carrying amount of the financial assets shall be recorded into investment gains or losses; meanwhile, the corresponding disposal portion of accumulated change in fair value previously recorded into other comprehensive income shall be transferred to investment gains or losses.

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(IX) Financial instruments (Continued)

2. Recognition and measurement of financial instruments (Continued)

(5) Other financial liabilities

Other financial liabilities are initially recognised the sum of its fair value and the relevant transaction costs, and subsequently measured at amortised cost.

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 derecognition. 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 derecognition, the difference between the two amounts below shall be recorded into profit or loss for the current 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 shareholders' 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 derecognition, 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 portion;
- (2) The sum of consideration of the derecognised portion and the corresponding derecognised portion of accumulated change in fair value previously recorded into shareholders' 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 derecognition, with the consideration received recognised as a financial liability.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(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

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique. The Group uses the valuation technique when it is applicable under current conditions and there are enough available data and other information to support and the technique should maximize the use of relevant observable. Unobservable inputs are used under the circumstance that the relevant observable inputs cannot be obtained or not feasible. Those inputs should be consistent with the inputs a market participant would use when pricing the asset or liability.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(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 shareholders' equity shall be removed from the shareholders' equity and recognised as impairment 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 available-for-sale 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.

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(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 bad debts provision by groups based on the credit risk characteristics

Basis for determination of groups:

Group 1	Engineering and sales receivable
Group 2	Receivables from related party within the scope of consolidation
Group 3	Receivables from related party outside the scope of consolidation
Group 4	Construction guarantee deposits
Group 5	Export tax refund
Group 6	Other receivable

Methods for provision of bad debts by groups:

Group 1	Aging analysis method
Group 2	No provisions are made
Group 3	Balance percentage method
Group 4	No provisions are made
Group 5	No provisions are made
Group 6	Aging analysis method

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(X) Accounts receivable (Continued)

2 Accounts receivable that are subject to bad debts provision by groups based on the credit characteristics (Continued)

Where aging analysis method is used for provision ratios 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

In the groups, the percentage of bad debts is calculated using the percentage balance method:

Aging	Provision ratio for accounts receivable (%)	Provision ratio for other receivables (%)
Accounts receivable of related party outside the scope of combination	5	5

3 Accounts receivable which are individually insignificant but subject to separate bad debts 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.

4 Notes to bad debts provision

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.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XI) Inventories

1. Classification of inventories

Inventories include raw materials, goods-in-stock and assets formed by construction contracts, etc.

2. Cost of inventories

Cost of inventories is determined using the weighted average method.

3. Specific accounting method of assets formed by construction contract

The project will be the accounting items and the expenditures will be accounted for according to the project construction costs of each projects. Before the project is completed, the actual project costs (including the cost of subcontracting, materials, wage, other expenses, etc.) incurred by the individual project will be accumulated. At the end of the period or when the project is completed, the actual but unsettled project cost of the project shall be calculated according to the confirmed situation by the customers and estimates of the project construction cost based on the total budgeted cost of the project. At the end of the period, the construction cost, the gross profit of the unfinished project shall be offset against the settlement of the corresponding construction project and presented in the inventories

4. Basis for the determination of net realisable value for different type of inventories

(1) *Raw materials and goods-in-stock etc.*

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 selling price 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.

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For the year ended 31 December 2017

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XI) Inventories *(Continued)*

4. Basis for the determination of net realisable value for different type of inventories *(Continued)*

(1) Raw materials and goods-in-stock etc. *(Continued)*

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 practicable evaluated separately from other items in that product line, provision for decline in value of inventories may be determined on an aggregate basis.

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.

The net realizable value of inventories at the end of current period is determined based on the market price of sales contract.

(2) Assets formed by construction contract

For the construction costs, the provision for decline in value of inventories will be made on the portion of the expected total cost of the project exceeds the expected total income (deducting the relevant taxes). At the completion of the project, the declined value of inventories will be written off.

5. Inventory system

The perpetual inventory system is adopted.

6. Amortisation of low-value consumables and packaging materials

Low-value consumables and packaging materials are amortised using the one-time write-off method.

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XII) Long-term equity investments

1. Joint control or significant influence criterion

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the relevant activities of the arrangement require the unanimous consent of the parties sharing control. The Group together with the other joint venture parties can jointly control over the investee and are entitled to the right of the net assets of the investee, the investee is joint venture of the Group.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but no 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 Group.

2. Recognition of initial investment cost

(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 in the financial statements of the ultimate controlling party on the date of combinations. In connection with imposing control over the investee under joint control as a result of additional investment and other reasons, on the combination date, the initial cost of long-term equity investments shall be determined based on share of carrying amounts in the consolidated financial statement of the ultimate controlling party by net assets of the combined party after the combination. The difference between initial investment cost of long-term equity investments on the date of combination and the carrying value of long-term equity investment before combination and the sum of carrying value of newly paid consideration for additional shares acquired on the date of combination is to adjust share premium. If the balance of share premium is insufficient, any excess is adjusted to retained earnings.

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

2. Recognition of initial investment cost *(Continued)*

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

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. In connection with imposing control over the investee not under joint control as a result of additional investment and other reasons, the initial investment cost when changing to the cost method shall be the sum of the carrying value of the equity investment originally held and the newly increased initial investment cost.

- (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.

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 and the related tax payable, 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 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.

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

3. Subsequent measurement and recognition of profit or loss

(1) Long-term equity investment accounted for by cost method

Long-term equity investment in subsidiaries of the Group is accounted for by 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' shares of the cash dividends or profits declared by the investee.

(2) Long-term equity investment accounted for by equity method

Long-term equity investments of associates and jointly controlled entities 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.

The Group recognizes the investment income and other comprehensive income according to the shares of net profit or loss and other comprehensive income realized by the investee which it shall be entitled or shared respectively, and simultaneously makes adjustment to the carrying value of long-term equity investments. The carrying value of long-term equity investment shall be reduced by attributable share of the profit or cash dividends for distribution declared by the investee. In relation to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions of the investee, the carrying value of long-term equity investments shall be adjusted and included in owner's equity.

When determining the amount of proportion of net profit or loss in the investee which it entitles, fair value of each identifiable assets of the investee at the time when the investment is obtained shall be used as basis, and according to the accounting policies and accounting period of the Group, recognition shall be made after the adjustment of the net profit of the investee. During the period of holding investments, when preparing consolidated financial statements by the investee, the accounting shall be based on the amounts attributable to the investee in the net profit, other comprehensive income and other changes of the owners' equity in the consolidated financial statements.

Notes to the Financial Statements

For the year ended 31 December 2017

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

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

(2) Long-term equity investment accounted for by equity method *(Continued)*

In recognition of share of losses in the investee, the Group treats it in the following order: Firstly, the Group will write off the carrying value of long-term equity investments. Secondly, in the event the aforesaid carrying value is insufficient for write off, it shall continue to recognize investment loss and write off carrying values of long-term receivables to the extent of the carrying amount of the long-term equity which substantively constitutes the net investment in the investee. Finally, after the above treatment, for the additional obligations which shall be still assumed by entities according to investment contract or agreement, the estimated liabilities shall be recognized based on the obligations which are expected to assume and included in the investment loss for the current period.

(3) Disposal of long-term equity investments

For disposal of long-term equity investment, the difference between the book value and the consideration actually received shall be included in the current profit or loss.

For the long-term equity investment under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities. The owner's equity which is recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred in proportion into the current profit or loss, excluding the other comprehensive income derived from changes of net liabilities or net assets due to re-measurement on defined benefit plan by the investee.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

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

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

(3) Disposal of long-term equity investments *(Continued)*

When the Group loses the controls or material influence over the investee due to partially disposal of equity investment and other reasons, the remaining equities shall be accounted for in accordance with the standards on recognition and measurement of financial instruments, and the difference between the fair value and the carrying value at the date of losing control or material influence shall be included in current profit or loss. For other comprehensive income recognized in the original equity investment due to the equity method is adopted, it shall be treated using the same accounting basis as the investee used for direct disposal of relevant assets or liabilities when ceasing to use the equity method. All owner's equities which are recognized due to other changes of owner's equity except for net profits and losses, other comprehensive income and profit distributions shall be transferred into the current profit or loss when ceasing to use the equity method.

When the Group loses the controls over the investee due to partially disposal of equity investment, the additional investment by other companies causing the Company's shareholding decreased and other reasons, the remaining equities shall be accounted for under equity method in preparation of individual financial statements provided that common control or material influence over the investee can be imposed, and shall be adjusted as if such remaining equities has been accounted for under the equity method since they are obtained. Where the remaining equities can not impose common control or material influence over the investee, it shall be accounted for according to relevant provisions of the standards on recognition and measurement of financial instruments, and the difference between fair value and the carrying value on the date of losing control shall be included in the current profit or loss.

The disposed equity interest was acquired in a business combination as resulted from such as making additional investment, the remaining equity interest after disposal will be accounted for using cost method or equity method when preparing the separate financial statements. Other comprehensive income and other owners' equity recognized when the equity interests held on the acquisition date is accounted for using equity method and shall be transferred on pro rata basis; For the remaining equity interest after disposal accounted for using the recognition and measurement standard of financial instruments, other comprehensive income and other owners' equity shall be fully transferred.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XIII) Investment property

Investment property is held to earn rentals or for capital appreciation or both which include leased land use rights; land use rights held for sale after appreciation; leased buildings (including buildings after self-completion of construction or development for the purpose of leasing and buildings that is being constructed or developed for the purpose of leasing in future).

For investment property where there is an active property market and the Group can obtain the market price and the relevant information regarding the same type of or similar property market, so as to reasonably estimate the fair value of the investment property, the Group adopts the fair value model for subsequent measurement of investment property. Changes in fair value will be charged to the profit and loss for the current period.

To ascertain the fair value for the investment property shall be referenced to the current market price of the same type of or similar property in the active property market. When the current market price of the same type of or similar property cannot be obtained, it shall be referenced to the recent transaction price of the same type of or similar property in the active property market and also shall be considered the status, date and location of transaction, so as to reasonably estimate the fair value of the investment property or the fair value shall be ascertained based on the future expected rental income or the relevant present value of cashflows.

When there's evidence that the fair value of an investment property cannot be reliably obtained, the investment property when firstly acquired shall be measured by the cost model until disposal and assuming no residual value.

The net amount of proceeds from sale, transfer, retirement or damage of an investment property after deduction of its carrying amount and related taxes and expenses shall be recognised in profit or loss for the current period.

(XIV) 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 Group;
- (2) and its cost can be reliably measured.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XIV) Fixed assets (Continued)

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

3. 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.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XIV) Fixed assets *(Continued)*

3. Recognition basis and measurement method of fixed assets under finance lease *(Continued)*

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.

(XV) Construction in progress

Construction in progress is measured and recognised as fixed assets at all the expenditures incurred to bring the fixed assets ready for their intended use. If the construction in progress of 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 original depreciation charge will not be adjusted.

(XVI) Borrowing costs

1. Criteria for recognition of capitalised borrowing costs

Borrowing costs refers to the 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.

Assets qualified for capitalisation 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.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVI) Borrowing costs *(Continued)*

1. Criteria for recognition of capitalised borrowing costs *(Continued)*

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

- (1) expenditures for the assets (including cash paid, transferred non-monetary assets or expenditure for 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 when the qualifying asset under acquisition and construction or production is 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 its relevant borrowing costs should be suspended.

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 suspension period shall be recognised as profits and losses of the current period. When the acquisition and construction or production of the asset resumes, the capitalisation of borrowing costs commences.

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III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XVI) Borrowing costs (Continued)

4. Calculation of capitalisation of borrowing costs

Specific borrowings for the acquisition, construction or production of assets qualified for capitalization, borrowing costs of the specific borrowings actually incurred in the current period minus the interest income earned on the unused borrowing loans as a deposit in the bank or as investment income earned from temporary investment will be used to determine the amount of borrowing costs for capitalisation.

General borrowings for the acquisition, construction or production of assets qualified for capitalisation, the to-be-capitalised amount of interests on the general borrowing shall be calculated and determined by multiplying the weighted average asset disbursement 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.

(XVII) 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.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVII) Intangible assets *(Continued)*

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

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

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 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.

- (2) Subsequent measurement

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

As for intangible assets with a finite useful life, they are amortised using the straight-line method over the term in which economic benefits are brought to the Group. If the term in which economic benefits are brought to the Group 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	5-8	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.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XVII) Intangible assets (Continued)

3. Judgement basis for the intangible assets with indefinite useful lives and the procedure for review of its useful lives

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

4. Specific criteria for the division of research phase and development phase

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, devices, products, etc.

5. Specific criteria for expenses qualified for capitalisation in the development phase

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 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XVIII) Impairment of long-term assets

Long-term assets, such as long-term equity investment, investment properties, fixed assets, projects under construction, intangible assets with finite useful life that measured at cost are tested for impairment if there is any indication that an asset may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of the asset is less than its carrying amount, a provision for impairment and an impairment loss are recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognized on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs to is determined. A group of assets is the smallest group of assets that is able to generate cash inflows independently.

Impairment test to goodwill and intangible assets with indefinite useful life shall be carried out at least at the end of each year.

When the Company carry out impairment test to goodwill, the Company shall, as of the purchasing day, allocate on a reasonable basis the carrying value of the goodwill formed by merger of enterprises to the relevant asset groups, or if there is a difficulty in allocation, to allocate it to the relevant sets of asset groups. When the carrying value of goodwill is allocated to the related asset group or sets of asset group, the allocation shall be made based on the proportion of the fair value of each asset groups or sets of asset groups to the total fair value of the relevant assets groups or sets of asset group. If there is difficulty for the fair value to be reliably measured, the allocation shall be made based on the proportion of the carrying value of each asset groups or sets of asset groups to the total carrying value of the relevant assets groups or sets of asset groups.

For the purpose of impairment test on the relevant asset groups or the sets of asset groups containing goodwill, if any evidence shows that the impairment of asset groups or sets of asset groups related to goodwill existed, an impairment test will be made firstly on the asset groups or sets of asset groups not containing goodwill, thus calculating the recoverable amount and comparing it with the relevant carrying value so as to recognize the corresponding impairment loss. Then the Company will make an impairment test on the asset groups or sets of asset groups containing goodwill, and compare the carrying value of these asset groups or sets of asset groups (including the carrying value of the goodwill allocated thereto) with the recoverable amount. Where the recoverable amount of the relevant assets or sets of the asset groups is lower than the carrying value thereof, it shall recognize the impairment loss of the goodwill.

Once the above asset impairment loss is recognised, it will not be reversed in the subsequent accounting periods.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XIX) Long-term deferred expenses

Long-term deferred 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 deferred expenses are amortized evenly over the benefit period.

Type	Amortization method	Amortization period	Note
Renovation fee	Straight-line method	5 years	Benefit period
e-Card fee	Straight-line method	5 years	Benefit period
Consultation fee	Straight-line method	5 years	Benefit period
Insurance	Straight-line method	2 years	Benefit period

(XX) Employee remuneration

1. Method of accounting treatment for short-term remuneration

During the accounting period when the staff provides service, the Group will recognize the short-term remuneration actually incurred as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

The Group will pay social insurance and housing funds, and will make provision of trade union funds and staff education costs in accordance with the requirements. During the accounting period when the staff provides service, the Group will determine the relevant amount of employee remuneration in accordance with the required provision basis and provision ratios.

Employee welfare is non-monetary benefits which are measured at fair value.

2. Method of accounting treatment for retirement benefit plan

(1) Defined contribution scheme

The Group will pay basic pension insurance and unemployment insurance in accordance with the relevant provisions of the local government for the staff. During the accounting period when the staff provides service, the Group will calculate the amount payable in accordance with the local stipulated basis and proportions which will be recognized as liabilities, and the liabilities would be charged into current profits and loss or costs of assets.

In addition to basic pension insurance, the Group also established the enterprise annuity payment system (supplementary pension insurance)/enterprise annuity scheme according to relevant policy of national enterprise annuity system. The Group makes payment to local social insurance agencies/annuity scheme based on a certain proportion of total staff remunerations. Corresponding expenditure is included in the profit or loss for the current period or costs of related assets.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XX) Employee remuneration *(Continued)*

2. Method of accounting treatment for retirement benefit plan *(Continued)*

(2) Defined benefit scheme

The welfare responsibilities generated from defined benefit scheme based on the formula determined by projected unit credit method would be vested to the service period of the staff and charged into current profits and loss or relevant costs of assets.

The deficit or surplus generated from the present value of obligations of the defined benefit scheme minus the fair value of the assets of defined benefit scheme is recognized as net liabilities or net assets of the defined benefit scheme. When the defined benefit scheme has surplus, the Group will measure the net assets of the defined benefit scheme at the lower of the surplus of defined benefit scheme and the upper limit of the assets.

All defined benefit plans obligations, including the expected duty of payment within 12 months after the end of annual reporting period during which the staff provided service, were discounted based on the bond market yield of sovereign bond matching the term of defined benefit plans obligations and currency or corporate bonds of high quality in the active market on the balance sheet date.

The service cost incurred by defined benefit scheme and the net interest of the net liabilities and net assets of the defined benefit scheme would be charged into the current profits and loss or relevant costs of assets. The changes generated from the re-calculation of the net liabilities or net assets of the defined benefit scheme would be included in the other comprehensive income and are not reversed to profit or loss in subsequent accounting period.

When the defined benefit scheme is settled, the gain or loss is recognised based on the difference between the present value of obligations as at the settlement date and the settlement price of the defined benefit scheme.

3. Method of accounting treatment for termination benefits

The Group will pay termination benefits when the Group can no longer withdraw the offer of termination plan or layoff proposal or when the Group recognizes costs and expense for restructuring which involving the payment of termination benefits (whichever the earliest). The remuneration incurred by the termination benefits will be recognized as liabilities which would be charged into current profits and loss.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXI) Estimated liabilities

1. Recognition criteria for estimated liabilities

The Group shall recognise the obligations related to contingencies involving litigations, guarantees provided to debts, loss-making contracts, restructuring 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 various 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 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXI) Estimated liabilities *(Continued)*

2. Method of measuring the various 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 different 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.

(XXII) Revenue

1. Principles of recognition of the revenue from sales of goods and method 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 Group 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 Group*

Sales of goods (products) of the Group mainly consist of sales of intelligent terminal products and self-operated export income. For installation-free products, income is recognised after delivery and inspection by the purchaser. For products required installation and testing, income is recognised after completion of the project and inspection of the client as stipulated in the relevant contracts or agreements. Export income are recognized when the goods are completed the customs declaration and exported and the bill of lading is obtained.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXII) Revenue (Continued)

2. Principles of recognition of revenue from abalienating the right of use assets and method of measurement

When the economic benefit related to the transaction will very likely flow to the Group and the income amount can be reliably measured, the income amount from abalienating the right to use assets is recognized according to the below conditions:

- ① The amount of interest income will be calculated and determined by the time when others use the Group'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. Principles of recognition of revenue from rendering of services and method of measurement

- (1) The overall general principles of recognition of revenue from rendering of services and method of measurement

If the outcome of the rendering of services transaction can be reliably estimated at the balance sheet date, the percentage of completion method shall be used to recognize revenue from the rendering of services. The progress of the completion of the rendering of services are recognized based on the measurement of the finished work, the proportion of the services already rendered to the total amount of services to be rendered or the proportion of the costs incurred to the estimated total cost.

The outcome of the rendering of services transaction can be reliably estimated which mean that the following conditions must simultaneously be satisfied: (1) the amount of income can be reliably measured; (2) the relevant economic benefits are likely to flow into the Group; (3) the progress of completion of the transaction can be reliably determined; (4) the costs incurred and the costs to be incurred in the transaction can be reliably measured.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXII) Revenue *(Continued)*

3. Principles of recognition of revenue from rendering of services and method of measurement *(Continued)*

- (1) The overall general principles of recognition of revenue from rendering of services and method of measurement *(Continued)*

The total revenue of rendering of services shall be determined in accordance with the contract or agreed price received or receivable, except that contract or agreed price received or receivable is unfair. At the balance sheet date, the total revenue of rendering of services multiplied by the completion progress and deducting the aggregate revenue of rendering of services recognized in previous accounting period shall be recognized as the revenue of rendering of services for current period. Meanwhile, the total estimated cost of rendering of services multiplied by the completion progress and deducting the aggregate cost of rendering of services recognized in previous accounting period shall be transferred to the cost of rendering of services for current period.

If the outcome of the rendering of services transaction cannot be reliably estimated at the balance sheet date, the following treatment shall be applied:

- ① If the cost of rendering of services is expected to be compensated, the cost already incurred for rendering of services shall be recognized as revenue of rendering of services, and the same amount shall be transferred to cost of service.
- ② If the cost of rendering of services is not expected to be compensated, the cost already incurred for rendering of services shall be included in the profits and losses for the current period and shall not be recognized as revenue of rendering of services.

The Company signed contracts or agreements with other enterprises that include the sale of goods and the rendering of services. When the portion of sale of goods and the portion of rendering of services can be differentiated and can be measured separately, the portion of sale of goods shall be treated as sale of goods and the portion of rendering of services shall be treated as rendering of services. When portion of sale of goods and the portion of rendering of services cannot be differentiated, or it can be differentiated but cannot be measured separately, the portion of sale of goods and the portion of rendering of services shall all be treated as sale of goods.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXII) Revenue (Continued)

3. Principles of recognition of revenue from rendering of services and method of measurement (Continued)

(2) Specific method of recognition of revenue from rendering of services

Revenue from rendering of services of the Group mainly consists of technological development revenue, maintenance revenue, foreign trade integrated service revenue, of which:

- ① Technological development revenue refers to the acceptance of the commissioning to develop the technological development project. In the implementation process of the project, if reliable external evidence (refer to customers and other independent external partners to confirm the completion progress) can be obtained to support the progress of completion, the revenue shall be recognized in accordance with the progress of the completion. If reliable external evidence to support the progress of completion cannot be obtained, taking a simplified percentage of completion method. The revenue shall be recognized as realized after the completion of the technological development with customer's acceptance certificate is obtained (including but not limited to the final acceptance report, proof of completion or proof of delivery).

The Group's technological development is generally difficult to obtain the completion progress from the external independent third party.

- ② Maintenance revenue is recognized as realized at the total revenue as stipulated in relevant contracts amortised over period of rendering of services thereunder.
- ③ Foreign trade integrated service revenue is recognized as realized after completion of rendering of service as agreed by the contract.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXII) Revenue *(Continued)*

4. Principles of recognition of revenue from system integration and method of measurement

- (1) General principles of recognition of revenue of system integration construction contracts of the Group and the method of measurement

When the outcome of the construction contracts can be reliably measured, the revenue and cost of such contract at the balance sheet date shall be recognized by using percentage of completion method. When the outcome of the construction contracts 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, the cost incurred 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 revenue of the projects.

The outcome of the construction contracts can be reliably estimated which mean that the following conditions can simultaneously be satisfied: A) the total income of the contracts can be reliably measured; B) the relevant economic benefits of the contracts are likely to flow into the Group; C) the actual costs incurred for the contract can be clearly divided and reliably measured; D) progress of completion of the contracts and the costs to be incurred for the contracts can be reliably determined.

- (2) Specific method of recognition of revenue for the Group's system integration construction contracts

- ① In the implementation process of the project, if reliable external evidence (refer to owners or supervisors or external units to confirm the completion progress information) can be obtained to support the progress of completion, the revenue shall be recognized in accordance with the percentage of the completion.
- ② In the implementation process of the project, if reliable external evidence to support the progress of completion cannot be obtained, the simplified percentage of completion method shall be used to recognize the income at the time of 100% completion of the project, that the income is recognized when the customer's final acceptance certificate (including but not limited to the final acceptance report, completion certificate or proof of delivery) has obtained.

The Group's intelligent transportation system integration projects and intelligent city system integration projects are generally able to obtain external evidence. Customs logistics system integration projects are generally difficult to obtain external evidence.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Government grant

1. Types

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

Government grants related to assets is obtained by the Group for the purposes of constructing or forming long-term assets in other ways including funds allocation for purchase of fixed assets or intangible assets, financial discount of special loans for fixed assets. Government grants related to income refer to the government grants other than those related to assets.

The standard for the Group to classify the government grant as asset-related is: government grant that is used to purchase or form long-term assets in any other method, including the government allocations for purchase of fixed assets or intangible assets and financial interest subsidy for special loans for fixed assets.

The standard for the Group to classify the government grant as income-related is: government grant other than asset-related government grants.

2. Recognition time point

Government grants related to assets, recognition shall be made when the asset constructed or procured is put into use or relevant inspection report is obtained from the relevant departments.

Government grants related to income are recognized when the grants are received.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXIII) Government grant *(Continued)*

3. Accounting treatment

Government grants related to assets shall offset the carrying amount of the relevant assets or be recognized as deferred income. If it is recognized as deferred income, it shall be accounted for in the profit and loss in the current period in a reasonable and systematic way within the useful life of the relevant assets (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group, it shall be included in the non-operating income).

Government grants related to income that are used for compensation for the relevant costs or losses of the Group in subsequent periods are recognized as deferred income and are included in the profit or loss in the current period (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group which shall be included in the non-operating income) or offset the relevant cost expenses or losses in the periods in which the relevant costs, expenses or losses are recognized; a grant that are used for compensation for the relevant costs or losses of the Group already incurred shall be directly included in the profit or loss in the current period (if it is related to the daily activities of the Group which shall be included in other income; if it is irrelevant to the daily activities of the Group which shall be included in the non-operating income) or offset the related cost or losses.

Subsidised loans from preferential policy obtained by the Group is classified into the following two conditions and based on which to perform accounting treatment:

- (1) Where subsidy funds are paid to the loaning bank, the loaning bank provides the loan to the Group at a preferential policy rate, and the Group recognises the actual borrowing amount received as the borrowing amount, calculating the relevant borrowing costs based on the loan principal and the preferential policy rate.
- (2) Where subsidy funds are paid directly to the Group, the Group will offset the corresponding subsidy against the relevant borrowing expenses.

When a recognized government grant needs to be returned, if there is balance of relevant deferred income, the carrying balance of the relevant deferred income is offset and the excess is recognised in profit and loss in the current period. If the relevant deferred income does not exist, it is directly recognised in profit and loss in the current period.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

(XXIV) 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. For deductible losses and tax credits that can be reversed in the future period, deferred tax assets shall be recognized to the extent that it is probable that taxable profit will be available in the future to offset the deductible losses and tax credits.

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, at the same time, the net amount after offsetting its current income tax assets and current income tax liabilities shall be recorded.

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.

(XXV) Discontinued operations

Discontinued operations is a separately identifiable component that satisfies one of the following conditions, which has been disposed of by the Group or is classified as held-for-sale by the Group:

- (1) The component represents an independent main business or a separate major business area;
- (2) This component is proposed disposal plan on an independent main business or proposed disposal in a separate major business area;
- (3) This component is a subsidiary that is specifically acquired for resale.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES *(Continued)*

(XXVI) Change in major accounting policies and accounting estimates

1. Change in major accounting policies

Implemented “Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation”, “Accounting Standards for Business Enterprises No. 16 – Government Grant” and “Notice of Ministry of Finance Concerning the Revision of the Financial Statements Format for General Business Enterprises”.

In 2017, the Ministry of Finance issued “Accounting Standards for Business Enterprises No. 42 – Non-current Assets Held for Sale, Disposal Groups and Discontinued Operation” which has been implemented since 28 May 2017. It required to adopt the prospective approach to handle the non-current assets held for sale, disposal groups and discontinued operation that existed at the implementation date.

In 2017, the Ministry of Finance notice has amended “Accounting Standards for Business Enterprises No. 16-Government Grant”. The amended standard has been implemented since 12 June 2017. It requires to adopt the prospective approach to handle the government grant that existed on 1 January 2017. For new government grant from 1 January 2017 to the implementation date, it is also required to make adjustments according to the revised standards.

In 2017, the Ministry of Finance issued the “Notice of Ministry of Finance Concerning the Revision of the Financial Statements Format for General Business Enterprises”. The format of the financial statements format for general business enterprises has been revised which is applicable to the financial statements for the year of 2017 and subsequent periods.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

III. SIGNIFICANT ACCOUNTING POLICIES, ACCOUNTING ESTIMATES (Continued)

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

1. Change in major accounting policies (Continued)

The main impact of the implementation of above the provisions by the Group is as follows:

Detail and cause of change in accounting policies	Approval procedure	Statement item and amount affected
(1) Net profits from continuing operation" and "Net profits from discontinued operation" are separately listed in the income statement. The comparison figures are adjusted accordingly.	Board resolution	2017: Listed the amount of net profits from continuing operation of 197,216,286.60 for this year. Listed the amount of net profits from discontinued operation of 6,720,571.40 for this year.
		2016: Listed the amount of net profits from continuing operation of 183,703,446.73 for this year. Listed the amount of net profits from discontinued operation of 10,313,950.89 for this year.
(2) Government grant related to the Company's normal activities are included in other income and are no longer included in non-operating income. Comparison figures are not adjusted.	Board resolution	2017: Increase on other income: 7,199,551.69. Decrease on non-operating income: 7,199,551.69.
(3) Income on disposal of assets" was added to the income statement and some of the profit and loss of asset disposal originally listed as "non-operating income" was reclassified to the "Income on disposal of assets". The comparison figures are adjusted accordingly.	Board resolution	2017: Non-operating income decreased 16,793.21 and reclassified to income on disposal of assets.
		2016: Non-operating income decreased 11,160.38 and reclassified to income on disposal of assets.

2. Change in major accounting estimates

There were no changes in major accounting estimates for this period.

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION

(I) Main types of taxes and corresponding rates

1. Main types of taxes and corresponding rates of the Company

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%, 6%, 3%
City maintenance and construction tax	Based on actual payment of VAT tax payable	7%
Education surcharge	Based on actual payment of VAT	3%
Local education surcharge	Based on actual payment of VAT	2%
Enterprise income tax	Based on taxable profits	25%

2. Effective tax rate of enterprise income tax of the companies of the Group

Name of taxpayer	Income tax rate	Notes
The Company	15%	High and new technology enterprise
Jiangsu Intellitrans Company Limited	15%	High and new technology enterprise
Jiangsu Ruifu Intelligent Tech. Co., Ltd.	15%	High and new technology enterprise
Jiangsu Siruide IOT Technology Co., Ltd.	15%	High and new technology enterprise
Sample Technology (H.K.) Co., Limited	16.5%	Overseas company (Hong Kong)
Federal International Enterprise Limited	16.5%	Overseas company (Hong Kong)
Nanjing City Intelligent Transportation Co., Ltd.	15%	High and new technology enterprise
Other subsidiaries	25%	

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential

1. VAT

The VAT preferential policy relating to the sales revenue of software products are:

- (1) In accordance with the requirements of the document (財稅[2011]100號) of Ministry of Finance and State Administration of Taxation of P.R. China: as for the sales of the self-developed and produced software products by the VAT general tax payers, after the VAT is levied at tax rate of 17%, the VAT refund policies will be applied for the excess of the actual VAT burden over 3%.
- (2) On 28 January 2011, the State Council of P.R. China issued the Circular on the Certain 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.

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, a subsidiary of the Company, 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, a subsidiary of the Company, 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., a subsidiary of the Company, obtained the Software Enterprise Verification Certificate (軟件企業認定證書) and was certified as software enterprise.

On 27 October 2017, Jiangsu Ruifu Intelligent Tech. Co., Ltd., a subsidiary of the Company, 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 2017

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential (Continued)

2. Enterprise income tax

The enterprise income tax preferential policies for high-tech enterprise:

On 7 December 2017, 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. 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 effective tax rate of enterprise income tax for the Company is 15% in 2017.

On 27 December 2017, Jiangsu Intellitrans Company Limited, a subsidiary of the Group, 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. 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 of enterprise income tax is 15% in 2017.

On 6 July 2015, Jiangsu Ruifu Intelligent Tech. Co., Ltd., a subsidiary of the Group, 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. 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 of enterprise income tax is 15% in 2017.

On 10 October 2015, Jiangsu Siruide IOT Technology Co., Ltd., a subsidiary of the Group, 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. 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 of enterprise income tax is 15% in 2017.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

IV. TAXATION (Continued)

(II) Tax preferential (Continued)

2. Enterprise income tax (Continued)

On 10 October, 2015, Nanjing City Intelligent Transportation Co., Ltd. a subsidiary of the Group, 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. 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 of enterprise income tax is 15% in 2017.

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

(Note: Asset and liability items are as at 31 December of each year)

(I) Cash at bank and on hand

Item	2017	2016
Cash on hand	84,818.64	102,263.44
Bank deposits	725,956,004.00	1,181,475,702.55
Other monetary fund	37,078,830.28	45,848,367.38
Total	763,119,652.92	1,227,426,333.37
Including: Total amount of deposits abroad	54,756,127.11	39,371,807.25

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

Items	2017	2016
Deposits for bank accepted bills of exchange	21,389,063.84	16,364,655.46
Deposits of guarantee letter	15,646,334.88	24,483,711.92
Deposits for letter of credit	—	5,000,000.00
Total	37,035,398.72	45,848,367.38

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 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(II) Notes receivable

1. Classification of notes receivable

Type	2017	2016
Bank accepted bills of exchange	16,708,270.20	810,000.00
Total	16,708,270.20	810,000.00

2. The Company has no pledged notes receivable at the end of the year.

3. At the end of the year, notes receivable endorsed or discounted and not yet due as at the end of the year

Item	2017 Derecognized amount at the end of the year	2017 Amount not yet derecognize at the end of the year
Endorsed bank accepted bills of exchange	907,193.00	—
Total	907,193.00	—

4. The Company has no notes receivable which were converted to account receivables due to the drawer's inability to settle the note at the end of the year.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(III) Accounts receivable

1. Disclosure of accounts receivable by categories

Categories	2017					2016				
	Closing balance		Provision for bad debts			Closing balance		Provision for bad debts		
	Amount	Percentage	Amount	Provision percentage	Carrying Amount	Amount	Percentage	Amount	Provision percentage	Carrying Amount
		(%)		(%)			(%)		(%)	
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-	-	-
Subject to provision based on the characteristics of credit risk by groups	-	-	-	-	-	-	-	-	-	-
Engineering and sales	682,207,118.44	99.99	92,341,840.66	13.54	589,865,277.78	597,057,802.27	100.00	70,988,433.73	11.89	526,069,368.54
Sub-total for the group	682,207,118.44	99.99	92,341,840.66	13.54	589,865,277.78	597,057,802.27	100.00	70,988,433.73	11.89	526,069,368.54
Individually insignificant but subject to separate provision	49,688.40	0.01	49,688.40	100.00	-	-	-	-	-	-
Total	682,256,806.84	100.00	92,391,529.06	-	589,865,277.78	597,057,802.27	100.00	70,988,433.73	-	526,069,368.54

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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 are made using aging analysis:

Aging	2017			2016		
	Amount	Provision for bad debts	Provision Percentage (%)	Amount	Provision for bad debts	Provision Percentage (%)
Within 1 year	442,566,172.65	13,276,985.19	3.00	448,475,429.12	13,454,262.87	3.00
1 to 2 years	135,936,791.28	10,874,943.31	8.00	86,346,450.12	6,907,716.01	8.00
2 to 3 years	50,734,631.93	15,220,389.58	30.00	16,584,954.54	4,975,486.36	30.00
Over 3 years	52,969,522.58	52,969,522.58	100.00	45,650,968.49	45,650,968.49	100.00
Total	682,207,118.44	92,341,840.66	-	597,057,802.27	70,988,433.73	-

2. The situation of provision, reversal or receipt of provision of bad debts in the reporting period

Item	Provision in the current period	Transfer in the current period	Increase due to business combination in the current period	Decrease due to disposal of subsidiaries in the current period
Provision of bad debts	23,526,643.21	27,060.00	2,411.32	2,098,899.20
Total	23,526,643.21	27,060.00	2,411.32	2,098,899.20

3. The actual write-off of accounts receivable in the reporting period

Item	Write-off amount
Actual write-off of accounts receivable	27,060.00

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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 period

Name of Unit	Accounts Receivable	2017 Percentage of the total accounts receivable (%)	Provision of bad debts
Luzhou City Gaoxin Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	72,874,311.46	10.68	2,186,229.34
Shenglin Nonggu (Hubei) Blueberry Co., Ltd. (盛林農穀(湖北)藍莓有限公司)	50,000,000.00	7.33	1,500,000.00
Nanjing Jiangong Group Co., Ltd. (南京建工集團有限公司)	47,130,647.30	6.91	3,770,451.78
Chengdu Longguang Erhuan Expressway Co., Ltd. (成都龍光二環高速公路有限公司)	45,908,918.76	6.73	1,377,267.56
Sichuan Yakang Expressway Co., Ltd. (四川雅康高速公路有限責任公司)	37,603,341.12	5.51	1,128,100.23
Total	253,517,218.64	37.16	9,962,048.91

5. There were no accounts receivables derecognised due to transfer of financial assets in the reporting period.

6. There were no transfer of accounts receivable and continued to be involved in the formation of assets and liabilities in the reporting period.

(IV) Prepayments

1. Prepayments by aging

Aging	2017 Closing balance	Percentage (%)	2016 Closing balance	Percentage (%)
Within 1 year	50,579,945.19	75.81	38,893,193.06	90.84
1 to 2 years	13,105,445.41	19.64	1,205,303.67	2.82
2 to 3 years	278,541.42	0.42	234,695.94	0.54
Over 3 years	2,757,553.54	4.13	2,482,257.60	5.80
Total	66,721,485.56	100.00	42,815,450.27	100.00

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(IV) Prepayments (Continued)

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

Prepaid object	2017	Percentage of the closing balance of prepayments (%)
Yuanjiang Information Technology Co., Ltd. (遠江信息技術有限公司)	33,351,000.00	49.99
Jiangsu Kaian Construction Group Co., Ltd. (江蘇啟安建設集團有限公司)	16,000,000.00	23.98
Yinchuan Xinchexing Trading Co., Ltd. (銀川鑫辰星商貿有限公司)	2,408,442.08	3.61
Jiangsu Ruilan Optoelectronics Technology Co., Ltd. (江蘇瑞瀾光電科技有限公司)	2,371,332.00	3.55
Nanjing Qima Property Management Co., Ltd. (南京棲馬物業管理有限公司)	1,677,083.27	2.51
Total	55,807,857.35	83.64

(V) Interest receivable

Item	2017	2016
Interest receivable from asset management plan	—	394,890.00
Total	—	394,890.00

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(VI) Other receivables

1. Disclosure of other receivables by categories

Types	2017					2016				
	Closing balance		Provision for bad debts			Closing balance		Provision for bad debts		
	Amount	Percentage (%)	Amount	Provision percentage (%)	Carrying amount	Amount	Percentage (%)	Amount	Provision percentage (%)	Carrying amount
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-	-	-
Subject to provision based on the characteristics of credit risk by groups	-	-	-	-	-	-	-	-	-	-
Including: Construction guarantee deposits	350,068,680.93	69.29	-	-	350,068,680.93	19,756,158.06	10.22	-	-	19,756,158.06
Export tax refund	-	-	-	-	-	120,168,812.77	62.14	-	-	120,168,812.77
Others	154,693,203.05	30.62	19,983,173.41	12.92	134,710,029.64	53,454,121.20	27.64	14,087,600.65	26.35	39,366,520.55
Other receivables from related party outside the scope of consolidation	118,423.96	0.02	5,921.20	5.00	112,502.76	-	-	-	-	-
Sub-total for the group	504,880,307.94	99.93	19,989,094.61	3.96	484,891,213.33	193,379,092.03	100.00	14,087,600.65	7.28	179,291,491.38
Individually insignificant but subject to separate provision	355,448.98	0.07	355,448.98	100.00	-	-	-	-	-	-
Total	505,235,756.92	100.00	20,344,543.59	-	484,891,213.33	193,379,092.03	100.00	14,087,600.65	-	179,291,491.38

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(VI) Other receivables (Continued)

1. Disclosure of other receivables by categories (Continued)

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

Aging	2017			2016		
	Other receivables	Provision for bad debts	Provision percentage (%)	Other receivables	Provision for bad debts	Provision percentage (%)
Within 1 year	131,283,317.10	6,564,165.88	5.00	34,686,363.68	1,734,318.19	5.00
1 to 2 years	9,289,935.15	928,993.52	10.00	5,100,269.51	510,026.96	10.00
2 to 3 years	3,259,873.58	1,629,936.79	50.00	3,648,465.04	1,824,232.53	50.00
Over 3 years	10,860,077.22	10,860,077.22	100.00	10,019,022.97	10,019,022.97	100.00
Total	154,693,203.05	19,983,173.41	-	53,454,121.20	14,087,600.65	-

In the groups, provision for bad debts for other receivables is made using balance percentage method:

Balance percentage	Other receivables	2017 Provision for bad debts	Provision percentage (%)
Other receivables from related party outside the scope of consolidation	118,423.96	5,921.20	5.00
Total	118,423.96	5,921.20	

2. The situation of provision, reversal or receipt of provision of bad debts in the reporting period

Item	Provision in the current period	Transfer in the current the period	Increase due to business combination in the current period	Decrease due to disposal of subsidiaries in the current period
Provision of bad debts	6,634,692.38	-	8,221.03	385,970.47
Total	6,634,692.38	-	8,221.03	385,970.47

3. There were no actual write-off of other receivables in the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(VI) Other receivables (Continued)

4. Classification of other receivables by nature

Nature	2017	2016
Retention monies	404,989,937.83	65,276,122.22
Equity transfer	92,929,198.15	—
Petty cash	3,492,411.13	4,344,936.94
Export tax refund	—	120,168,812.77
Other	3,705,785.85	3,589,220.10
Other receivables from related party outside the scope of consolidation	118,423.96	—
Total	505,235,756.92	193,379,092.03

5. Particulars of the top five of other receivable at the end of the year

Name of Unit	Nature of amount	2017	Aging	Percentage of the total closing balance of other receivables at the end of the year (%)	Closing amount of provision of bad debts
China Coal Construction Group Co., Ltd. (中煤建工集團有限公司)	Guarantee deposits	300,000,000.00	Within 1 year	59.38	—
Nanjing Construction Engineering Group Co., Ltd. (南京建工集團有限公司)	Equity transfer	58,155,312.00	Within 1 year	11.51	2,907,765.60
Rong Ming Holdings Ltd. (榮名控股有限公司)	Equity transfer	34,773,886.15	Within 1 year	6.88	1,738,694.31
Sichuan Mindong City Construction Development Co., Ltd. (四川岷東城市建設開發有限公司)	Guarantee deposits	23,406,221.22	Within 1 year	4.63	—
Guizhou Public Resource Trading Center (貴州省公共資源交易中心)	Tender deposits	7,420,000.00	Within 1 year	1.47	371,000.00
Total		423,755,419.37		83.87	5,017,459.91

6. There were no other receivables derecognised due to transfer of financial assets in the reporting period.

7. There were no transfer of other receivable and continued to be involved in the formation of assets and liabilities in the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(VII) Inventories

1. Classification of Inventories

Items	2017			2016		
	Closing balance	Provision for declines in value of inventories	Carrying amount	Closing balance	Provision for declines in value of inventories	Carrying amount
Raw materials	2,382,197.76	-	2,382,197.76	1,127,885.11	-	1,127,885.11
Commodity Stocks	8,771,653.14	2,721,507.05	6,050,146.09	38,371,739.23	1,621,389.32	36,750,349.91
Work in progress	89,059.08	-	89,059.08	14,478.72	-	14,478.72
Assets of construction contract completed but not yet settle	1,034,297,964.86	-	1,034,297,964.86	576,806,465.17	-	576,806,465.17
Total	1,045,540,874.84	2,721,507.05	1,042,819,367.79	616,320,568.23	1,621,389.32	614,699,178.91

2. Provisions for declines in the value of inventories

Item	Increase in current period			Decrease in current period		2017
	2016	Provision	Others	Reversal or write-off	Others	
Commodity stocks	1,621,389.32	1,108,055.53	-	7,937.80	-	2,721,507.05
Total	1,621,389.32	1,108,055.53	-	7,937.80	-	2,721,507.05

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

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

(VII) Inventories (Continued)

3. Completed but unsettled assets formed by construction contracts

Items	2017	2016
Accumulated costs incurred	2,064,372,885.35	1,439,380,555.17
Accumulated recognised gross profit	508,742,124.32	498,268,898.41
Less: Expected loss	—	—
Amount billed	1,538,817,044.81	1,360,842,988.41
Completed but unsettled assets formed by construction contracts	1,034,297,964.86	576,806,465.17

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

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

(VII) Inventories (Continued)

4. Major construction projects at the end of the year

Items	Year of Commencement	Value of the project	Accumulated progress of completion	Accumulated costs incurred	Accumulated recognised gross profit	Accumulated progress billings	Inventory at the year-end
Electrical installation project of 2017 municipal PPP project in Suiyang District of Shangqiu City (商丘市睢陽區 2017年市政PPP項目電氣安裝工程)	2017	450,000,000.00	40.00%	156,081,924.05	46,987,182.00	-	203,069,106.05
Smart energy equipment and installation project of water source heat pump district cooling and heating system 6#, 7# energy station of Jiangbei New Core District (江北新區核心區江水源熱泵區域供冷供熱系統6#、7# 能源站智慧能源設備及安裝工程)	2017	207,000,000.00	60.00%	84,300,538.00	27,591,354.00	-	111,891,892.00
Ancillary project of Qilu Road of Qinhan Main Road (秦漢大道驢溝路附屬工程)	2017	158,694,392.00	60.00%	61,635,393.00	24,145,359.00	-	85,780,752.00
Huaihai Economic Zone Modern Logistics Service Hub (Commercial Section) (淮海經濟區現代物流服務樞紐 (商業部分))	2016	200,000,000.00	40.00%	84,227,744.78	6,400,000.00	23,010,000.00	67,617,744.78
Ancillary works for Xuzhou City Third Ring West Road Elevated Expressway Project (徐州市三環西路高架快速路附屬工程)	2015	209,589,247.93	89.92%	154,141,893.83	30,492,503.93	124,556,671.10	60,077,726.66
Contract of material procurement and electrical installation of intelligent engineering for Haofeng Xingzuan Youth Pioneering Park Phase I project in Jiangsu Jurong (江蘇句容濠鋒星鑽青年創業園一期項目機電及智能化工程材料設備採購及安裝合同)	2017	60,000,000.00	80.00%	30,919,789.00	12,323,454.00	-	43,243,243.00
Jinghe New City Integrated Pipeline Phase I Intelligent Device Facility Monitoring and Automatic Control Engineering (涇河新城綜合管廊一期工程智能設備設施監控與自動控制工程)	2017	75,000,000.00	60.00%	29,388,445.00	11,152,095.00	-	40,540,540.00
Second section of engineering work for Big Data Industry Training Center of Luzhou High-tech Zone (Phase 1 of Huawei's Sichuan Big Data Center) (瀘州高新區大數據產業培育中心(華為四川大數據中心一期)工程二標段)	2017	184,949,277.07	95.00%	134,238,752.81	24,349,302.75	118,194,702.05	40,393,353.51
Section JD2 of electrical and mechanical engineering for Yaan-Kangding Expressway in Sichuan Province (四川省雅安至康定高速公路機電工程JD2標段)	2017	65,818,888.00	95.00%	36,640,072.54	16,716,979.95	15,724,085.54	37,632,966.95
JD1 Electrical and mechanical modification and extension project of Licheng-Changzhi Highway in Shanxi Province (山西黎城至長治公路改建工程機電施工JD1)	2016	92,603,174.00	80.00%	43,565,281.11	21,231,831.81	33,682,234.23	31,114,878.69
Xuzhou Smart City Experience Center (徐州智慧城市體驗中心)	2017	60,000,000.00	40.00%	23,916,943.88	4,661,345.00	-	28,578,288.88
Intelligent hardware and service robot manufacturing engineering (Assembly) of building intelligent system of Jiangsu Kelude Intelligent Technology Co., Ltd. (江蘇克路德智能科技有限公司智能硬件及服務機器人製造工程(裝配式)建築智能化系統深)	2017	37,949,559.00	60.00%	16,221,968.00	4,291,306.00	400,000.00	20,113,274.00
Total		1,801,604,538.00	-	855,278,746.00	230,342,713.44	315,567,692.92	770,053,766.52

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

(VIII) Non-current assets due within one year

Item	2017	2016
Assets management plan	—	120,000,000.00
Total	<u>—</u>	<u>120,000,000.00</u>

(IX) Other current assets

Item	2017	2016
Deductible and pending for verification input VAT	40,268,878.13	8,926,628.46
Export tax rebate to be declared	—	120,264,370.04
Wealth management products	—	31,200,000.00
Total	<u>40,268,878.13</u>	<u>160,390,998.50</u>

(X) Available-for-sale financial assets

1. Particulars of available-for-sale financial assets

Items	2017			2016		
	Closing balance	Impairment provision	Carrying amount	Closing balance	Impairment provision	Carrying amount
Available-for-sale equity instruments	111,782,201.95	—	111,782,201.95	44,520,000.00	—	44,520,000.00
Including: measured at cost	<u>111,782,201.95</u>	<u>—</u>	<u>111,782,201.95</u>	<u>44,520,000.00</u>	<u>—</u>	<u>44,520,000.00</u>
Total	<u>111,782,201.95</u>	<u>—</u>	<u>111,782,201.95</u>	<u>44,520,000.00</u>	<u>—</u>	<u>44,520,000.00</u>

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

(X) Available-for-sale financial assets (Continued)

2. Available-for-sale financial assets measured at cost at the year end

Investee	2016		Closing balance		2017		2016		Impaired provision		2017		Equity Interest held (%)	Dividend for the current period
			Increase in the current period	Decrease in the current period					Increase in the current period	Decrease in the current period				
Jiangsu Sailan Information Industry Research Institute Co., Ltd. (江蘇賽聯信息產業研究院股份有限公司)	2,000,000.00	-	-	-	2,000,000.00	-	-	-	-	-	-	-	4.00	-
Nanjing City Information Investment Holdings Co., Ltd. (南京市信息投資控股有限公司)	42,520,000.00	-	-	-	42,520,000.00	-	-	-	-	-	-	-	15.12	-
Nanjing E-port Co., Ltd. (南京市電子口岸有限公司)	-	2,250,000.00	-	-	2,250,000.00	-	-	-	-	-	-	-	15.00	-
Equity Investment Fund Partnership of Shenzhen Rice Growing Emerging Industry (Limited Partnership) (深圳市大米成長新興產業股權投資基金合夥企業(有限合夥))	-	14,000,000.00	-	-	14,000,000.00	-	-	-	-	-	-	-	11.33	-
Hongtu Logistics Co., Ltd. (宏圖物流股份有限公司)	-	32,108,155.07	-	-	32,108,155.07	-	-	-	-	-	-	-	15.00	-
Xuzhou Xingshanzi Bus Terminal Shoumo Stores Project Management Co., Ltd. (徐州市杏山子公交站首末店項目管理有限公司)	-	5,897,276.00	-	-	5,897,276.00	-	-	-	-	-	-	-	3.62	-
Water Wood Technology Growth Fund I, LP	-	13,006,770.88	-	-	13,006,770.88	-	-	-	-	-	-	-	10.00	-
Total	44,520,000.00	67,262,201.95	-	-	111,782,201.95	-	-	-	-	-	-	-	-	-

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

(XI) Long-term equity investments

Investee	2016	Increase/decrease in the current period					2017	Impairment provision for the current period	Closing balance of impairment provision at the end of the period
		Additional investment	Decrease in Investment	Investment gains and losses recognized under the equity method	Other comprehensive income adjustment	Other changes in equity			
Joint venture:									
Nanjing Lajin Network Technology Co., Ltd. (南京萊拼網路科技有限公司)	264,985.82	-	264,985.82	-	-	-	-	-	-
Jiangsu 1011 Network Technology Co., Ltd. (江蘇一零一一網路科技有限公司)	994,927.41	-	-	49,141.92	-	-	-	1,044,069.33	-
Zhongxing Century Sunshine Sports Technology (Nanjing) Co., Ltd. (中青世紀陽光體育科技(南京)有限公司)	2,636,164.58	-	-	-139,719.81	-	-	-	2,496,444.77	-
Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. (江蘇北斗地下管線研究院有限公司)	-	10,000,000.00	-	-	-	-	-	10,000,000.00	-
Jiangsu Yudao Data Technology Co., Ltd. (江蘇數道數據科技有限公司)	-	6,000,000.00	-	-1,132,999.40	-	-	-	4,867,000.60	-
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	1,540,450.55	1,500,000.00	-	-172,852.67	-	-	-	2,867,597.88	-
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	-	22,564,500.00	-	-17,000.27	-	-	-	22,547,499.73	-
Total	5,436,528.36	40,064,500.00	264,985.82	-1,413,430.23	-	-	-	43,822,612.31	-

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

(XII) Investment property

1. Investment property using fair value measurement model

Item	Original value of property, building and land use right	Change in fair value	Total
1. 2016	160,109,545.74	55,141,054.26	215,250,600.00
2. Change in the current period	—	4,139,700.00	4,139,700.00
Add: Acquisition	—	—	—
Less: Disposal	—	—	—
Change in fair value	—	4,139,700.00	4,139,700.00
3. 2017	160,109,545.74	59,280,754.26	219,390,300.00

2. Pledge of investment property at the end of the year shall be referred to Note V (LVI).

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XIII) Fixed assets

1. Particulars of fixed assets

Item	Property and buildings	Machinery and equipment	Transportation equipment	Electronic equipment and others	Total
1. Original book value					
(1) 2016 Balance	141,648,341.10	173,973,713.41	4,986,393.83	62,951,119.49	383,559,567.83
(2) Increase in the current period	504,504.50	–	336,486.44	3,052,998.64	3,893,989.58
– Purchase	–	–	–	819,139.59	819,139.59
– Transfer from construction in progress	504,504.50	–	–	1,362,094.31	1,866,598.81
– Business combination increase	–	–	336,486.44	871,764.74	1,208,251.18
(3) Decrease in the current period	–	21,901.08	194,515.00	1,437,536.35	1,653,952.43
– Disposal and write-off	–	21,901.08	194,515.00	309,020.20	525,436.28
– Disposal of subsidiary	–	–	–	1,128,516.15	1,128,516.15
(4) 2017 Balance	142,152,845.60	173,951,812.33	5,128,365.27	64,566,581.78	385,799,604.98
2. Accumulated depreciation					
(1) 2016 Balance	14,622,992.54	65,020,416.87	4,447,430.02	40,097,981.69	124,188,821.12
(2) Increase in the current period	6,540,586.68	18,101,508.73	412,192.53	7,628,507.35	32,682,795.29
– Provision	6,540,586.68	18,101,508.73	300,302.51	7,108,204.61	32,050,602.53
– Business combination increase	–	–	111,890.02	520,302.74	632,192.76
(3) Decrease in the current period	–	12,529.67	147,143.63	789,429.81	949,103.11
– Disposal and write-off	–	12,529.67	147,143.63	283,607.72	443,281.02
– Disposal of subsidiary	–	–	–	505,822.09	505,822.09
(4) 2017 Balance	21,163,579.22	83,109,395.93	4,712,478.92	46,937,059.23	155,922,513.30
3. Impairment provision					
(1) 2016 Balance	–	–	–	–	–
(2) Increase in the current period	–	–	–	–	–
– Provision	–	–	–	–	–
(3) Decrease in the current period	–	–	–	–	–
– Disposal and write-off	–	–	–	–	–
(4) 2017 Book value	–	–	–	–	–
4. Book value					
(1) 2017 Book value	120,989,266.38	90,842,416.40	415,886.35	17,629,522.55	229,877,091.68
(2) 2016 Book value	127,025,348.56	108,953,296.54	538,963.81	22,853,137.80	259,370,746.71

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For the year ended 31 December 2017

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

(XIII) Fixed assets (Continued)

2. There were no fixed assets which is temporarily idle, leased under finance lease, leased out under operating lease, held for sale at the end of the year.
3. There were no fixed assets without certificates of ownership as the end of the year.
4. Pledge of fixed assets at the end of the year shall be referred to Note V(LVI).

(XIV) Construction in progress

Items	2017			2016		
	Closing balance	Provision for impairment	Carrying amount	Closing balance	Provision for impairment	Carrying amount
Sporadic projects	874,604.36	-	874,604.36	1,271,607.11	-	1,271,607.11
Total	874,604.36	-	874,604.36	1,271,607.11	-	1,271,607.11

(XV) Construction materials

Items	2017	2016
Special equipment	-	12,853.20
Total	-	12,853.20

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

(XVI) Intangible assets

1. Particulars of intangible assets

Items	Land use right	Patent	Unpatented technology	Total
1. Original book value				
(1) 2016 Balance	10,636,583.49	6,024,179.09	21,334,076.22	37,994,838.80
(2) Increase in the current period	–	159,879.08	23,113,207.59	23,273,086.67
– Acquisition	–	159,879.08	–	159,879.08
– Investor input	–	–	23,113,207.59	23,113,207.59
(3) Decrease in the current period	–	1,520,958.24	–	1,520,958.24
– Disposal	–	2,000.00	–	2,000.00
– Disposal of subsidiary	–	1,518,958.24	–	1,518,958.24
(4) 2017 Balance	10,636,583.49	4,663,099.93	44,447,283.81	59,746,967.23
2. Accumulated amortization				
(1) 2016 Balance	1,974,248.44	2,757,077.06	17,663,598.49	22,394,923.99
(2) Increase in the current period	240,774.34	661,142.52	3,801,909.72	4,703,826.58
– Provision	240,774.34	661,142.52	3,801,909.72	4,703,826.58
(3) Decrease in the current period	–	236,221.92	–	236,221.92
– Disposal	–	16.66	–	16.66
– Disposal of subsidiary	–	236,205.26	–	236,205.26
(4) 2017 Balance	2,215,022.78	3,181,997.66	21,465,508.21	26,862,528.65
3. Impairment provision				
(1) 2016 Balance	–	–	–	–
(2) Increase in the current period	–	–	–	–
– Provision	–	–	–	–
(3) Decrease in the current period	–	–	–	–
– Disposal	–	–	–	–
(4) 2017 Balance	–	–	–	–
4. Book value				
(1) 2017 Book value	8,421,560.71	1,481,102.27	22,981,775.60	32,884,438.58
(2) 2016 Book value	8,662,335.05	3,267,102.03	3,670,477.73	15,599,914.81

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For the year ended 31 December 2017

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

(XVI) Intangible assets (Continued)

2. Pledge of intangible assets at the end of the year can be referred to Note V(LVI).

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

(XVII) Long-term deferred expenses

Items	2016	Increase in the period	Amortized in the period	Other decrease	2017
Renovation costs	23,152.98	116,563.80	23,031.53	113,325.92	3,359.33
e-card fee	6,308,185.01	2,918,386.78	2,277,753.75	–	6,948,818.04
Consultation fee	3,000,000.00	–	1,800,014.00	–	1,199,986.00
Insurance fee	27,312.84	–	27,312.84	–	–
Total	9,358,650.83	3,034,950.58	4,128,112.12	113,325.92	8,152,163.37

(XVIII) Deferred income tax assets and deferred income tax liabilities

1. Deferred income tax assets before offsetting

Item	2017		2016	
	Deductible temporary difference	Deferred income tax assets	Deductible temporary difference	Deferred income tax assets
Provision for impairment on assets	115,457,579.70	16,896,517.86	86,697,423.70	12,815,787.97
Accrued construction costs	92,757,764.60	13,913,664.69	91,050,923.78	13,657,638.57
Offsetting unrealized internal profit	9,952,341.39	1,492,851.21	12,788,072.86	1,918,210.93
Total	218,167,685.69	32,303,033.76	190,536,420.34	28,391,637.47

2. Deferred income tax liabilities before offsetting

Item	2017		2016	
	Taxable temporary difference	Deferred income tax liabilities	Taxable temporary difference	Deferred income tax liabilities
Asset gains from business combinations involving entities not under common control	2,244,118.30	336,617.74	3,374,981.48	697,989.84
Investment property (difference between fair value and the book cost)	59,280,754.26	8,892,113.14	55,141,054.26	8,271,158.14
Total	61,524,872.56	9,228,730.88	58,516,035.74	8,969,147.98

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

(XIX) Other non-current assets

Item	2017	2016
Prepayment for construction	1,707,300.00	—
Total	1,707,300.00	—

(XX) Short-term borrowings

1. Classification of short-term borrowings

Items	2017	2016
Guaranteed loan	345,300,000.00	539,850,000.00
Credit loan	—	71,794,210.96
Total	345,300,000.00	611,644,210.96

2. There were no due short-term borrowings outstanding at the end of the year.

3. All borrowings at the end of year are due within one year.

(XXI) Notes payable

Type	2017	2016
Bank accepted bills of exchange	30,056,123.84	35,288,100.72
Total	30,056,123.84	35,288,100.72

Notes to the Financial Statements

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

(XXII) Accounts payable

1. Accounts payable

Item	2017	2016
Material engineering and expenses payable	883,638,230.34	639,256,306.14
Payable to related party outside the scope of consolidation	1,069,811.34	—
Total	884,708,041.68	639,256,306.14

2. Major accounts payable aged over 1 year in the closing balance at the end of the year

Item	2017	Reasons for outstanding or not carried forward
Lianyungang Port Group Co., Ltd. (連雲港港口集團有限公司)	16,800,000.00	Payment has not due
Nanjing Longwei Construction Service Co., Ltd. (南京龍威建築勞務有限公司)	13,230,340.40	Payment has not due
Shenzhou Transportation Engineering Group Co., Ltd. (神州交通工程集團有限公司)	7,800,000.00	Payment has not due
Hunan Xiangzhu Transportation Technology Co., Ltd. (湖南省湘築交通科技有限公司)	7,675,772.50	Payment has not due
Chongqing Dongjiang Construction Engineering Co., Ltd. (重慶東江建築工程有限公司)	7,665,899.19	Payment has not due
Jiangsu Bonahua Transportation Technology Co., Ltd. (江蘇博納華交通科技有限公司)	4,787,063.82	Payment has not due
Jiangsu Xing'an Construction Group Co., Ltd. (江蘇興安建設集團有限公司)	4,400,000.00	Payment has not due
Guizhou Hongyi Technology Co., Ltd. (貴州宏屹科貿發展有限公司)	4,053,799.71	Payment has not due
Fujian Newland Software Engineering Co., Ltd. (福建新大陸軟體工程有限公司)	4,049,835.00	Payment has not due
Total	70,462,710.62	

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

(XXIII) Advances from customers

1. Advances from customers disclosed as follow:

Item	2017	2016
Advances sale	116,843,058.33	48,367,297.32
Total	116,843,058.33	48,367,297.32

2. There were no major advances from customers aged over 1 year included in the closing balance at the end of the year.

(XXIV) Payroll payables

1. Payroll payables disclosed as follow:

Items	2016	Increase in the current period	Decrease in the current period	2017
Short-term salaries payable	4,384,926.35	53,148,967.83	51,158,091.09	6,375,803.09
Post-employee benefits – defined contribution plan	125,169.99	5,943,124.03	6,047,472.12	20,821.90
Termination benefits	19,485.00	3,920,848.51	3,920,848.51	19,485.00
Total	4,529,581.34	63,012,940.37	61,126,411.72	6,416,109.99

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

(XXIV) Payroll payables (Continued)

2. Short-term salaries payable disclosed as follow:

Items	2016	Increase in the current period	Decrease in the current period	2017
(1) Wages or salaries, bonuses, allowances and subsidies	3,842,147.20	44,625,769.61	42,526,727.46	5,941,189.35
(2) Employee welfare	–	1,749,745.38	1,749,745.38	–
(3) Social insurance	58,372.68	2,993,179.80	3,041,713.66	9,838.82
Including: Medical insurance	51,165.23	2,659,819.50	2,702,371.50	8,613.23
Work injury insurance	2,765.04	117,847.22	120,144.23	468.03
Maternity insurance	4,442.41	215,513.08	219,197.93	757.56
(4) Housing funds	211,199.82	3,151,277.55	3,210,382.00	152,095.37
(5) Union funds and staff education costs	273,206.65	628,995.49	629,522.59	272,679.55
Total	4,384,926.35	53,148,967.83	51,158,091.09	6,375,803.09

3. Defined contribution plan disclosed as follow

Item	2016	Increase in the current period	Decrease in the current period	2017
Basic pension contribution	114,703.41	5,730,577.41	5,825,834.00	19,446.82
Unemployment insurance	10,466.58	212,546.62	221,638.12	1,375.08
Total	125,169.99	5,943,124.03	6,047,472.12	20,821.90

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

(XXV) Taxes payable

Tax items	2017	2016
VAT	9,044,177.46	7,872,779.34
Enterprise income tax	32,734,177.59	26,918,918.10
Individual income tax	172,404.95	186,488.17
Property tax	581,019.05	780,038.51
Land use tax	98,413.75	98,413.75
City maintenance and construction tax	1,271,309.21	978,529.05
Education surcharge	883,851.00	677,938.09
Others	245,084.71	127,518.69
Total	45,030,437.72	37,640,623.70

(XXVI) Interest payable

Item	2017	2016
Interest payable for short-term borrowing	549,776.74	966,889.99
Interest payable for long-term borrowing	126,185.89	221,744.42
Total	675,962.63	1,188,634.41

(XXVII) Dividend payables

Item	2017	2016
Dividend for ordinary shares	6,688,575.00	—
Total	6,688,575.00	—

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

(XXVIII) Other payables

1. Other payables disclosed by nature

Item	2017	2016
Retention monies	17,562,958.36	29,549,726.07
Collection and payment	1,446,804.30	43,176,494.93
Other	12,490,595.60	5,229,583.95
Total	31,500,358.26	77,955,804.95

2. Major other payables aged over 1 year in the closing balance at the end of the year

Items	2017	Reasons for outstanding or not carried forward
Yinjiang Co., Ltd. (銀江股份有限公司)	2,295,374.00	Payment has not due
Jiangsu Yinjiang Transprotation Technology Co., Ltd. (江蘇銀江交通技術有限公司)	3,760,000.00	Payment has not due
Total	6,055,374.00	

(XXIX) Non-current liabilities due within 1 year

Item	2017	2016
Long-term borrowing due within 1 year	11,250,000.00	29,110,000.00
Total	11,250,000.00	29,110,000.00

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXX) Other current liabilities

Item	2017	2016
Pending changeover vat on sale	6,147,751.60	6,601,021.14
Total	6,147,751.60	6,601,021.14

(XXXI) Long-term borrowing

Items	2017	2016
Pledged loan	67,850,000.00	79,100,000.00
Guaranteed loan	—	30,000,000.00
Total	67,850,000.00	109,100,000.00

(XXXII) Deferred income

Item	2016	Increase in the current period	Decrease in the current period	2017	Reason of formation
Government subsidies	10,397,156.83	30,965,000.00	3,370,782.66	37,991,374.17	Government funding
Total	10,397,156.83	30,965,000.00	3,370,782.66	37,991,374.17	

Notes to the Financial Statements

For the year ended 31 December 2017

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

(XXXII) Deferred income (Continued)

Projects involving government subsidies:

Liabilities items	2016	Subsidies increased in the current period	Included in the profit and loss of the current period	Other movements	2017	related to asset/related to income
Government subsidies for construction project of Radio Frequency Identification (RFID) System Technology Research Center	550,148.72	–	183,382.90	–	366,765.82	related to asset
Financial assistance for national scientific and technological support projects	4,884,508.15	–	1,449,899.72	–	3,434,608.43	related to asset
City-level vehicle emissions regulation and enforcement platform	1,000,000.00	–	–	–	1,000,000.00	related to asset and income
Provincial grants for international cooperation	762,499.96	–	237,500.04	–	524,999.92	related to asset and income
Year 2016 provincial special funds for provincial-level industrial and information industry restructuring	3,000,000.00	–	1,500,000.00	–	1,500,000.00	related to income
Cooperation fee for co-operation with National Natural Science Foundation	200,000.00	525,000.00	–	–	725,000.00	related to asset and income
Demonstration project of application of comprehensive supervision system based on Internet of things technology for urban intelligent traffic	–	30,000,000.00	–	–	30,000,000.00	related to asset
Ministry of Industry and Information Technology Special Funding Agreement for Year 2014 Internet of Things Project	–	440,000.00	–	–	440,000.00	related to asset
Total	10,397,156.83	30,965,000.00	3,370,782.66	–	37,991,374.17	

Notes to the Financial Statements

For the year ended 31 December 2017

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

(XXXIII) Share capital

Name of shareholders	2016		Increase in the current period	Decrease in the current period	2017	
	Amount	Percentage (%)			Amount	Percentage (%)
Nanjing Sample Technology Group Company Limited	153,493,400.00	48.45	5,635,000.00	-	159,128,400.00	50.23
Active Gold Holding Limited	49,545,000.00	15.64	-	-	49,545,000.00	15.64
Jiang Su Red Stone Technology Corporation	685,000.00	0.22	-	685,000.00	-	-
Nanjing Sample Investment Development Company Limited	4,950,000.00	1.56	-	4,950,000.00	-	-
Sha Min	1,350,000.00	0.42	-	-	1,350,000.00	0.42
Jiangsu Ruihua Investment Holding Group Co., Ltd.	13,750,000.00	4.34	-	-	13,750,000.00	4.34
Shangdong Runbang Agricultural Development Co., Ltd.	1,250,000.00	0.39	-	-	1,250,000.00	0.39
Overseas public shareholders (H Shares)	91,800,000.00	28.98	-	-	91,800,000.00	28.98
Total	316,823,400.00	100.00	5,635,000.00	5,635,000.00	316,823,400.00	100.00

(XXXIV) Capital reserve

Item	2016	Increase in the period	Decrease in the period	2017
Share capital premium (Equity premium)	417,341,904.48	27,839,693.46	251,053.25	444,930,544.69
Total	417,341,904.48	27,839,693.46	251,053.25	444,930,544.69

Explanation for the movement:

- (1) The increase in the current period was arisen in the circumstance that the company has not been lost control. The Company disposed of 40% of the equity interest of Federal International, its subsidiary, and the consideration received for the disposal was greater than the corresponding share of net assets in the company.
- (2) The decrease in the current period was arisen in the circumstance that the company has not been lost control. The minority shareholder of Urban Constructive, a subsidiary of the Company, made additional capital contribution, the difference was the share of the net assets of Urban Constructive by the Company and its investment cost.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXXV) Other comprehensive income

Items	2016	Amounts incurred in the current period					2017
		Amounts incurred before income tax in the current period	Less: Previously recognized income and transferred to profit or loss in the current period	Less: income tax expenses	Attributable to the parent company after tax	Attributable to minority shareholder after tax	
1. Other comprehensive income that will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-
Including: Changes of net liabilities or net assets arising from the re-measurement of defined benefit plans	-	-	-	-	-	-	-
Share of other comprehensive income in the investees at equity method that cannot be reclassified into profit and loss	-	-	-	-	-	-	-
2. Other comprehensive incomes that will be reclassified subsequently to profit and loss	33,105,840.34	-5,828,239.39	-316.96	-	-5,827,922.43	-	27,277,917.91
Including: Share of other comprehensive income in the investees at equity method that can be reclassified into profit and loss	-	-	-	-	-	-	-
Profit and loss from changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-
Profit or loss from held-to-maturity investment reclassified as available-for-sale financial assets	-	-	-	-	-	-	-
Effective portion of profit or loss from cash flows hedges	-	-	-	-	-	-	-
Converted difference in foreign currency statements	-2,236,610.78	-5,828,239.39	-316.96	-	-5,827,922.43	-	-8,064,533.21
The difference between the fair value of the investment property and the book value on the conversion date	35,342,451.12	-	-	-	-	-	35,342,451.12
Total other comprehensive income	33,105,840.34	-5,828,239.39	-316.96	-	-5,827,922.43	-	27,277,917.91

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXXVI) Surplus reserve

Item	2016	Increase in the period	Decrease in the period	2017
Statutory surplus reserve	77,443,332.15	6,883,662.38	–	84,326,994.53
Total	<u>77,443,332.15</u>	<u>6,883,662.38</u>	<u>–</u>	<u>84,326,994.53</u>

Note: The increase in the amount for the Period was statutory surplus reserve provided based on 10% of net profits of the Company.

(XXXVII) Undistributed profits

Items	2017	2016
Undistributed profit before adjustment at the end of the previous year	923,552,272.40	832,932,029.03
Adjustment of total undistributed profit at the beginning of the year (with “+” for increase and with “-” for decrease)	–	–
Undistributed profit after adjustment at the beginning of the year	923,552,272.40	832,932,029.03
Add: Current net profit attributable to owners’ equity of the parent company	208,943,752.05	191,025,395.61
Less: Provision of statutory surplus reserves	6,883,662.38	5,358,132.24
Provision of other surplus reserves	–	–
Provision for general risk	–	–
Ordinary shares dividends payable	47,523,510.00	95,047,020.00
Ordinary shares dividends transferred to the share capital of ordinary shares	–	–
Undistributed profit at the end of the period	<u>1,078,088,852.07</u>	<u>923,552,272.40</u>

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXXVIII) Operating income and operating cost

1. Operating income and operating cost

Items	2017		2016	
	Income	Cost	Income	Cost
Principal operation	1,650,646,941.55	1,222,896,398.60	1,552,415,561.15	1,161,583,783.81
Other operation	22,340,954.02	2,317,681.12	17,334,997.68	2,458,082.75
Total	1,672,987,895.57	1,225,214,079.72	1,569,750,558.83	1,164,041,866.56

2. Principal operations (by product)

Name of Products	2017		2016	
	Operating income	Operating cost	Operating income	Operating cost
System integration	1,012,150,615.83	747,450,512.58	892,699,500.03	643,766,071.64
Intelligent terminal sales	332,185,003.77	261,136,667.25	244,519,495.87	198,229,607.14
Service business	146,985,107.19	67,456,585.41	124,042,585.77	46,718,096.26
Cross-border trade and service	159,326,214.76	146,852,633.36	291,153,979.48	272,870,008.77
Total	1,650,646,941.55	1,222,896,398.60	1,552,415,561.15	1,161,583,783.81

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXXVIII) Operating income and operating cost (Continued)

3. Operating income from the top five customers of the Group for the reporting period

Name of the customers	2017	
	Total operating income	Percentage of the total operating income of the Group (%)
China Coal Construction Group Co., Ltd. (中煤建工集團有限公司)	331,726,696.00	19.83
Luzhou City Gaoxin Investment Group Co., Ltd. (瀘州市高新投資集團有限公司)	158,289,921.81	9.46
Shenglin Nonggu (Hubei) Blueberry Co., Ltd. (盛林農穀(湖北)藍莓有限公司)	128,205,128.18	7.66
Nanjing Jiangbei New Energy Development Management Co., Ltd. (南京江北新能源開發管理有限公司)	111,891,892.00	6.69
Nanjing Jiujiudao Electronic Technology Co., Ltd. (南京玖玖道電子科技有限公司)	83,732,762.06	5.00
Total	813,846,400.05	48.64

- Operating income represents the Group's principal operating income, including revenue received and receivable from system integration, intelligent terminal sales, service, cross-border trade and service businesses.
- 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 system integration, intelligent terminal sales, service, cross-border trade and service businesses.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XXXIX) Taxes and surcharges

Items	2017	2016
Business tax	–	1,489,098.78
City maintenance and construction tax	2,030,163.84	746,697.35
Education surcharge tax	1,561,666.36	828,370.34
Other taxes and fees	4,219,490.62	715,995.89
Total	7,811,320.82	3,780,162.36

(XL) Selling and distribution expenses

Items	2017	2016
Salary and surcharge	16,414,058.35	18,335,253.92
Entertainment expenses	8,149,191.82	5,461,743.64
Travelling expenses	5,016,804.52	4,994,758.29
Composite fees for construction	6,983,034.39	4,493,332.05
Bidding fees	1,454,055.56	1,722,991.48
Water and electricity charges	209,799.40	383,328.28
Motor vehicle expenses	446,809.74	581,066.47
Office expenses	566,933.77	865,226.84
Telephone charges	215,256.55	273,760.42
Advertisement and promotion expenses	448,755.26	1,457,902.17
Postage	192,002.39	277,955.61
Depreciation charges	370,087.95	892,790.16
Consultation fees	2,018,121.66	2,487,502.85
Housing and property charges	366,921.16	1,185,450.68
Others	1,137,854.90	1,330,698.19
Total	43,989,687.42	44,743,761.05

Notes to the Financial Statements

For the year ended 31 December 2017

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

(XLI) General and administrative expenses

Items	2017	2016
Salary and surcharge	39,147,209.49	37,000,787.28
Research and development materials fees	40,230,165.76	35,259,488.93
Depreciation charges	13,936,477.86	11,409,788.12
Technical service fees	3,593,424.24	5,168,976.51
Intangible assets amortisation	4,703,826.68	1,627,351.59
Entertainment expenses	4,049,631.45	5,840,894.32
Agency and consultation fees	10,120,184.55	6,571,242.57
Taxation charges	–	2,770,366.15
Travelling expenses	2,093,318.80	1,709,622.24
Housing and property charges	1,949,443.09	1,518,333.52
Water and electricity charges	729,030.29	711,678.07
Motor vehicle expenses	1,153,779.20	1,143,832.48
Promotion expenses	401,223.29	524,582.79
Board's fee	206,250.00	449,768.87
Others	6,135,344.25	5,183,175.85
Total	128,449,308.95	116,889,889.29

(XLII) Financial expenses

Types	2017	2016
Interest expenses	30,003,744.20	40,359,379.08
Less: interest income	6,114,866.26	13,171,285.97
Exchange gain and loss	-1,499,415.30	-3,423,032.36
Handling fee	1,237,972.32	1,331,688.75
Total	23,627,434.96	25,096,749.50

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(XLIII) Asset impairment losses

Items	2017	2016
Loss from bad debts	30,268,522.29	33,591,945.95
Loss from declines in values of inventories	1,108,055.53	562,379.72
Total	31,376,577.82	34,154,325.67

(XLIV) Income from change in fair value

Source of income from change in fair value	2017	2016
Investment property measured by fair value	4,139,700.00	4,227,700.00
Total	4,139,700.00	4,227,700.00

(XLV) Investment income

Items	2017	2016
Income from long-term equity investments under equity method	-1,413,423.92	-2,280,696.00
Investment income from disposal of long-term equity investments	15,182,518.40	—
Income from disposal of held-for-trading financial assets	-1,263,595.04	—
Investment income of entrusted loan	—	12,967,451.89
Investment income of asset management plan	4,506,466.97	12,016,438.36
Investment income of wealth management products	760,452.65	31,162.19
Total	17,772,419.06	22,734,356.44

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For the year ended 31 December 2017

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

(XLVI) Income from assets disposal

Item	2017	2016	Included in the non-recurring profits and losses of the current period
Gains from disposal of fixed assets	16,793.21	11,160.38	16,793.21
Total	16,793.21	11,160.38	16,793.21

(XLVII) Other income

Subsidized items	2017	2016	Related to asset/related to income
VAT Software Tax Refund	3,301,780.34	—	Income
Other government grants income	3,897,771.35	—	Assets or income
Total	7,199,551.69	—	

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

(XLVII) Other income (Continued)

Breakdown of government grants:

Subsidized items	2017	2016	Related to asset/related to income
Subsidy to exhibitor of the First World Smart Manufacturing Conference	36,000.00	—	Income
Job stabilization subsidy	170,988.69	—	Income
2017 Provincial Enterprise Intellectual Property Strategy Promotion Plan	180,000.00	—	Income
Intellectual property standards award	24,000.00	—	Income
Subsidy of patent special fund of Qixia District	52,000.00	—	Income
R & D management system standards awards	64,000.00	—	Income
Transfer of deferred income	3,370,782.66	—	Assets or income
Total	3,897,771.35	—	

(XLVIII) Non-operating income

Item	2017	2016	Included in the non-recurring profits and losses of the current period
Government grants	5,376,010.00	16,888,641.98	5,376,010.00
VAT refund	—	5,158,533.97	—
Others	67,928.85	387,360.54	67,928.85
Total	5,443,938.85	22,434,536.49	5,443,938.85

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For the year ended 31 December 2017

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

(XLVIII) Non-operating income (Continued)

Particulars of government grants recognized as non-operating income:

Subsidized items	2017	2016	Related to asset/ related to income
2016 Brand rewards	1,476,010.00	–	related to income
Subsidy of New Third Board from Finance Office of Maqun Office of People's Government Office of Qixia District of Nanjing City	1,650,000.00	–	related to income
Subsidy of construction of self-innovation demonstration zone of Maqun Subdistrict Office	150,000.00	–	related to income
Introducing large-scale corporate rewards	100,000.00	–	related to income
Cross-border e-commerce one-off rewards	2,000,000.00	–	related to income
Year 2015 winning units and individuals of Nanjing Science and Technology Progress Award	–	10,000.00	related to income
Special funds for the development of software and information services in Nanjing in 2015	–	400,000.00	related to income
Science and Technology Development Program and Technology Funds for 2016	–	4,000.00	related to income
Special fund for Nanjing foreign trade development (credit insurance) for 2016	–	63,900.00	related to income
Special fund for support of steady growth of foreign trade of provincial business development and municipal open economy development for 2016	–	800,000.00	related to income
Special fund for foreign trade and economic development for 2016 (first batch)	–	2,000,000.00	related to income
Subsidy for RFID Engineering Center	–	183,382.90	related to asset
Research fund for national scientific and technological support projects	–	1,510,658.40	related to asset
Year 2016 Innovation Award of Scientific Technology Association of Nanjing Finance Bureau	–	10,000.00	related to income
Year 2016 Excellent Project Award of Scientific Technology Association of Nanjing Finance Bureau	–	5,000.00	related to income
International cooperation of China-Finland project of Nanjing Science and Technology Bureau	–	237,500.04	related to asset

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

(XLVIII) Non-operating income (Continued)

Particulars of government grants recognized as non-operating income: (Continued)

Subsidized items	2017	2016	Related to asset/ related to income
Subsidy of Disabled Persons Federation of Qixia District of Nanjing	-	3,260.00	related to income
Year 2016 special funds of scientific and technological achievements	-	100,000.00	related to income
Subsidies of Finance Office of Maqun Office of People's Government Office of Qixia District of Nanjing City	-	500,000.00	related to income
Job stabilization subsidy of Nanjing Social Insurance Management Center for 2016	-	152,799.70	related to income
Year 2016 special funds of transformation of provincial-level industrial and information industry	-	1,500,000.00	related to income
Subsidy for declaration of branded products of Jiangsu province for 2014	-	80,000.00	related to income
Special fund for support of steady growth of foreign trade of provincial business development	-	3,000,000.00	related to income
Special funds for growth of foreign trade	-	150,000.00	related to income
Job stabilization subsidy	-	124,640.94	related to income
Subsidy paid by Economic and Information Committee of Yangzhou National Treasury Centralized Payment Center	-	25,000.00	related to income
China (Nanjing) Software Valley Management Committee in relation to Industry Support Fund for Nanjing Trade Mutual Technology Co., Ltd.	-	6,000,000.00	related to income
Patent subsidy	-	28,500.00	related to income
Total	5,376,010.00	16,888,641.98	

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

(XLIX) Non-operating expenses

Item	2017	2016	Included in the non-recurring profits and losses of the current period
Losses on written-off of non current assets	32,648.99	298,949.18	32,648.99
Penalty and overdue fines	2,811.40	196,942.24	2,811.40
Others	192,143.35	22,228.37	192,143.35
Total	227,603.74	518,119.79	227,603.74

(L) Auditor's remuneration

Auditor's remuneration for the current year was RMB750,000.00 (2016: RMB750,000.00).

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

(LI) Directors, supervisors and employees' emoluments

1. Directors and supervisors' emoluments

Items	2017	2016
Directors and supervisors' fees:		
Executive directors	56,250.00	131,250.00
Non-executive director and independent non-executive directors	90,000.00	200,000.00
Supervisors	60,000.00	72,500.00
Sub-total	206,250.00	403,750.00
Executive directors' other emoluments:		
Basic salaries and allowance	905,256.00	753,804.00
Contributions to retirement benefits/pensions schemes	262,874.01	249,960.60
Sub-total	1,168,130.01	1,003,764.60
Supervisors' other emoluments:		
Basic salaries and allowance	178,324.50	163,440.00
Contributions to retirement benefits/pensions schemes	54,787.60	55,881.05
Sub-total	233,112.10	219,321.05
Senior Management:		
Basic salaries and allowance	628,584.50	494,543.90
Contributions to retirement benefits/pension schemes	225,747.64	207,116.46
Sub-total	854,332.14	701,660.36
Total	2,461,824.25	2,328,496.01

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 as incentive upon joining the Group or as compensation for loss of office during the year.

Notes to the Financial Statements

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

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

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

Name	2017			
	Fees	Other emoluments		Total
		Basic salaries and allowance	Contributions to retirement	
			benefits/pensions schemes	
Executive Directors:				
Mr. Sha Min	18,750.00	347,104.00	87,624.67	453,478.67
Mr. Chang Yong	18,750.00	279,076.00	87,624.67	385,450.67
Mr. Zhu Xiang	18,750.00	279,076.00	87,624.67	385,450.67
Sub-total	56,250.00	905,256.00	262,874.01	1,224,380.01
Non-executive Director:				
Mr. Ma Jun	22,500.00	-	-	22,500.00
Sub-total	22,500.00	-	-	22,500.00
Independent Non-Executive Directors:				
Mr. Shum Shing Kei	37,500.00	-	-	37,500.00
Mr. Hu Hanhui	22,500.00	-	-	22,500.00
Mr. Gao Lihui	7,500.00	-	-	7,500.00
Sub-total	67,500.00	-	-	67,500.00
Supervisors:				
Mr. Dai Jian Jun	22,500.00	-	-	22,500.00
Mr. Zou Tao	7,500.00	178,324.50	54,787.60	240,612.10
Independent supervisor:				
Mr. Qiu Xiang Yang	22,500.00	-	-	22,500.00
Sub-total	52,500.00	178,324.50	54,787.60	285,612.10
Senior management:				
Ms. Miao Yun	-	237,730.00	83,385.47	321,115.47
Ms. Yu Hui	-	215,110.50	80,318.17	295,428.67
Mr. Xie Jinliang	7,500.00	175,744.00	62,044.00	245,288.00
Sub-total	7,500.00	628,584.50	225,747.64	861,832.14
Total	206,250.00	1,712,165.00	543,409.25	2,461,824.25

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

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

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

2016				
Name	Fees	Other emoluments		Total
		Basic salaries and allowance	Contributions to retirement benefits/pensions schemes	
Executive Directors:				
Mr. Sha Min	43,750.00	320,604.00	83,320.20	447,674.20
Mr. Chang Yong	43,750.00	216,600.00	83,320.20	343,670.20
Mr. Zhu Xiang	43,750.00	216,600.00	83,320.20	343,670.20
Sub-total	131,250.00	753,804.00	249,960.60	1,135,014.60
Non-executive Director:				
Mr. Ma Jun	52,500.00	–	–	52,500.00
Sub-total	52,500.00	–	–	52,500.00
Independent Non-Executive Directors:				
Mr. Xu Su Ming	20,000.00	–	–	20,000.00
Mr. Shum Shing Kei	87,500.00	–	–	87,500.00
Mr. Hu Hanhui	22,500.00	–	–	22,500.00
Mr. Geng Nai Fan	–	–	–	0.00
Sub-total	130,000.00	–	–	130,000.00
Supervisors:				
Mr. Dai Jian Jun	32,500.00	–	–	32,500.00
Mr. Zou Tao	7,500.00	163,440.00	55,881.05	226,821.05
Independent supervisor:				
Mr. Qiu Xiang Yang	32,500.00	–	–	32,500.00
Sub-total	72,500.00	163,440.00	55,881.05	291,821.05
Senior management:				
Ms. Miao Yun	–	180,700.00	77,247.60	257,947.60
Mr. Liang Biao	–	184,143.90	74,654.75	258,798.65
Mr. Xie Jinliang	17,500.00	129,700.00	55,214.11	202,414.11
Sub-total	17,500.00	494,543.90	207,116.46	719,160.36
Total	403,750.00	1,411,787.90	512,958.11	2,328,496.01

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

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

3. Five highest paid individuals

During the year, of the five individuals with the highest emoluments, three (2016: three) were directors. The emoluments of them were disclosed in the notes above. The emoluments of the remaining two (2016: two) individuals were as follows:

Items	2017	2016
Basic salaries and allowance	452,840.50	410,200.00
Contributions to retirement benefits schemes	163,703.64	141,558.20
Total	616,544.14	551,758.20

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

4. The emoluments of highest paid individuals were within the following bands

Item	2017	2016
Nil to HK\$500,000 (nil to RMB410,000)	2	2

(LII) Income tax expenses

1. Table of income tax expenses

Items	2017	2016
Income tax for the current period	46,636,316.26	39,627,567.65
Deferred income tax	-3,708,889.31	-3,711,527.35
Total	42,927,426.95	35,916,040.30

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(LII) Income tax expenses (Continued)

2. Reconciliation between total profit and income tax expenses is as follows:

Item	2017
Total profit	246,864,284.95
Income tax expenses calculated at statutory tax rates (or applicable tax rates)	37,029,642.74
Effect of different tax rates applicable to subsidiaries	-2,278,370.01
Income tax adjustments on prior periods	-443,059.26
Effect of non-taxable income	-11,843.87
Expenses, costs and losses not deductible for tax purposes	817,137.49
Additional deduction for qualified research and development expenses	-357,158.89
Effect of deductible loss of the deferred income tax assets unrecognized in the previous period	-73,366.46
Impact of deductible temporary differences or deductible loss for which deferred tax assets not recognized in the current period	8,244,445.21
Income tax expenses	42,927,426.95

(LIII) Dividend

Items	2017	2016
Final dividend proposed of RMB0.15 per share	—	47,523,510.00
Final dividend proposed of RMB0.25 per share	79,205,850.00	—

Note: At the same time, it is proposed to distribute to all shareholders on the basis of 10 bonus shares for every 10 shares held from undistributed profits and to distribute to all shareholders on the basis of 10 shares for every 10 shares held by way of capitalisation of capital reserve.

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

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(LIII) Dividend (Continued)

Items	2017	2016
Final dividend in respect of the previous year approved during the year	47,523,510.00	95,047,020.00
Final dividend in respect of the previous year paid during the year	40,834,935.00	95,047,020.00
Final dividend in respect of the previous year remain unpaid during the year	6,688,575.00	—

(LIV) Items of cash flow statement

1. Cash received relating to other operating activities

Items	2017	2016
Interest income on bank deposits received	12,595,559.29	13,152,715.74
Amounts of current accounts received	6,998,519.24	5,137,540.69
Export tax rebate received	62,485,740.35	—
Non-operating income received	14,576.33	13,644,820.54
Retention monies received	18,125,039.11	5,401,411.06
Income-related government grants received	5,902,998.69	4,700,000.00
Total	106,122,433.01	42,036,488.03

2. Cash paid relating to other operating activities

Items	2017	2016
Administrative expenses paid	26,991,571.79	28,691,683.14
Selling expenses paid	27,711,930.47	25,630,375.04
Non-operating expenses paid	194,954.75	60,862.77
Amounts of current accounts paid	3,408,533.63	15,913,717.86
Handling charges paid to banks	1,233,293.12	1,331,198.80
Retention monies paid	346,987,790.86	21,412,555.19
Advance for export tax rebate	204,183,526.26	195,276,542.00
Total	610,711,600.88	288,316,934.80

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(LIV) Items of cash flow statement (Continued)

3. Cash received relating to other investing activities

Items	2017	2016
Recovery of entrusted loan	–	150,000,000.00
Recovery of wealth management products	31,200,000.00	100,000.00
Recovery of assets management plan	120,000,000.00	–
Asset-related government grants received	30,965,000.00	–
Net cash paid for purchase of subsidiaries	–	7,846.25
Total	182,165,000.00	150,107,846.25

4. Cash paid relating to other investing activities

Items	2017	2016
Purchase of wealth management products	–	31,300,000.00
Net cash received from disposal of subsidiaries and other business units	44,465,187.89	336,683.03
Total	44,465,187.89	31,636,683.03

5. Cash received relating to other financing activities

Item	2017	2016
Cash received from the sale of a minority share interests in a subsidiary	34,885,482.69	–
Total	34,885,482.69	–

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(LV) Supplementary information of cash flow statements

1. Supplementary information of cash flow statements

Supplementary information	2017	2016
1. Reconciliation of net profit to cash flow of operating activities		
Net profit	203,936,858.00	194,017,397.62
Add: Provision for assets impairment	31,376,577.82	34,154,325.67
Depreciation of fixed assets	32,050,602.53	28,715,523.00
Depreciation of productive biological assets	—	—
Depletion of oil and gas assets	—	—
Amortisation of intangible assets	4,703,826.58	1,627,351.59
Amortisation of long-term deferred expenses	4,128,112.12	3,700,744.35
Losses from disposal of fixed assets, intangible assets and other long-term assets (with “-” for gains)	-16,793.21	287,788.80
Losses from write-off fixed assets (with “-” for gains)	32,648.99	—
Losses on change in fair value (with “-” for gains)	-4,139,700.00	-4,227,700.00
Financial expenses (with “-” for gains)	29,929,878.90	41,665,867.41
Investment Loss (with “-” for gains)	-17,772,419.06	-22,734,356.44
Decrease in deferred tax assets (with “-” for increases)	-3,968,472.21	-4,496,182.68
Increase in deferred tax liabilities (with “-” for decreases)	259,582.90	142,577.29
Decrease in inventories (with “-” for increases)	-434,294,365.62	-89,640,217.88
Decrease of operating receivables (with “-” for increases)	-705,918,109.53	-197,418,783.99
Increase of operating payables (with “-” for decreases)	390,101,965.79	-60,304,948.43
Others	-6,844.18	—
Net cash flows from operating activities	-469,596,650.18	-74,510,613.69
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	726,084,254.20	1,181,577,965.99
Less: cash at the beginning of period	1,181,577,965.99	1,188,285,145.50
Add: cash equivalents at end of the period	—	—
Less: cash equivalents at beginning of the period	—	—
Net increase in cash and cash equivalents	-455,493,711.79	-6,707,179.51

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

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

2. Net cash paid for the acquisition of the subsidiaries in the reporting period

Items	2017
Cash or cash equivalents paid for the business combination for the current period	7,830,000.00
Including: Nanjing Intelligent Urban Constructive Investment Co., Ltd.	7,830,000.00
Less: Cash and cash equivalents held by the company at the acquisition date	7,350,799.38
Including: Nanjing Intelligent Urban Constructive Investment Co., Ltd.	7,350,799.38
Net cash paid for the acquisition of the subsidiary	479,200.62

3. Net cash received from the disposal of the subsidiaries in the reporting period

Items	2017
Cash or cash equivalents received by the Company for the disposal of subsidiaries in the reporting period	59,000,000.00
Including: Jiangsu Cross-border e-Commerce Services Co., Ltd.	59,000,000.00
Less: cash and cash equivalents held by the company at the date of lost control	103,465,187.89
Including: Jiangsu Cross-border e-Commerce Services Co., Ltd.	103,465,187.89
Net cash paid for the disposal of subsidiaries	44,465,187.89

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

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

4. The composition of cash and cash equivalents

Items	2017	2016
I. Cash	726,084,254.20	1,181,577,965.99
Including: Cash on hand	84,818.64	102,263.44
Bank deposit available for payment at any time	725,956,004.00	1,181,475,702.55
Other monetary funds available for payment at any time	43,431.56	—
Central bank deposits available for payment	—	—
Deposit at interbank market	—	—
Lending to interbank market	—	—
	<hr/>	<hr/>
II. Cash equivalents		
Including: Bond investment due in three months	—	—
	<hr/>	<hr/>
III. Cash and cash equivalents at the end of the period	726,084,254.20	1,181,577,965.99
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Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

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

(LVI) Assets with restricted ownership or right of use

Items	2017	Reasons of restriction
Cash	37,035,398.72	Retention monies
Investment property	219,390,300.00	Pledge for borrowing
Fixed assets	120,428,339.25	Pledge for borrowing
Intangible assets	8,421,560.71	Pledge for borrowing
Total	385,275,598.68	

(LVII) Foreign currency monetary items

Items	Balance of foreign currency for 2017	Exchange rate	Converted into RMB for 2017
Cash on hand	—	—	54,950,810.72
Including: Hong Kong dollars	65,737,654.86	0.8359	54,950,810.72
Other receivables	—	—	33,035,191.84
Including: Hong Kong dollars	39,520,000.00	0.8359	33,035,191.84
Accounts payables	—	—	45,545.43
Including: Hong Kong dollars	54,486.00	0.8359	45,545.43

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF COMBINATION

(1) Business combinations involving entities not under common control

1. Business combinations involving entities not under common control happened in the reporting period

The name of acquiree	Time of acquisition of the shares	Cost of acquisition of the shares	Percentage of acquisition of the shares (%)	Method of acquisition of the shares	Acquisition date	Determination basis at the acquisition date	Income of acquiree from the date of acquisition to the end of the year	Net profit of acquiree from the date of acquisition to the end of the year
Nanjing Intelligent Urban Constructive Investment Co., Ltd.	20 April 2017	7,830,000.00	100.00	Purchase	20 April 2017	Change of actual control	3,004,905.57	-197,741.52
Total		7,830,000.00					3,004,905.57	-197,741.52

Note: In the current period, the Company acquired from its parent company, Nanjing Sample Technology Group Co., Ltd., the 100% equity interest of Nanjing Intelligent Urban Constructive Investment Co., Ltd. As of the date of acquisition, Nanjing Sample Technology Group Co., Ltd. did not control Urban Constructive for more than one year. Therefore, the Company acquired Urban Constructive as a business combination not under common control.

2. Cost and goodwill of the combination

Items	Nanjing Intelligent Urban Constructive Investment Co., Ltd.
Combination cost	
— Cash	7,830,000.00
Total combination cost	7,830,000.00
Less: The portion of fair value of the identifiable net assets obtained	7,836,844.18
Goodwill/combination cost less than the portion of fair value of the identifiable net assets obtained	6,844.18

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF COMBINATION (Continued)

(1) Business combinations involving entities not under common control (Continued)

3. Identifiable assets, liabilities of the acquiree at the date of acquisition

	Nanjing Intelligent Urban Constructive Investment Co., Ltd.	
	Fair value at the date of acquisition	Carrying amount at the date of acquisition
Assets:		
Cash at bank and on hand	7,350,799.38	7,350,799.38
Accounts receivable	77,966.04	77,966.04
Other receivable	265,813.27	265,813.27
Other assets	831,810.06	831,810.06
	<hr/>	<hr/>
Total assets	8,526,388.75	8,526,388.75
	<hr/>	<hr/>
Liabilities:		
Accounts payable	80,573.95	80,573.95
Other payable	601,517.27	601,517.27
Other liabilities	7,453.35	7,453.35
	<hr/>	<hr/>
Total liabilities	689,544.57	689,544.57
	<hr/>	<hr/>
Net assets	7,836,844.18	7,836,844.18
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Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VI. CHANGE OF THE SCOPE OF COMBINATION (Continued)

(2) Disposal of subsidiaries

Particulars of single disposal of investments in subsidiaries and losing control:

Name of subsidiary	Consideration of the equity disposal	Equity disposal percentage	Method of equity disposal	Time of losing control	Determination basis at the time of losing control	The level of the consolidated financial statement	The difference between the disposal consideration and the share of the net assets corresponding to the disposal of the investment at		Carrying amount of the residual equity interests at the date of losing control	Fair value of the residual equity interests at the date of losing control	Gains or losses arising from re-measurement of the fair value of the residual equity interests	Determination and major assumption for fair value of the residual equity interests at the date of losing control	The amount of other comprehensive income related to the equity investment of the original subsidiary transferred to investment gains and losses
							Percentage of residual equity interests at the date of losing control	amount of the residual equity interests at the date of losing control					
Jiangsu Cross-border e-Commerce Services Co., Ltd.		100.00	Transfer by cash	26 May 2017	-		-	-	-	-	-	-	-
Nanjing Trade Connect & e-Commerce Co., Ltd.	59,000,000.00	100.00	Transfer by cash	26 May 2017	Change of control	15,182,524.38	-	-	-	-	-	-	-
Nanjing Trade Connect & e-Commerce Co., Ltd.		100.00	Transfer by cash	26 May 2017			-	-	-	-	-	-	-
Jiangsu Cross-border e-commerce Services (Hong Kong) Ltd.		100.00	Transfer by cash	26 May 2017			-	-	-	-	-	-	-
Yangzhou Sample Information Technology Co., Ltd.	Deregistration	100.00	Deregistration	Completion date of deregistration	Completion date of deregistration	-5.98	-	-	-	-	-	-	-

(3) Newly established subsidiary

Nanjing Senyuansheng Business Information Consulting Partnership (limited partnership) was incorporated in July 2017 with registered share capital of RMB6,030,000 of which RMB3,000,000, representing 75% of its registered share capital, was contributed by Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Ltd., a subsidiary of the Company. The registered address is 5th Floor of Building No. 1, 10 Maqun Avenue, Maqun Street, Qixia District, Nanjing. Business scope: business information consulting.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES

(I) Interests in subsidiaries

1. Structure of the Group

Name of subsidiaries	Principal place of business	Place of registration	Business nature	Proportion of shareholdings (%)		Way of procurement
				Direct	Indirect	
Jiangsu Intellitrans Company Limited	Nanjing, PRC	Nanjing, PRC	Intelligent transportation	100	–	business combination of enterprises not under common control
Jiangsu Ruifu Intelligent Tech. Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Electronic products	–	60	business combination of enterprises not under common control
Nanjing Sample Logistic Company Limited	Nanjing, PRC	Nanjing, PRC	Computer software	60	–	Established by investment
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited	Nanjing, PRC	Nanjing, PRC	Internet of things technology	100	–	Established by investment
Sample Technology (H.K.) Co., Limited	Hong Kong, PRC	Hong Kong, PRC	Consultation and investment	100	–	Established by investment
Federal International Enterprise Limited	Hong Kong, PRC	Hong Kong, PRC	Electronic products	–	60	business combination of enterprises not under common control
Nanjing City Intelligent Transportation Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Information technology	–	65	business combination of enterprises not under common control
Xuzhou Sample Intelligent Technology Development Co., Ltd.	Xuzhou, PRC	Xuzhou, PRC	Intelligent transportation	100	–	Established by investment
Nanjing Sample Hongzheng Vision Technology Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Visual technology	–	51	Established by investment
Jiangsu Siruide IOT Technology Co., Ltd.	Wuxi, PRC	Wuxi, PRC	IOT technology	–	60	business combination of enterprises not under common control
Nanjing Intelligent Urban Constructive Investment Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Municipal investment	70	–	business combination of enterprises not under common control
Nanjing Senyuansheng Business Information Consulting Partnership (limited partnership)	Nanjing, PRC	Nanjing, PRC	Consultation	75	–	Established by investment

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (Continued)

(I) Interests in subsidiaries (Continued)

2. Significant non-wholly-owned subsidiaries

Name of subsidiaries	Proportion of minority shareholdings (%)	Total profit or loss attributable to minority interests in the current period	Dividends declared to minority shareholders in the current period	Balance of Minority interests at the end of period
Nanjing City Intelligent Transportation Co., Ltd.	35.00%	3,326,097.43	–	52,063,933.40
Nanjing Sample Logistic Company Limited	40.00%	-1,849,785.11	–	2,513,926.75

Key financial information of significant non-wholly-owned subsidiaries

Name of subsidiaries	2017						2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Nanjing City Intelligent Transportation Co., Ltd.	61,418,470.69	108,468,742.80	169,887,213.49	17,336,673.12	5,684,608.35	23,021,281.47	88,014,115.33	130,961,301.88	218,975,417.21	44,765,612.60	36,847,008.11	81,612,620.71
Nanjing Sample Logistic Company Limited	1,723,765.96	10,317,939.84	12,041,705.80	5,715,348.11	–	5,715,348.11	4,479,621.77	12,212,244.49	16,691,866.26	5,782,586.62	–	5,782,586.62

Name of subsidiaries	2017				2016			
	Operating income	Net profit	Total comprehensive income	Cash flows from operating activities	Operating income	Net profit	Total comprehensive income	Cash flows from operating activities
Nanjing City Intelligent Transportation Co., Ltd.	63,548,379.46	9,503,135.52	9,503,135.52	53,337,577.52	66,501,652.09	9,352,751.79	9,352,751.79	9,770,700.73
Nanjing Sample Logistic Company Limited	1,170,245.86	-4,624,462.78	-4,624,462.78	-341,045.92	8,874,320.25	-915,309.45	-915,309.45	-2,831,441.24

Notes to the Financial Statements

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VII. INTERESTS IN OTHER ENTITIES (Continued)

(II) Interests in joint arrangement or associates

1. Major Joint ventures or associates

Name of joint ventures or associates	Principal place of business	Place of registration	Business nature	Proportion of shareholdings (%)		Accounting treatment for investment in joint ventures or associates
				Direct	Indirect	
Nanjing Laipin Network Technology Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Information technology	–	40.00	Equity method
Jiangsu 1011 Network Technology Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Information technology	–	48.00	Equity method
Nanjing Sample Chain Information Technology Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Data technology	–	30.00	Equity method
Zhongqing Century Sunshine Sports Technology Nanjing Co., Ltd.	Nanjing, PRC	Nanjing, PRC	Sports industry	–	30.00	Equity method
Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. (江蘇北斗地下管線研究院有限公司)	Nanjing, PRC	Nanjing, PRC	Technology development	–	30.00	Equity method
Jiangsu Yudao Data Technology Co., Ltd. (江蘇馭道數據科技有限公司)	Nanjing, PRC	Nanjing, PRC	Information technology	–	40.00	Equity method
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	Xuzhou, PRC	Xuzhou, PRC	Project management	–	24.65	Equity method

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

VII. INTERESTS IN OTHER ENTITIES (Continued)

(II) Interests in joint arrangement or associates (Continued)

2. Key financial information of major associates

Item	2017	2016
Associates:		
Jiangsu Beidou Underground Pipeline Research Institute Co., Ltd. (江蘇北斗地下管線研究院有限公司)	10,000,000.00	—
Total book value of investment	10,000,000.00	—
Followings were calculated by the proportion of shareholding	—	—
— Net profit	—	—
— Other comprehensive income	—	—
— Total comprehensive income	—	—
Item	2017	2016
Associates:		
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	—	—
Total book value of investment	22,564,500.00	—
Followings were calculated by the proportion of shareholding	22,564,500.00	—
— Net profit	-17,000.27	—
— Other comprehensive income	—	—
— Total comprehensive income	-17,000.27	—

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS

The Group faces various financial risks in its business operations: credit risk, market risk and liquidity risk. The board of directors of the Company is fully responsible for the determination of risk management objectives and policies and assumes ultimate responsibility for risk management objectives and policies. However, the board of directors has authorized the Company's financial department to design and implement procedures that ensure the effective implementation of risk management objectives and policies. The board of directors, through the reports submitted by the head of the financial department, reviewed the effectiveness of the implemented procedures and the rationality of risk management objectives and policies. The Company's internal auditors also audit the risk management policies and procedures and report the findings to the audit committee of the board.

The Group's overall risk management goal is to formulate a risk management policy that minimizes risks without excessively affecting the company's competitiveness and resilience.

(1) Credit risk

Credit risk refers to the risk that one party to a financial instrument fails to perform its obligations and causes financial losses to the other. The Group's credit risk primarily relates to the Group's trade and other receivables and wealth management plan etc.. 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 bad 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 industry and national policy 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 8.43% (2016: 14.80%) and 35.15% (2016: 34.99%) 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 2017

(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS *(Continued)*

(II) Market risk

Market risk of the financial instruments refers to the risk of fluctuation in fair value or future cash flow of financial instruments due to changes in market prices, including interest rate risk, exchange rate risk and other prices risks.

1. Interest rate risk

Interest rate risk refers to the risk that the fluctuation of fair value or future cash flow of a financial instrument due to changes in market interest rates. Financial liabilities with floating interest rates expose the Group to cash flow interest rate risk. Financial liabilities with fixed interest rates expose the Group to fair value interest rate risk.

Interest-bearing financial assets of the Group are mainly bank balances which are all short-term in nature. Interest-bearing financial liabilities of the Group are mainly short-term bank loans with fixed interest rates, long-term bank borrowing which expose the Group to fair value interest rate risk. Currently, the Group's borrowings with fixed interest rate account for 100% of external borrowings.

As of 31 December 2017, the Group's interest-bearing debts were all RMB loan contracts with fixed interest rate amounted in total of RMB424,400,000 (31 December 2016: RMB749,854,200).

As of 31 December 2017, with all other variables remaining unchanged, if the RMB benchmark interest rate rose by 1% or decreased by 1%, the Company's net profit would reduce or increase by RMB3,607,400 (31 December 2016: 6,373,800 yuan). The management considers that the increase or decrease of the benchmark interest rate by 1% reasonably reflects the reasonable range in which the borrowing interest rate may change in the next year.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(II) Market risk (Continued)

2. Foreign exchange risk

Foreign exchange risk is the risk of fluctuation in the fair value of financial instruments or future cash flows arising from the movements in foreign exchange rates. The Group will try to match the income in foreign currency with the expenditure in foreign currency in order to reduce foreign exchange risk. The Group's financial assets and liabilities in foreign currency shared a very small proportion of total assets. The foreign exchange risk faced by the Group is mainly from financial assets and financial liabilities denominated in Hong Kong dollars, foreign currency financial assets and financial liabilities are disclosed as follows:

Items	2017			2016		
	HK Dollar	US Dollar	Total	HK Dollar	US Dollar	Total
Cash on hand	65,737,654.86	-	65,737,654.86	38,387,012.78	880,962.06	39,267,974.84
Accounts Receivable	-	-	-	-	1,952,639.39	1,952,639.39
Other Receivable	39,520,000.00	-	39,520,000.00	-	-	-
Short-term borrowing	-	-	-	-	10,349,461.00	10,349,461.00
Other payable	54,486.00	-	54,486.00	-	-	-
Total	105,312,140.86	-	105,312,140.86	38,387,012.78	13,183,062.45	51,570,075.23

As of 31 December 2017, with all other variables remaining unchanged, if the Renminbi appreciates or depreciates by 5% against the Hong Kong dollar, the Company's net profit will increase or decrease by RMB4,397,000 (31 December 2016: RMB1,716,900 yuan). The management considers that the appreciation or depreciation of the Hong Kong dollar by 5% reasonably reflects the reasonable range of possible changes in the RMB against the Hong Kong dollar in the next year.

3. Price risk

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

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(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(III) Liquidity risk

Liquidity risk refers to the risk of shortage of funds when an enterprise fulfills its obligations to settle cash or other financial assets. The company's policy is to ensure that it has sufficient cash to repay the debts fall due. Liquidity risk is centrally controlled by the Company's financial department. 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.

2017

Group	2017 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	30,056,123.84	30,056,123.84	14,581,636.00	15,474,487.84	–
Accounts payable	884,708,041.68	884,708,041.68	606,893,608.32	218,883,134.49	58,931,298.87
Other payable	31,500,358.26	31,500,358.26	12,508,331.36	5,912,662.48	13,079,364.42
Staff remuneration payables	6,416,109.99	6,416,109.99	6,416,109.99	–	–
Short-term borrowings	345,300,000.00	354,855,738.47	80,427,110.44	91,986,437.17	182,442,190.86
Non-current liabilities due within 1 year	11,250,000.00	11,704,096.43	–	5,312,832.24	6,391,264.19
Total	<u>1,309,230,633.77</u>	<u>1,319,240,468.67</u>	<u>720,826,796.11</u>	<u>337,569,554.21</u>	<u>260,844,118.34</u>

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

VIII. RELEVANT RISK ASSOCIATED WITH FINANCIAL INSTRUMENTS (Continued)

(III) Liquidity risk (Continued)

2016

Group	2016 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	35,288,100.72	35,288,100.72	6,142,988.56	10,145,112.16	19,000,000.00
Accounts payable	639,256,306.14	639,256,306.14	503,175,058.02	87,101,343.24	48,979,904.88
Other payables	77,955,804.95	77,955,804.95	52,211,523.37	19,075,280.22	6,669,001.36
Staff remuneration payables	4,529,581.34	4,529,581.34	4,529,581.34	–	–
Short-term borrowings	611,644,210.96	623,195,563.58	232,033,606.32	134,165,894.52	256,996,062.74
Non-current liabilities due within 1 year	29,110,000.00	30,203,979.29	–	14,265,621.48	15,938,357.81
Total	<u>1,397,784,004.11</u>	<u>1,410,429,336.02</u>	<u>798,092,757.61</u>	<u>264,753,251.62</u>	<u>347,583,326.79</u>

Notes to the Financial Statements

For the year ended 31 December 2017

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IX. FAIR VALUE DISCLOSURE

Inputs for the fair value measurements are categorized into three levels:

- Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that can be accessed at the measurement date.
- Level 2 inputs are inputs other than inputs included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

The level in which fair value measurement is categorized is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement.

(I) Fair value of assets and liabilities measured at fair value at the end of the period

Items	Fair value at 31 December 2017			Total
	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	
1. Continuing fair value measurement				
(1) Investment property				
1. Leased property (including the value of apportioned land use right)	–	–	219,390,300.00	219,390,300.00
Total assets measured at fair value continuously	–	–	219,390,300.00	219,390,300.00

(II) Continuing and non-continuing level 3 fair value measurement items, the use of valuation techniques and important parameters of qualitative and quantitative information

Item	Fair value at the end of the period	Evaluation method	Unobservable inputs	Range (weighted average)
Leased property	219,390,300.00	Discounted cash flow method	Long-term net operating profit margin Interest rate used to calculate the residual value of the assets	– 7.00%

Note 1: There is no comparable transaction that can be obtained from real estate market for the investment property, valuation shall not be made by the market comparison approach. However, rental income of the property can be ascertained, valuation can be made by the income approach. Relevant measurement can be referred to the valuation result of valuation report Su Hua Ping Bao Zi [2018] No. 009 issued by Jiangsu Huaxin Assets Appraisal Co., Ltd. (江蘇華信資產評估有限公司).

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(I) General information of the parent company of the Company

Name	Relationship	Business type	Registration place	Legal representative	Nature of business	Registered capital ('000)	Equity interest in the Company (%)	Voting right in the Company (%)	Ultimate controller
Nanjing Sample Technology Group Company Limited ("Sample Group")	Parent company	limited liability company	Nanjing, PRC	Sha Min	Investment and development of high-tech industry, investment advisory services, asset management etc.	333,000	50.23	50.23	Sha Min

(II) Information of subsidiaries of the Company

For details of the subsidiaries of the Company, please refer to Note (I) of VII "Interests in Other Entities".

(III) Associates of the Company

For details of the associates of the Company, please refer to Note (II) of VII "Interests in Other Entities".

(IV) Other related party of the Company

Name of other related party	Relationship with the Company
Nanjing Sample Investment Development Company Limited	Shareholder of the Company
Jiangsu Cross-border e-Commerce Services Co., Ltd.	Enterprise controlled by the same parent company
Nanjing Sample Intelligent Technology Co., Ltd.	Associates of the Company

Note: The Company has committed to subscribe 10% equity interests of Nanjing Sample Intelligent Technology Co., Ltd. As at 31 December 2017, contribution has not yet made.

Notes to the Financial Statements

For the year ended 31 December 2017

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions

1. Related party transactions for sale and purchase of goods, providing and receiving labor services

For the subsidiaries which are controlled and consolidated into the consolidated financial statements, the sale and purchase transactions amongst them have been eliminated.

2. Particulars of acquisition of equity interest of wholly-owned subsidiary and disposal of equity interest of controlling subsidiary

- (1) The company acquired 100% equity interests of Urban Constructive from Sample Group at a consideration of RMB7,830,000 yuan;
- (2) The Company disposed of 82.61% equity interest of Jiangsu Cross-border e-Commerce Service Co., Ltd. (Nanjing Trade Connect & e-Commerce Co., Ltd., Jiangsu Cross-border e-commerce Services (Hong Kong) Ltd. and Nanjing Trade Mutual Technology Co., Ltd., all of which are wholly-owned by Jiangsu Cross-border e-Commerce Service Co., Ltd.) to Sample Group, at a consideration of RMB59,000,000 yuan.

3. Related party providing guarantees

- (1) Particulars of the Company providing guarantees for subsidiaries

A. Particulars of guarantees provided for loans

Guarantor	Guarantee for	Agreed guarantee amount	Loan amount	Beginning date of borrowings	Maturity date of borrowings	Guarantee due or not
The Company	Jiangsu Intellitrans	80,000,000.00	30,000,000.00	2017-1-9	2018-1-8	No
The Company	Jiangsu Intellitrans	60,000,000.00	10,000,000.00	2017-6-16	2018-6-16	No
			20,000,000.00	2017-7-11	2018-7-11	No
The Company	Jiangsu Intellitrans	20,000,000.00	20,000,000.00	2017-9-27	2018-9-26	No
The Company	Jiangsu Intellitrans	30,000,000.00	30,000,000.00	2017-10-27	2018-10-22	No
The Company	Jiangsu Intellitrans	40,000,000.00	40,000,000.00	2017-11-3	2018-11-2	No
Total		<u>230,000,000.00</u>	<u>150,000,000.00</u>			

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For the year ended 31 December 2017

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

3. Related party providing guarantees (Continued)

(1) Particulars of the Company providing guarantees for subsidiaries (Continued)

B. Particulars of guarantees provided for letter of guarantee and bills

As at 31 December 2017, the Company provided guarantee to Jiangsu Intellitrans Company Limited, a subsidiary of the Company for their issuance of letter of guarantee for a total of RMB93,803,843.05 to the bank.

As at 31 December 2017, the Company provided guarantee for Jiangsu Intellitrans Company Limited, a subsidiary of the Company, to secure the bank accepted bills of exchange in the Hunan Road Branch of CITIC Bank and the amount of the bank accepted bills of exchange issued was RMB3,147,128.00 of which RMB1,573,564.00 was paid and deposited by that company as retention monies for bills of exchange.

As at 31 December 2017, the Company provided guarantee for Jiangsu Intellitrans Company Limited, a subsidiary of the Company, to secure the bank accepted bills of exchange in the Changjiang Road Branch of China Merchants Bank and the amount of the bank accepted bills of exchange issued was RMB12,726,884.00 of which RMB7,726,884.00 was paid and deposited by that company as retention monies for bills of exchange.

(2) Particulars of related party providing guarantees for the Company and its subsidiaries

A. Particulars of guarantees provided for loans

Guarantor	Guarantee for	Agreed guarantee amount	Loan amount	Beginning date of loan	Maturity date of loan	Guarantee due or not
Sample Group	The Company	50,000,000.00	50,000,000.00	2017-6-21	2018-6-21	No
Sample Group	The Company	50,000,000.00	40,000,000.00	2017-3-1	2018-3-1	No
Sample Group	The Company	40,000,000.00	36,000,000.00	2017-10-30	2018-10-26	No
Sample Group	The Company	30,000,000.00	30,000,000.00	2017-4-14	2018-4-13	No
Sample Group	The Company	30,000,000.00	20,000,000.00	2017-10-31	2018-10-26	No
Sample Group	The Company	10,000,000.00	10,000,000.00	2017-1-24	2018-1-23	No
Sample Group	The Company	50,000,000.00	6,150,000.00	2017-8-2	2018-6-15	No
			3,150,000.00	2017-10-27	2018-6-15	No
Total		260,000,000.00	195,300,000.00			

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(All amounts in Renminbi yuan unless otherwise stated)

X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(V) Related party transactions (Continued)

3. Related party providing guarantees (Continued)

(2) Particulars of related party providing guarantees for the Company and its subsidiaries (Continued)

B. Particulars of guarantees provided for letter of guarantee and bills

As at 31 December 2017, Sample Group provided guarantee to the Company for its issuance of letter of guarantee for a total of RMB21,029,891.60 in the bank.

As at 31 December 2017, Sample Group provided guarantee for the Company to secure the bank accepted bills of exchange in in Jiming Temple Branch of Nanjing Bank and the amount of the bank accepted bills of exchange issued was RMB4,186,992.00 of which RMB2,093,496.00 was paid and deposited by that Company as retention monies for bills of exchange.

4. Leasing

Name of the lessee	2017		2016	
	Area	Amount	Area	Amount
Nanjing Sample Investment Development Company Limited	638.28	326,161.08	281.88	143,646.04
Nanjing Intelligent Urban Constructive Investment Co., Ltd.	853.70	130,274.62	711.42	311,601.96
Nanjing Sample Intelligent Technology Co., Ltd.	110.00	56,210.00	110.00	28,105.00
Total		512,645.70		483,353.00

Note: The above table listed the rental fees incurred by the Group with Nanjing Intelligent Urban Constructive Investment Co., Ltd. was occurred before the date of acquisition.

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X. RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(VI) Receivables and payables of related party

Items	Related party	Balance at the end of the period		Balance at the beginning of the year	
		Closing balance	Provision for bad debts	Closing balance	Provision for bad debts
Other receivable	Nanjing Sample Chain Information Technology Co., Ltd.	16,031.27	801.56	–	–
Other receivable	Jiangsu Cross-border e-Commerce Services Co., Ltd.	102,392.69	5,119.63	–	–
Total		118,423.96	5,921.19	–	–

XI. SHARE-BASED PAYMENT

During the reporting period, the Group had no share-based payment.

XII. COMMITMENTS AND CONTINGENCIES

(1) Significant commitments

1. Properties Usufruct Trust

On 25 July 2014, Nanjing City Intelligent Transportation Co., Ltd, a subsidiary of the Company, entered into the Properties Usufruct Trust Contract of Nanjing City Intelligent Transportation Co., Ltd with Yingda International Trust Co.,Ltd, in which it was agreed that: Nanjing City Intelligent Transportation Co., Ltd, as the trustor, entrusted all of its properties (rights) usufruct it legally possessed to Yingda International Trust Co.,Ltd, as the trustee, to manage, operate and dispose pursuant to the provisions of the contract; The properties usufruct represents the right to obtain benefits in future from all revenues arising from operation and disposal of Nanjing Urban Intelligent Transportation Public Service Platform built by Nanjing City Intelligent Transportation Co., Ltd. during the term of trust. The term of trust commenced from the date of establishment of the trust (25 July 2014) to the date of termination of the trust contract (25 July 2019); The value of the properties (rights) usufruct were the aggregate amount of RMB138,278,000.00 which are expected to be obtained from the date of establishment of the trust (25 July 2014) to 25 July 2019.

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XII. COMMITMENTS AND CONTINGENCIES *(Continued)*

(I) Significant commitments *(Continued)*

2. Pledged assets

As at 31 December 2017, pledged assets of the Group can be referred to Note V (LV).

3. Guarantee provided

As at 31 December 2017, the Group provided guarantee of a total of RMB79,211,885.91.

4. Save as the commitment disclosed above, as at 31 December 2017, there is no significant commitment which needs to be disclosed but has not been disclosed.

(II) CONTINGENCIES

1. Guarantee provided to the debts of related parties (subsidiary)

For the particulars of the guarantees provided to the related parties, Jiangsu Intellitrans Company Limited, by the Company as at 31 December 2017, can be referred to Note X(V).3.

2. As at 31 December 2017, the Group has endorsed undue bank accepted bills (was derecognized) with a total of RMB907,193.00.
3. Save as the above contingent matter, as at 31 December 2017, there is no other significant contingent matter which needs to be disclosed but has not been disclosed.

XIII. EVENTS AFTER BALANCE SHEET DATE

1. Profit distribution plan

On 28 March 2018, the Board proposed to distribute a final dividend of RMB79,205,850.00 for the year ended 31 December 2017, i.e. RMB 0.25 per share (2016: RMB0.15 per share), proposed to distribute to all shareholders on the basis of 10 bonus shares for every 10 shares held from undistributed profits (2016: no bonus share issue) and proposed to distribute to all shareholders on the basis of 10 shares for every 10 shares held by way of capitalization of capital reserve (2016: no capitalisation issue).

2. Save as the above-mentioned post balance sheet events, 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.

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XIV. OTHER IMPORTANT MATTERS

(I) Discontinued operation

1. Net profit from continuing operations and net profit from discontinued operations attributable to the owners of the parent company

Items	2017	2016
Net profit from continuing operations attributable to the owners of the parent company	201,190,805.03	182,612,258.02
Net profit from discontinued operations attributable to the owners of the parent company	7,752,947.02	8,413,137.59

2. Net profit from discontinued operations

Items	2017	2016
Profit and loss from discontinued operations:		
Income	159,274,830.61	294,963,423.11
Cost and expenses	165,992,872.24	292,679,888.45
Total profit	-4,391,696.44	14,043,788.88
Income tax expenses (gains)	1,505,250.56	3,729,837.99
Net profit	-5,896,947.00	10,313,950.89
Including: Net profit attributable to the owners of parent company	-4,864,571.38	8,413,137.59
Profit and loss of minority shareholders	-1,032,375.62	1,900,813.30
Gains and losses on disposal of discontinued operation:		
Total gains and losses on disposal	15,182,518.40	—
Income tax expenses (gains)	2,565,000.00	—
Net gain on disposal	12,617,518.40	—
Including: Net profit attributable to the owners of parent company	12,617,518.40	—
Profit and loss of minority shareholders	—	—
Total gains and losses on disposal of discontinued operation	6,720,571.40	10,313,950.89
Including: Net profit attributable to the owners of parent company	7,752,947.02	8,413,137.59
Profit and loss of minority shareholders	-1,032,375.62	1,900,813.30

Notes to the Financial Statements

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XIV. OTHER IMPORTANT MATTERS (Continued)

(I) Discontinued operation (Continued)

3. Cash flow of discontinued operations

Items	2017	2016
Net cash flows from operating activities	-148,325,728.34	-150,110,488.28
Net cash flows from investing activities	-1,467,764.38	-1,511,494.99
Net cash flows from financing activities	183,252,953.55	-76,552,049.20

(II) 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 system integration, intelligent terminal sales, service, cross-border trade and service businesses. 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 system integration, intelligent terminal sales, service, cross-border trade and service businesses.

Name of Products	2017		2016	
	Operating income	Operating cost	Operating income	Operating cost
System integration	1,012,150,615.83	747,450,512.58	892,699,500.03	643,766,071.64
Intelligent terminal sales	332,185,003.77	261,136,667.25	244,519,495.87	198,229,607.14
Service business	146,985,107.19	67,456,585.41	124,042,585.77	46,718,096.26
Cross-border trade and service	159,326,214.76	146,852,633.36	291,153,979.48	272,870,008.77
Total	1,650,646,941.55	1,222,896,398.60	1,552,415,561.15	1,161,583,783.81

For the year ended 31 December 2017
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(I) Accounts receivable

1. Disclosure of accounts receivable by categories

Categories	2017			2016		
	Closing balance		Provision for bad debts	Closing balance		Provision for bad debts
	Amount	Percentage (%)		Amount	Percentage (%)	
Individually significant and subject to separate provision	-	-	-	-	-	-
Subject to provision based on the characteristics of credit risk by groups	-	-	-	-	-	-
Including: Engineering and sales	198,904,565.80	92.20	36,965,388.60	18.58	161,939,177.20	17.06
Related party within the scope of consolidation	16,823,289.00	7.80	-	-	181,550,621.78	150,822,144.41
Sub-total for the group	215,727,854.80	100.00	36,965,388.60	17.14	178,762,466.20	150,822,144.41
Individually insignificant but subject to separate provision	-	-	-	-	-	-
Total	215,727,854.80	100.00	36,965,388.60	-	178,762,466.20	150,822,144.41

Notes to the Financial Statements

For the year ended 31 December 2017

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

1. Disclosure of accounts receivable by categories (Continued)

In the groups, provision for bad debts for accounts receivable are made using aging analysis:

Aging	2017			2016		
	Accounts receivable	Provision for bad debts	Provision percentage (%)	Accounts receivable	Provision for bad debts	Provision percentage (%)
Within 1 year	132,143,953.01	3,964,318.59	3.00	125,430,735.85	3,762,922.07	3.00
1 to 2 years	22,932,989.00	1,834,639.12	8.00	24,505,622.67	1,960,449.82	8.00
2 to 3 years	18,087,418.43	5,426,225.53	30.00	9,441,653.97	2,832,496.19	30.00
Over 3 years	25,740,205.36	25,740,205.36	100.00	22,472,609.29	22,472,609.29	100.00
Total	198,904,565.80	36,965,388.60		181,850,621.78	31,028,477.37	

2. The situation of provision, recovered or reversal of accounts receivable in the reporting period

Item	2016	Provision in the current period	Reversal or write-off in the current period	2017
Provision of bad debts	31,028,477.37	5,936,911.23	—	36,965,388.60
Total	31,028,477.37	5,936,911.23	—	36,965,388.60

3. There were no actual write-off of accounts receivable in the reporting period.

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(I) Accounts receivable (Continued)

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

Name of Unit	2017		Provision of bad debts
	Accounts Receivable	Percentage of the total accounts receivable (%)	
Shenglin Nonggu (Hubei) Blueberry Co., Ltd. (盛林農穀(湖北)藍莓有限公司)	50,000,000.00	23.18	1,500,000.00
Jiangsu Intellitrans Company Ltd. (江蘇智運科技發展有限公司)	16,823,289.00	7.80	—
Jiangsu Deya Intelligent Technology Co., Ltd. (江蘇德亞智能科技股份有限公司)	16,544,242.00	7.67	496,327.26
Cangzhou Huanghua Port Bonded and Construction Co., Ltd. (滄州黃驊港綜保建設有限公司)	16,348,254.80	7.58	490,447.64
Shanghai Electric Building Energy Saving Co., Ltd. (上海電氣建築節能有限公司)	8,814,222.03	4.09	264,426.66
Total	108,530,007.83	50.32	2,751,201.56

5. There were no accounts receivables derecognised due to transfer of financial assets in the reporting period.

6. There were no accounts receivables not completely derecognised but transferred in the reporting period.

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables

1. Disclosure of other receivables by categories

Categories	2017				2016			
	Closing balance		Provision for bad debts		Closing balance		Provision for bad debts	
	Amount	Percentage (%)	Amount	Provision percentage (%)	Amount	Percentage (%)	Amount	Provision percentage (%)
Individually significant and subject to separate provision	-	-	-	-	-	-	-	-
Subject to provision based on the characteristics of credit risk by groups	-	-	-	-	-	-	-	-
Including: Construction guarantee deposits	3,011,669.16	1.51	-	-	2,298,284.50	2.98	-	-
Receivable within the scope of combination	128,597,099.65	64.63	-	-	66,655,242.04	86.42	-	-
Other receivable outside the scope of combination	118,423.96	0.06	5,921.20	5.00	-	-	-	-
Others	67,264,483.39	33.80	7,327,017.13	10.89	8,171,846.97	10.60	3,390,769.36	41.49
Individually insignificant but subject to separate provision	-	-	-	-	-	-	-	-
Total	198,991,676.16	100.00	7,332,938.33	191,658,737.83	77,125,373.51	100.00	3,390,769.36	73,734,604.15

Notes to the Financial Statements

For the year ended 31 December 2017

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For the year ended 31 December 2017

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

1. Disclosure of other receivables by categories (Continued)

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

Aging	2017			2016		
	Other receivable	Provision for bad debts	Provision percentage (%)	Other receivable	Provision for bad debts	Provision percentage (%)
Within 1 year	61,143,747.91	3,057,187.40	5.00	3,346,586.60	167,329.34	5.00
1 to 2 years	1,424,922.96	142,492.30	10.00	1,293,985.37	129,398.54	10.00
2 to 3 years	1,136,950.17	568,475.08	50.00	874,467.05	437,233.53	50.00
Over 3 years	3,558,862.35	3,558,862.35	100.00	2,656,807.95	2,656,807.95	100.00
Total	67,264,483.39	7,327,017.13		8,171,846.97	3,390,769.36	

In the group, provision for bad debts for the other receivable using the balance percentage method:

balance percentage	2017		
	Other receivable	Provision for bad debts	Provision percentage (%)
Other receivable outside the scope of combination	118,423.96	5,921.20	5.00
Total	118,423.96	5,921.20	—

2. The situation of provision, recovered or reversal of bad debts in the reporting period

Item	2016	Provision in the current period	Reversal or write-off in the current period	2017
Provision of bad debts	3,390,769.36	3,942,168.97	—	7,332,938.33
Total	3,390,769.36	3,942,168.97	—	7,332,938.33

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(II) Other receivables (Continued)

3. There were no actual write-off of other receivables in the reporting period.

4. Classification of other receivables by nature

Nature	2017	2016
Subsidiary payments	128,597,099.65	66,655,242.04
Equity transfer	58,155,312.00	—
Retention monies	10,667,852.42	9,105,442.76
Petty Cash	1,022,108.65	645,788.93
Other	549,303.44	718,899.78
Total	198,991,676.16	77,125,373.51

5. Particulars of the top five amounts of other receivables at the end of the year

Name of unit	Nature of amount	2017	Aging	Percentage of the total other receivables (%)	Closing balance of provision of bad debts
Sample Technology (H.K.) Co., Ltd. (三寶科技(香港)有限公司)	Subsidiary payments	63,942,751.78	Over 3 years	32.13	—
Jiangsu Intellitrans Company Ltd. (江蘇智運科技發展有限公司)	Subsidiary payments	60,017,347.87	within 1 year	30.16	—
Nanjing Sample Logistic Company Ltd. (南京三寶物流科技有限公司)	Subsidiary payments	4,637,000.00	within 2 years	2.33	—
Changchun Economic and Technological Development Zone Financial Settlement Center (長春經濟技術開發區財務結算中心)	Tender deposits	901,485.20	Over 3 years	0.45	901,485.20
Anhui Wandongnan Bonded Logistics Center Co., Ltd. (安徽皖東南保稅物流中心有限公司)	Performance bond	900,000.00	within 1 year	0.45	—
Total		130,398,584.85		65.52	901,485.20

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

(II) Other receivables *(Continued)*

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

Name of related party	2017	2016
Sample Technology (H.K.) Co., Ltd. (三寶科技(香港)有限公司)	63,942,751.78	63,942,751.78
Jiangsu Intellitrans Company Ltd. (江蘇智運科技發展有限公司)	60,017,347.87	2,554,543.44
Nanjing Sample Logistic Company Ltd. (南京三寶物流科技有限公司)	4,637,000.00	—
Total	128,597,099.65	66,497,295.22

7. There were no other receivables derecognised due to transfer of financial assets in the reporting period.
8. There were no other receivables not completely derecognised but transferred in the reporting period.

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investments

1. Particulars of long-term equity investments

Item	Closing balance	2017 Impairment provision	Carrying amount	Closing balance	2016 Impairment provision	Carrying amount
Investment in subsidiaries	464,307,688.00	-	464,307,688.00	355,377,688.00	-	355,377,688.00
Investment in associates and joint ventures	27,574,710.36	-	27,574,710.36	4,755,582.81	-	4,755,582.81
Total	491,882,398.36	-	491,882,398.36	360,133,270.81	-	360,133,270.81

2. Particulars of investment in subsidiaries

Investee	2016	Increase in the period	Decrease in the period	2017	Impairment provision in the current year	Closing balance of impairment provision
Subsidiaries:						
Jiangsu Intellitrans Company Limited	130,000,000.00	120,000,000.00	-	250,000,000.00	-	-
Nanjing Sample Logistic Company Limited	8,400,000.00	-	-	8,400,000.00	-	-
Nanjing Wu Lian Wang Yan Jiu Yuan Development Co., Limited	100,000,000.00	-	-	100,000,000.00	-	-
Sample Technology (H.K.) Co., Limited	77,688.00	-	-	77,688.00	-	-
Yangzhou Sample Information Technology Co., Ltd.	5,000,000.00	-	5,000,000.00	-	-	-
Xuzhou Sample Intelligent Technology Development Co., Ltd.	70,000,000.00	-	-	70,000,000.00	-	-
Jiangsu Cross-border e-Commerce Services Co., Ltd.	41,900,000.00	-	41,900,000.00	-	-	-
Nanjing Intelligent Urban Constructive Investment Co., Ltd.	-	35,830,000.00	-	35,830,000.00	-	-
Total	355,377,688.00	155,830,000.00	46,900,000.00	464,307,688.00	-	-

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For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(III) Long-term equity investments (Continued)

3. Particulars of investment in associates and joint ventures

Investee	2016	Increase in investment	Decrease in investment	Increase and decrease in the current period				Other	2017	Provision for impairment in this period	Provision for impairment at the end of the period
				Investment gains and losses recognized under the equity method	Adjustment of other comprehensive income	Other changes in equity	Cash dividend or profit declared				
Joint venture :											
Zhonggong Century Sunshine Sports Technology (Nanjing) Co., Ltd. * 中青世紀陽光體育科技(南京)有限公司	3,215,132.26	-	-	-139,719.81	-	-	-	-	3,075,412.45	-	-
Jiangsu Yudao Data Technology Co., Ltd. (江蘇御道數據科技有限公司)	-	3,000,000.00	-	-566,499.70	-	-	-	-	2,433,500.30	-	-
Nanjing Sample Chain Information Technology Co., Ltd. (南京三寶鏈式數據技術有限公司)	1,540,450.55	1,500,000.00	-	-172,852.67	-	-	-	-	2,867,597.88	-	-
Xuzhou Jiuli Bus Terminal Station Project Management Co., Ltd. (徐州市九里公交首末站項目管理有限公司)	-	19,215,200.00	-	-17,000.27	-	-	-	-	19,198,199.73	-	-
Total	4,755,582.81	23,715,200.00		-896,072.45	-	-	-	-	27,574,710.36	-	-

Notes to the Financial Statements

For the year ended 31 December 2017

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XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operating cost

1. Operating income and operating cost

Items	2017		2016	
	Income	Cost	Income	Cost
Principal operation	384,258,178.99	275,322,288.00	317,170,128.49	223,366,816.77
Other operation	20,205,103.12	2,317,681.12	19,109,684.51	2,453,535.41
Total	404,463,282.11	277,639,969.12	336,279,813.00	225,820,352.18

2. Principal operations (by product)

Name of Products	2017		2016	
	Operating income	Operating cost	Operating income	Operating cost
System integration	93,424,835.46	65,083,901.73	76,022,061.86	47,337,280.04
Intelligent terminal sales	262,463,768.60	208,057,855.17	212,951,599.53	171,499,479.13
Service business	28,369,574.93	2,180,531.10	28,196,467.10	4,530,057.60
Total	384,258,178.99	275,322,288.00	317,170,128.49	223,366,816.77

Notes to the Financial Statements

For the year ended 31 December 2017

(All amounts in Renminbi yuan unless otherwise stated)

XV. NOTES TO THE MAIN ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

(IV) Operating income and operating cost (Continued)

3. Operating income from the top five customers of the Company for this reporting period

Name of the customers	2017	
	Total operating income	Percentage of the total operating income of the Company (%)
Shenglin Nonggu (Hubei) Blueberry Co., Ltd. (盛林農穀(湖北)藍莓有限公司)	128,205,128.18	31.70
Cangzhou Huanghua Comprehensive Insurance Construction Co., Ltd. (滄州黃驊綜保建設有限公司)	33,301,589.03	8.23
Jiangsu Intellitrans Company Ltd. (江蘇智運科技發展有限公司)	19,825,433.33	4.90
Shanghai Donghao Lansheng Intelligent Technology Co., Ltd. (上海東浩蘭生智慧科技有限公司)	19,360,587.20	4.79
Jiangsu Deya Intelligent Technology Co., Ltd. (江蘇德亞智能科技股份有限公司)	15,552,940.21	3.85
Total	216,245,677.95	53.47

(V) Investment income

Items	2017	2016
Investment income from long-term equity investments under cost method	20,000,000.00	20,000,000.00
Investment income from long-term equity investment under equity method	-896,066.14	-644,417.19
Investment income from disposal of long-term equity investments	12,597,296.60	—
Investment income of entrusted loan	1,562,438.42	9,499,990.85
Investment income of asset management plan	2,112,978.08	6,000,000.00
Investment income of wealth management products	622,077.65	31,162.19
Total	35,998,724.61	34,886,735.85

Notes to the Financial Statements

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(All amounts in Renminbi yuan unless otherwise stated)

XVI. SUPPLEMENTAL INFORMATION

(I) Summary of non-recurring profit or loss

Items	2017	2016
Profits or losses on disposal of non-current assets	-15,855.78	-287,788.80
Government grants recognised in profits or losses of the current period	9,273,781.35	16,888,641.98
Investment income from disposal of held-for-trading financial assets	-1,263,595.04	—
Investment income from disposal of long-term equity investments	15,182,518.40	—
Profits and losses of external entrusted loan	—	12,967,451.89
Gain or loss from changes in fair value of investment property arising from subsequent measurement using the fair value model	4,139,700.00	4,227,700.00
Investment income from the purchase of wealth management products	760,452.65	31,162.19
Investment income from the purchase of asset management plan	4,506,466.97	12,016,438.36
Other non-operating income and expenses other than the aforementioned items	-133,870.08	168,189.93
Impact on income tax	-4,368,764.86	-7,999,870.47
Impact on minority interests (after-tax)	-1,300,576.85	-1,728,948.46
Total	26,780,256.76	36,282,976.62

(II) Return on net assets and earnings per share

2017	Weighted average return on net assets (%)	Earnings per share (yuan/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	11.32	0.659	0.659
Net profit after deducting non-recurring profit or loss attributable to ordinary shareholders of the Company	9.87	0.575	0.575

Five-Year Financial Summary

RESULTS

		Year ended 31 December			
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Total operating income	1,672,988	1,569,751	1,226,308	907,226	787,768
Total profit	246,864	229,933	188,392	167,671	151,624
Net profit	203,937	194,017	167,178	139,961	130,128
Net profit attributable to shareholders of the parent Company	208,944	191,025	164,469	137,953	126,406
Minority interests	-5,007	2,992	2,709	2,008	3,722
Basic earnings per share (Renminbi Yuan)	0.659	0.603	0.532	0.616	0.564

ASSETS AND LIABILITIES

		At 31 December			
	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000	2013 RMB'000
Current assets	3,004,394	2,871,898	2,483,585	1,839,182	1,398,454
Non-current assets	680,794	579,213	702,203	586,115	503,410
Current liabilities	1,484,616	1,491,582	1,305,962	1,171,929	744,654
Net current assets	1,519,778	1,380,316	1,177,624	667,253	653,800
Total owners' equity attributable to the parent Company	1,951,448	1,768,267	1,669,546	1,123,762	1,008,321
Total owners' equity	2,085,501	1,831,062	1,723,376	1,173,109	1,057,060