



ZHONGTIAN INTERNATIONAL LIMITED
中天國際控股有限公司*
(incorporated in the Cayman Islands with limited liability)

INTERIM REPORT

2004

** for identification purposes only*

CONTENTS

	<i>Page</i>
Corporate information	2
Financial highlights	3
Condensed consolidated profit and loss account	4
Condensed consolidated balance sheet	5
Condensed consolidated cash flow statement	6
Condensed consolidated statement of changes in equity	8
Notes to condensed accounts	9
Management discussion and analysis	
Overview	20
Market conditions	20
Business and financial review	20
Indebtedness	22
Liquidity, financial resources and capital structure	23
Foreign exchange	23
Future outlook	23
Other information	
Disclosure of interests	26
Share option scheme	27
Employees and remuneration policy	27
Purchase, sale or redemption of the Company's securities	27
Audit committee	28
Adoption of code of conduct regarding Directors' securities transactions	28
Code of Best Practice	28
Appreciation	28

CORPORATE INFORMATION

Executive Directors

SUN Lianggui
WANG Zhaobo
SUN Xianfang
WANG Jiaqing
ZHOU Zhongdong

Independent Non-executive Directors

HUNG, Randy King Kuen
WANG Yuechao
WEI Zhiqiang

Company secretary

LI Ho Cheong, Steven CPA, ACS

Qualified accountant

LAM Yiu Por ACCA

Audit committee

HUNG, Randy King Kuen
WANG Yuechao
WEI Zhiqiang

Authorised representatives

SUN Xianfang
ZHOU Zhongdong

Stock code

2379

Company's website

www.zhongtian.biz

Principal place of business in Hong Kong

3705-06, 37th Floor
Gloucester Tower
The Landmark
Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Principal banker

Hua Xia Bank Nanjing Road Sub-branch
9 Nanjing Road
Shinan District
Qingdao City
Shandong Province
The PRC

Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Principal share registrar and transfer office

Bank of Butterfield International (Cayman) Ltd.
P.O. Box 705, Butterfield House, 68 Fort Street
George Town
Grand Cayman
Cayman Islands
British West Indies

Registered office

Century Yard, Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies

Head office and principal place of business

24th Floor, Times Square
52 Xianggangzhong Road
Shinan District
Qingdao City
Shandong Province
The PRC

FINANCIAL HIGHLIGHTS

The directors (the “Directors”) of Zhongtian International Limited (the “Company”, together with its subsidiaries, the “Group”) are pleased to present the Group’s interim report and condensed accounts for the six months ended 30 June, 2004. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity for the Group for the six months ended 30 June, 2004, and the consolidated balance sheet as at 30 June, 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 4 to 19 of this report.

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	57,382	38,755
Net profit for the period	19,330	13,981
Earnings per share		
– Basic	7.02 fen	5.08 fen
– Diluted	6.18 fen	N/A

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the six months ended 30 June, 2004*

	<i>Notes</i>	Unaudited	
		Six months ended	
		30 June,	
		2004	2003
		RMB'000	<i>RMB'000</i>
Turnover	2	57,382	38,755
Cost of sales		(34,335)	(24,036)
Gross profit		23,047	14,719
Other operating income	3	3,154	3,975
Distribution costs		(1,900)	(801)
General and administrative expenses		(4,171)	(1,719)
Profit from operations	4	20,130	16,174
Share of results of associates		(137)	(139)
Gain on disposal of an associate		37	–
Finance costs		(734)	–
Profit before taxation		19,296	16,035
Income tax expense	5	–	(2,054)
Profit after taxation and before minority interests		19,296	13,981
Minority interests		34	–
Net profit for the period		19,330	13,981
Dividend	6	31,830	3,375
Earnings per share			
– Basic	7	7.02 fen	5.08 fen
– Diluted	7	6.18 fen	N/A

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 June, 2004 and 31 December, 2003*

	<i>Notes</i>	Unaudited 30 June, 2004 RMB'000	Audited 31 December, 2003 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	14,067	14,118
Development costs	9	2,817	1,672
Interests in associates		163	1,287
		17,047	17,077
CURRENT ASSETS			
Inventories		1,198	2,186
Trade receivables	10	13,248	6,515
Deposits, prepayments and other receivables		20,734	11,905
Bank balances and cash		50,775	68,143
		85,955	88,749
CURRENT LIABILITIES			
Trade and other payables	11	17,999	39,142
Amount due to a related company		–	902
Tax payable		–	1,147
		17,999	41,191
NET CURRENT ASSETS			
		67,956	47,558
TOTAL ASSETS LESS CURRENT LIABILITIES			
		85,003	64,635
NON-CURRENT LIABILITY			
Convertible notes	12	32,903	–
NET ASSETS			
		52,100	64,635
CAPITAL AND RESERVES			
Paid-in capital	13	–	20,001
Reserves		51,901	44,400
		51,901	64,401
MINORITY INTERESTS			
		199	234
		52,100	64,635

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June, 2004*

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit from operations	20,130	16,174
Adjustments for:		
Interest income on bank deposits	(360)	(187)
Amortisation of development costs	205	50
Depreciation and amortisation on property, plant and equipment	739	458
Allowances for doubtful debts	405	–
Bad debts recovered	(500)	–
Operating cash flows before movements in working capital	20,619	16,495
Decrease (increase) in inventories	988	(10,270)
(Increase) decrease in trade receivables	(6,638)	2,233
Increase in deposits, prepayments and other receivables	(8,829)	(9,737)
(Decrease) increase in trade and other payables	(21,878)	29,862
Decrease in amount due to a related company	(902)	(1,600)
Cash (used in) generated from operations	(16,640)	26,983
PRC income taxes paid	(1,147)	(428)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(17,787)	26,555
INVESTING ACTIVITIES		
Interest received	360	187
Expenditure on software development	(1,350)	(1,150)
Disposal of investment in associates	1,024	–
Purchase of property, plant and equipment	(688)	(318)
NET CASH USED IN INVESTING ACTIVITIES	(654)	(1,281)

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Dividend paid	(31,830)	–
Convertible notes raised	32,903	–
Contributions from minority shareholders of subsidiaries	–	200
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	1,073	200
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(17,368)	25,474
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	68,143	33,576
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	50,775	59,050
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30 June, 2004*

	Paid-in capital	Special reserve	Surplus reserve fund	Public welfare fund	Accumulated (losses) profits	Total
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
At 31 December, 2003	20,001	–	3,423	1,711	39,266	64,401
Share swap in accordance with the Group Reorganisation	(20,001)	20,001	–	–	–	–
Net profit for the period	–	–	–	–	19,330	19,330
Transfer	–	–	4,480	2,239	(6,719)	–
Dividend	–	–	–	–	(31,830)	(31,830)
At 30 June, 2004	<u>–</u>	<u>20,001</u>	<u>7,903</u>	<u>3,950</u>	<u>20,047</u>	<u>51,901</u>
At 31 December, 2002	6,500	–	85	42	35,011	41,638
Capitalisation of profit	13,500	–	–	–	(13,500)	–
Net profit for the period	–	–	–	–	13,981	13,981
Transfer	–	–	3,338	1,669	(5,007)	–
Dividend	–	–	–	–	(3,375)	(3,375)
At 30 June, 2003	<u>20,000</u>	<u>–</u>	<u>3,423</u>	<u>1,711</u>	<u>27,110</u>	<u>52,244</u>

NOTES TO CONDENSED ACCOUNTS

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 23 December, 2003 under the Companies Law of the Cayman Islands.

Pursuant to the reorganisation of the Group (the “Reorganisation”) on 6 January, 2004, the Company became the ultimate holding company of the companies now comprising the Group. The Group comprising the Company and its subsidiaries resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement of the Group for the six months period ended 30 June, 2004 and the six months period ended 30 June, 2003 have been prepared on the basis as if the Company had always been the ultimate holding company of the Group.

The condensed consolidated balance sheets of the Group as at 30 June, 2004 and 31 December, 2003 have been prepared to present the assets and liabilities of the companies comprising the Group as at the respective dates as if the current group structure had been in existence at those dates.

The financial information set out in this report is presented in Renminbi (“RMB”), the currency in which the majority of the Group’s transactions are denominated. All significant intra-group transactions and balances have been eliminated on combination.

The Company’s shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 22 September, 2004.

2. TURNOVER AND SEGMENT INFORMATION

(A) Turnover

Turnover represents the net amounts received and receivable for goods sold and service rendered by the Group to outside customers, less returns and allowances during the reporting periods.

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
System integration		
– Hardware products	16,973	25,930
– Software products	6,491	6,545
	23,464	32,475
Customised software product	4,817	190
Sale of hardware and software products		
– Hardware products	17,667	6,090
– Software products	1,719	–
	19,386	6,090
Maintenance and other services	9,715	–
Total	57,382	38,755

(B) Business segments

For management purposes, the Group's operation is currently categorised into four operating divisions – system integration, customised software products, sale of hardware and software products and maintenance and other services. These divisions are the basis on which the Group reports its primary segment information.

Income Statement

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
Turnover		
System integration	23,464	32,475
Customised software product	4,817	190
Sale of hardware and software products	19,386	6,090
Maintenance and other services	9,715	–
	<u>57,382</u>	<u>38,755</u>
Segment result		
System integration	9,780	12,041
Customised software product	4,354	186
Sale of hardware and software products	2,578	2,492
Maintenance and other services	6,335	–
	<u>23,047</u>	<u>14,719</u>
Unallocated other operating income	3,154	3,975
Unallocated corporate expenses	(6,071)	(2,520)
	<u>20,130</u>	<u>16,174</u>
Profit from operations	20,130	16,174
Share of results of associates	(137)	(139)
Gain on disposal of an associate	37	–
Finance Costs	(734)	–
	<u>19,296</u>	<u>16,035</u>
Profit before taxation	19,296	16,035
Income tax expense	–	(2,054)
	<u>19,296</u>	<u>13,981</u>
Profit after taxation and before minority interests	19,296	13,981
Minority interests	34	–
	<u>19,330</u>	<u>13,981</u>
Net profit for the period	19,330	13,981

No business segment information for the assets, liabilities, capital expenditure, depreciation and other non-cash expenses of the Group is shown as all the assets and liabilities are shared by the business segments and cannot be separately allocated.

(C) Geographical segments

No geographical segments information of the Group is shown as the Group's operations and assets are substantially located in the PRC.

3. OTHER OPERATING INCOME

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	RMB'000	RMB'000
Tax refund (<i>Note a</i>)	1,561	3,789
Government subsidy (<i>Note b</i>)	1,090	–
Interest income	360	186
Others	143	–
	3,154	3,975

Notes:

- (a) Value added tax is paid at 17%. Pursuant to an approval by the Shinan Sub-Bureau of the Qingdao Local Tax Bureau in February 2003 and January 2004, Qingdao Zhongtian Information Technology Co., Ltd. ("Qingdao Zhongtian") is entitled to refund of value added tax on sales of qualified software products for the period from 1 March, 2002 to 31 December, 2003 and for the year ending 31 December, 2004 respectively as Qingdao Zhongtian is ranked as a software enterprise.
- (b) 青島市科技局, and 青島市市南區軟件園管理辦公室, awarded RMB850,000 and RMB240,000 to Qingdao Zhongtian during the six months ended 30 June, 2004 respectively, for the purpose of giving immediate financial support to its development activity.

4. PROFIT FROM OPERATIONS

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	19	12
Amortisation of development costs	205	50
Depreciation and amortisation of property, plant and equipment	739	458
Operating lease rentals on rented premises	39	111
Staff costs:		
Directors' emoluments	580	227
Other staff costs	2,798	1,677
Retirement benefits scheme contribution (excluding directors)	304	161
	<u>3,682</u>	<u>2,065</u>
Allowances for doubtful debts	405	-
Research and development expenditure	1,731	1,150
Less: Amount capitalised	<u>(1,350)</u>	<u>(1,150)</u>
	<u>381</u>	<u>-</u>
Cost of inventories recognised as expense	29,265	23,874
and after crediting:		
Bad debts recovered	<u>500</u>	<u>-</u>

5. INCOME TAX EXPENSE

	Unaudited	
	Six months ended	
	30 June,	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
PRC enterprise income tax for the year/period	<u> — </u>	<u> 2,054 </u>

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from Hong Kong.

The applicable income tax rate for the Company's subsidiaries in the PRC is 33%. In accordance with the relevant PRC income tax laws and regulations, Qingdao Zhongtian is recognised as a software enterprise, and is exempted from PRC Enterprise Income Tax in 2002 and is entitled to 50% tax relief in 2003.

On 2 January, 2004, Qingdao Zhongtian was transformed to a wholly foreign-owned enterprise. In accordance with the tax legislations applicable to foreign investment enterprises, Qingdao Zhongtian is entitled to exemptions from PRC income tax for the two years commencing from their first profit-making year of operations and thereafter, entitled to a 50% relief from PRC income tax of 33% for the next three years.

The charge for the periods can be reconciled to the net profit per the condensed consolidated income statement as follows:

	2004		2003	
	RMB'000	%	RMB'000	%
Profit before taxation	<u>19,296</u>	–	<u>16,035</u>	–
Tax at domestic income tax rate	6,368	33.0	5,292	33.0
Tax effect of expenses that are not deductible in determining taxable profit	259	1.3	22	0.1
Tax effect of income that are not taxable in determining taxable profit	(515)	(2.7)	(1,251)	(7.8)
Tax effect of income that are not taxable under tax holidays	(6,223)	(32.3)	–	–
Income tax on concessionary rate	–	–	(2,054)	(12.8)
Others	111	0.6	45	0.3
Tax expense and effective tax rate for the year/period	<u>–</u>	<u>–</u>	<u>2,054</u>	<u>12.8</u>

6. DIVIDEND

Except the Company has declared special dividend of HK\$30,000,000 to its shareholders on 21 June, 2004 no dividend has been paid or declared by the Company since its incorporation up to 30 June, 2004.

During the six months ended 30 June, 2003, the dividend was payable by Qingdao Zhongtian to its then shareholders prior to the Reorganisation.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June, 2004 and the six months ended 30 June, 2003 is based on the net profit for the reporting periods and on 275,308,733 shares, taking into account the issued shares and shares issued by the capitalisation issue upon completion of the share offer of the Company at the offer price of HK\$0.80 on 22 September, 2004.

The calculation of diluted earnings per share for the six months ended 30 June, 2004 are based on the net profit for the period, and the adjusted weighted average number of 312,970,655 shares in issue and issuable, taking into account the weighted average of 37,661,922 shares to be issued upon conversion of convertible notes with conversion price of HK\$0.80 per offer share and in accordance with the terms constituting with the convertible notes issued on 15 January, 2004 and 7 January, 2004.

8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited <i>RMB'000</i>
Net Book Values as at 31 December, 2003	14,118
Additions	688
Provided for the period	(739)
	<hr/>
Net Book Values as at 30 June, 2004	<u>14,067</u>
	<hr/>
Net Book Values as at 31 December, 2003	<u>14,118</u>

9. DEVELOPMENT COSTS

	Unaudited <i>RMB'000</i>
Net Book Values as at 31 December, 2003	1,672
Additions	1,350
Provided for the period	(205)
	<hr/>
Net Book Values as at 30 June, 2004	<u>2,817</u>
	<hr/>
Net Book Values as at 31 December, 2003	<u>1,672</u>

Development costs are amortised using the straight-line method over their estimated useful life of five years.

10. TRADE RECEIVABLES

The Group has a policy of allowing a credit period ranged from 90 to 180 days. The aging analysis of trade receivables is stated as follows:

	Unaudited	Audited
	30 June,	31 December,
	2004	2003
	RMB'000	RMB'000
Current to 90 days	11,694	4,953
91 to 180 days	1,445	25
181 to 365 days	25	258
Over 365 days	84	1,279
	13,248	6,515

11. TRADE AND OTHER PAYABLES

The aging analysis of trade and other payables is stated as follows:

	Unaudited	Audited
	30 June,	31 December,
	2004	2003
	RMB'000	RMB'000
Current to 90 days	14,913	38,787
91 to 180 days	3,075	225
181 to 365 days	11	–
Over 365 days	–	130
	17,999	39,142

12. CONVERTIBLE NOTES

Pursuant to the subscription agreements entered into by the Company and SIIS Investment (No. 2) Limited and the subscription agreements entered into by the Company with each of the Pre-IPO Investors (as defined in the prospectus of the Company dated 10 September, 2004) (other than SIIS Investment (No. 2) Limited), the Company issued convertible notes of HK\$13,000,000 to SIIS Investment (No. 2) Limited on 15 January, 2004 and to other Pre-IPO Investors in the principal sums of HK\$18,000,000 on 7 January, 2004 with maturity of three years.

The convertible note issued to SIIS Investment (No. 2) Limited bears interest at 5% per annum for the first twelve months after the date of issue, at 15% per annum for the thirteenth month to the end of twenty-fourth month after the date of issue and at 25% per annum for the remaining months of twenty-fourth month after the date of issue to the maturity date. The convertible notes issued to other Pre-IPO investors bear interest at 5% per annum. Unless previously redeemed by the Company, the total of principal amount and accrued interest of the convertible notes will be automatically converted into shares of the Company at the final price of the shares to be subscribed for and issued pursuant to the Company's initial public offering on a day preceding the date of listing of the Company's shares on The Stock Exchange of Hong Kong Limited.

13. PAID-IN CAPITAL

	<i>Note</i>	Number of shares	HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 31 December, 2003		<u>3,900,000</u>	<u>390</u>
Issued and fully paid:			
As 31 December, 2003		1	–
Issue of shares to acquire			
Success Advantage Limited	<i>(i)</i>	<u>99</u>	<u>–</u>
At 30 June, 2004		<u>100</u>	<u>–</u>
Equivalent to RMB'000			<u>–</u>

The paid-in capital of the Group as at 31 December, 2003 represents the aggregate capital amount of Success Advantage Limited and Qingdao Zhongtian. These companies are subsidiaries of the Company as at 30 June, 2004.

Note:

- (i) Pursuant to the agreement dated 6 January, 2004 entered into between the Company and Apex Faith Management Limited, South Honour Developments Limited, Clear Honour Investments Limited and Time Prosper Investments Limited, the shareholders of Success Advantage Limited, as part of the Reorganisation, Apex Faith Management Limited, South Honour Developments Limited, Clear Honour Investments Limited and Time Prosper Investments Limited transferred its entire interests in Success Advantage Limited in consideration of the allotment and issue by the Company of 99 ordinary shares of HK\$0.10 each in the Company on the same date.

14. OPERATING LEASE COMMITMENTS

	Unaudited 30 June, 2004 <i>RMB'000</i>	Audited 31 December, 2003 <i>RMB'000</i>
Minimum lease payments paid under operating leases	<u><u>111</u></u>	<u><u>39</u></u>

At the respective balance sheet dates, the Group had commitments payable in the following year under operating leases in respect of rented premises as follows:

	Unaudited 30 June, 2004 <i>RMB'000</i>	Audited 31 December, 2003 <i>RMB'000</i>
Within one year	<u><u>449</u></u>	<u><u>131</u></u>

Operating lease payments represent rentals payable by the Group for certain of its office premises. Leases are negotiated, and rentals are fixed, for an average term of 1 year.

The Company had no significant operating lease commitments as at 30 June, 2004.

15. RELATED PARTY TRANSACTIONS

The Group did not have any related party transaction for the six months ended 30 June, 2004 (2003: Nil).

16. SUBSEQUENT EVENTS

The following events took place subsequent to 30 June, 2004:

The Company's shares were listed on the Main Board of the Stock Exchange on 22 September, 2004.

On 17 September, 2004, the total of principal amount and accrued interest of the convertible notes were converted into 39,691,267 shares of the Company at the price of HK\$0.80, representing the final price of the shares subscribed for and issued pursuant to the Company's initial public offering.

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is principally engaged in four business segments, including (i) provision of total business solutions which includes the R&D and sale of proprietary software products and associated system integration services, (ii) customization of software product, (iii) sale of hardware and software products which are developed by outsiders (iv) and provision of after-sale IT maintenance services. The main customer group is Rural Credit Co-operatives (“RCCs”) in the PRC during the reporting period.

Since 2003, the RCCs in the PRC have been experiencing a large-scale reform. As the Group has been specialising in the provision of products and services to RCCs, the Directors are of the view that such policy will generate business opportunities to the Group because an established and reliable IT system is a critical tool to improve the effectiveness and efficiency of the management of a bank. In addition, as many of the RCCs in the PRC are still utilizing manual and/or standalone systems for their operations, which have currently not been connected with each other, these RCCs have imminent needs for electronic solutions to improve their operating efficiencies. The Directors consider that the Group’s total solutions services are able to help the RCCs meet the above requirements.

MARKET CONDITIONS

Since the Group has been focusing on the RCCs market, analysis of the industry trends of the RCCs is of essence to the Group. According to the IDC Report, the IT market of the RCCs in the PRC will grow from approximately RMB828.6 million in 2003 to approximately RMB1,188.2 million in 2006, representing a compound annual growth rate (“CAGR”) of approximately 12.8%. The Directors believe that the IT market of the RCCs will continue to grow due to the reform of the RCCs as mentioned above and the increasing demand for electronic system for the RCCs.

BUSINESS AND FINANCIAL REVIEW

Turnover

For the six months ended 30 June, 2004, the Group recorded turnover of approximately RMB57,382,000, representing an increase of approximately 48.1% over the same period of last year. In terms of business segment, approximately 40.9% was contributed by the provision of total business solutions; approximately 8.4% was contributed by customization of software product; approximately 33.8% was contributed by the sale of hardware and software products developed by outsiders; and approximately 16.9% was contributed by the provision of after-sale IT maintenance services, respectively.

Cost of sales

Cost of sales was approximately RMB34,335,000 for the six months period ended 30 June, 2004, which increased by approximately 42.8% over the same period of last year.

Gross profit

Gross profit for the six months period ended 30 June, 2004 was approximately RMB23,047,000, representing an increase of approximately 56.6% over the same period of last year. Overall gross profit margin had improved from approximately 38% for the six months period ended 30 June, 2003 to approximately 40.2% for six months period ended 30 June, 2004. The Directors attributed the overall improvement in the Group's gross profit margin to increase in turnover from the business segment of the provision of after-sale IT maintenance services, which generally carries a higher gross profit margin than the other business segments.

Operating expenses

Distribution costs were approximately RMB1,900,000 for the six months period ended 2004, representing an increase of approximately 137% when compared to that of the same period in previous year. Such increase was mainly due to combining effect of (i) the approximately RMB560,000 increase in staff cost, (ii) the approximately RMB140,000 increase in maintenance cost and (iii) the approximately RMB340,000 increase in promotion and marketing expenses.

General and administrative expenses were approximately RMB4,171,000, which increased by approximately 142% when compared to that of the previous financial year. Such increase was mainly attributable to (i) the approximately RMB790,000 increase in staff costs, (ii) the approximately RMB470,000 increase in traveling expenses, (iii) the approximately RMB380,000 increase in maintenance fee and (iv) the approximately RMB640,000 increases sundry expenses.

Other income and share of results of associates

The Group recorded other income of approximately RMB3,154,000 for the six months period ended 2004, comprising (i) approximately RMB1,561,000 of the refund of value-added tax; (ii) approximately RMB1,090,000 of government subsidy; (iii) approximately RMB360,000 of bank interest income derived from the Group's bank balances; and (iv) approximately RMB143,000 of other incomes.

The approximately RMB137,000 loss from the share of results of associates for the six months period ended 2004, represented the losses from Qingdao YinYe Technology Developing Co., Ltd. (“Qingdao YinYe”) and Beijing Tongming Pairue Co., Ltd. (“Beijing Tongming”).

Qingdao Zhongtian was transformed from a domestic limited liability company to a Wholly Foreign Owned Enterprise (“WFOE”) pursuant to the Reorganisation and obtained the revised business licence on 2 January, 2004. Pursuant to the approval issued by the Qingdao Shinan Bureau of National Tax dated 27 February, 2004, Qingdao Zhongtian is entitled to an exemption from EIT for two years commencing from the first profit-making year and for a 50% reduction thereafter from EIT for the subsequent three years. According to such approval, Qingdao Zhongtian can apply for EIT tax exemption for the two years ended 31 December, 2005 and for 50% reduction for the three years ended 31 December, 2008 (the “WFOE Exemption”).

The Group did not record any taxation during the six months ended 2004 because the only profit-making subsidiary of the Group, Qingdao Zhongtian, was exempted from the enterprise income tax of the PRC.

As a result of the above, the Group’s profit for the six months period ended 30 June, 2004 amounted to approximately RMB19,330,000, representing a significant growth of approximately 38.3% over the same period in previous year.

INDEBTEDNESS

As at the close of business on 30 June, 2004, the Group had outstanding indebtedness under the Convertible Notes in the principal sum of approximately RMB32,903,000. Save as aforesaid, the Group had no other debt securities issued or outstanding or authorized or otherwise created but unissued, and the Group had no term loans or other borrowings or indebtedness in the nature of borrowing, including bank overdrafts and liabilities under acceptances or acceptance credits, finance lease commitments, mortgages or charges, guarantees or material contingent liabilities.

Save as aforesaid and as otherwise disclosed in this prospectus, and apart from intra-group liabilities and normal trade debts payable, the Company did not have any mortgages, charges, debentures or other loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, liabilities under acceptances or acceptances credit or any guarantees or other material contingent liabilities outstanding at the close of business on 30 June, 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group's capital requirements are primarily working capital requirements related to sale of hardware and software products and costs associated with the expansion of the business, such as research and development and sales and marketing expenses. The Group historically financed its operations and investing activities primarily by operating revenue and internal resources.

As at 30 June, 2004, the Group had cash of RMB50,775,000 (2003: RMB68,143,000). The gearing ratio (defined as total interest bearing debts divided by shareholder's equity) was 63.4% (2003: 0%). The gearing was mainly related to the issue of convertible notes (details refer to note 12 in page 17). On 17 September, 2004, the total of principal amount and accrued interest of the convertible notes were converted into shares of the Company, the gearing ratio subsequently become 0%.

FOREIGN EXCHANGE

Since most of the revenue generated from the sale of products by the Group and the payment for purchases of materials, components and equipment are in RMB, the Directors believe that the Group will have sufficient foreign exchange to meet its foreign exchange requirements.

FUTURE OUTLOOK

The objective of the Group is to become a leading total business solutions provider with nationwide brandname which provide products and services to customers in a wide range of industries. The Directors are of the view that banking and finance industry is an industry which requires a high quality of technical standard on its IT systems. Leveraging on its experience and expertise in the banking and finance industry, the Directors believe that the Group is well-equipped to further enhance its position in the banking and finance industry in the PRC and to develop its business in other industries.

Business Strategies

Enhancement of the market share and expansion of geographical coverage of the existing banking and finance industry IT business

On 27 June, 2003, the State Council issued the Proposal to Intensify the Reform of Rural Credit Co-operatives (深化農村信用社改革試點方案) which stipulates, *inter alia*, that there will be a series of reforms on the management and system of the RCCs in the PRC. According to the China Banking Regulatory Commission, the State Council has approved eight provinces/municipalities in the PRC to carry out such reforms. According to the information of Xinhuanet, the eight provinces/municipalities are Jilin Province, Zhejiang Province, Shandong Province, Jiangxi Province, Guizhou Province, Shaanxi Province, Chongqing Municipality and Jiangsu Province.

To capitalise on this development, the Group intends to set up representative offices in Jinan City of Shandong Province, Shijiazhuang City of Hebei Province, Zhengzhou City of Henan Province, Guangzhou City of Guangdong Province and Wuhan City of Hubei Province so as to enhance the market share, strengthen the sales network of the Group, as well as provide better after-sale services to customers.

In the first quarter of 2004, the Group had secured a project for the RCCs at city-level in Hebei Province. In May 2004, the Group successfully bid for a contract relating to the province of business solutions to Hubei Provincial RCC. The formal contract of such project was signed on 28 July, 2004. The Group intends to continue to expand its geographical coverage by bidding for projects at provincial levels and city-level in other areas in the PRC.

Continuous R&D and enhancement of the Group's proprietary banking and finance software products

The Group is not only capable of developing proprietary application software products for customers in the banking and finance sector, but it can also provide a series of middleware products. With this capacity, the Group is able to provide a wider range of products and services than most of its competitors. The Directors consider that once a customer adopts the Group's middleware products, the Group will be in a more favourable position in securing the application software projects of that customer. Thus, the Group will continue to R&D its middleware products in order to maintain this advantage.

In addition, the technological standards of the IT industry are changing rapidly. In order to maintain its competitive edges, the Group has to continue the R&D and upgrade of its existing products so as to keep abreast of the current market trends and to meet the customers' needs.

R&D and commercialisation of products to cater for customers in industries other than the banking and finance sector

In addition to commercialisation of products related to banking and finance industries, the Directors have currently identified the wireless applications industry and electric power industry, which the Group may enter into. These industries are identified because (i) during the course of developing existing software products in the banking and finance sector, the Directors identified certain parts of the technology on the Group's existing software products can be applied to these industries; (ii) the Directors expect these industries have potential growth in the future; and (iii) these industries are well-developed with a strong customer base. The Directors currently expect that the R&D of the wireless application software product and the electric power software products will be completed and launched by the first half of 2006.

On the other hand, the People's Government of Qingdao has designated Qingdao Zhongtian to develop the smart card system for the entire Qingdao City and Qingdao Zhongtian has commenced the initial system planning for the project and expects to complete the project by the end of 2005. The Directors consider that the smart card system is intended to facilitate the yacht competition of the 2008 Olympic Games in Qingdao and provide Qingdao City a transportation payment infrastructure of all transportation types. The smart card system can also be applied to various industries including, public transportation sector, tourism sector, public utilities sector and medical sector. With the smart card system, the Directors consider that the Group can implement data warehouse to process all customers' card and transaction data within a very short period of time. Based on the analysis derived from the data warehouse, the Group can not only improve its own business and operations, but also help identify and take advantage of new opportunities. Leveraging on the Group's experience in Banking All in One Card System and in view of the wide application of the smart card system, the Directors are of the view that investing in the smart card system project will create an opportunity for the Group to diversify to other industries.

Further enhancement of the R&D capability of the Group

To keep pace with market developments and to further raise the technical standards and quality of its products and services, the Group plans to further strengthen its R&D capability. To achieve this objective, the Group intends to (i) continue to upgrade the existing R&D facilities and equipment; (ii) employ more IT professionals; and (iii) provide training to its technical professionals.

In addition, in order to have a centralized location equipped with advanced facilities for the R&D activities, the Group plans to establish a R&D centre. The Directors consider that the R&D center can enhance the R&D capability of the Group and be a suitable venue for organizing training classes to staff and customers, performing product testing and fine-tuning of products before delivering to customers.

OTHER INFORMATION

DISCLOSURE OF INTERESTS

As at 30 June, 2003, the Company had not maintained any register required to be kept under section 352 of the Securities and Futures Ordinance (the “SFO”) and had no notice of any interest required to be recorded in such register as the Company was not yet listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Directors’ interests in securities

Immediately following the completion of the share offer on 22 September, 2004, the interests and the short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies; to be notified to the Company and the Stock Exchange were as follows:

Long positions in the shares of the Company

Name of Directors	Nature of interests	Number of shares held	Approximate percentage of the issued share capital
Sun Lianggui	Corporate <i>(Note 1)</i>	182,216,113	45.6%
Wang Zhaobo	Corporate <i>(Note 2)</i>	46,855,572	11.7%
Sun Xianfang	Corporate <i>(Note 3)</i>	15,618,524	3.9%
Wang Jiaqing	Corporate <i>(Note 4)</i>	15,618,524	3.9%

Notes:

1. These shares are held by Apex Faith Management Limited, a British Virgin Islands (“BVI”) company wholly-owned by Sun Lianggui.
2. These shares are held by South Honour Developments Limited, a BVI company wholly-owned by Wang Zhaobo.

3. These shares are held by Clear Honour Investments Limited, a BVI company wholly-owned by Sun Xianfang.
4. These shares are held by Time Prosper Investments Limited, a BVI company wholly-owned by Wang Jiaqing.

Substantial shareholder

Immediately following the completion of the share offer on 22 September, 2004, save as disclosed in the paragraph headed “Directors’ interests in securities” above, the Company had not been notified of any other persons (other than a director and chief executive of the Company) who had an interest or short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

The Company has adopted a share option scheme on 27 July, 2004, under which the Directors may, at their discretion, grant options to employees, including any directors of the Company or its subsidiaries to subscribe for shares of the Company, subject to the terms and conditions stipulated therein. As at the date of this interim report, the Company had not granted any option under the share option scheme.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June, 2004, the Group had 110 employees (2003: 60), most of whom are based in the headed office of the Group in Qingdao City of Shandong Province in the PRC. The number of workers employed by the Group varies from time to time depending on needs and they are remunerated based on industry practice.

The remuneration policy and package of the Group’s employees are periodically reviewed. Apart from social insurance and in-house training programmes, discretionary bonuses and share options may be awarded to employees according to the assessment of individual performance.

The total remuneration cost incurred by the Group for the six months ended 30 June, 2004 was RMB3,682,000 (2003: RMB2,065,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SECURITIES

During the six months ended 30 June, 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Company established an audit committee on 27 July, 2004 with written terms of reference which describe the authority and duties of audit committee based on the guidelines set out in “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The audit committee is primarily responsible for the reviewing and supervising the financial reporting process and internal control system of the Group. The audit committee comprises three independent non-executive Directors, namely Mr. Hung, Randy King Kuen, Mr. Wang Yuechao and Mr. Wei Zhiqiang.

ADOPTION OF CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors’ securities transactions on terms no less exacting than the required standard set out in Appendix 10 - Model Code for Securities Transactions by Directors of Listed Companies under the Listing Rules. The Directors have since the listing of the shares in the Company complied with such code of conduct throughout the accounting period covered by this interim report.

CODE OF BEST PRACTICE

None of the Directors is aware of any information which would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June, 2004 since its listing, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

APPRECIATION

The dedication of the management and staff of the Group is an important ingredient necessary to meet the challenges and opportunities ahead. We would like to take this opportunity to record our cordial thanks to them.

By order of the Board
Sun Liangui
Chairman

Qingdao City, Shandong Province, the PRC
28 September, 2004