



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

ZHONGTIAN INTERNATIONAL LIMITED
ZHONGTIAN INTERNATIONAL LIMITED
ZHONGTIAN INTERNATIONAL LIMITED
ZHONGTIAN INTERNATIONAL LIMITED
ZHONGTIAN INTERNATIONAL LIMITED

Interim Report 2005

** for identification purposes only*

CONTENTS

Corporate information	2
Financial highlights	3
Condensed consolidated profit and loss account	4
Condensed consolidated balance sheet	5
Condensed consolidated cash flow statement	6-7
Condensed consolidated statement of changes in equity	8
Notes to condensed accounts	9-20
Management discussion and analysis	21-24
Other information	25-28

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

KU Ying Chi, ACS

Qualified accountant

LAM Yiu Por

Audit committee

HUNG, Randy King Kuen
WANG Yuechao
WEI Zhiqiang

Solicitors

Mallesons Stephen Jaques

Authorised representatives

SUN Xianfang
ZHOU Zhongdong

Stock code

2379

Company's website

www.zhongtian.biz
www.zhongtian.com

Principal place of business in Hong Kong

37th Floor, Two International Finance Center
8 Finance Street
Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Principal bankers

Hua Xia Bank,
Nanjing Road Sub-branch,
Qingdao
The Hongkong and
Shanghai Banking Corporation

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, 2005. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June, 2005, and the consolidated balance sheet as at 30 June, 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 4 to 20 of this report.

IMPORTANT FINANCIAL INDICATORS

	Unaudited	
	Six months ended 30 June, 2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	39,084	57,382
Net Profit for the period	5,048	19,296
Earnings per share		
– Basic	1.27 fen	7.02 fen
– Diluted	N/A	6.18 fen

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June, 2005

		Unaudited	
		Six months ended 30 June,	
		2005	2004
	<i>Notes</i>	RMB'000	RMB'000
Turnover	2	39,084	57,382
Cost of sales		24,982	(34,335)
Gross profit		14,102	23,047
Other operating income	3	2,663	3,154
Investment income		14	–
Distribution costs		(4,405)	(1,900)
General and administrative expenses		(7,364)	(4,171)
Profit from operations	4	5,010	20,130
Share of results of associates		(36)	(137)
Gain on disposal of a subsidiary/associate	15	74	37
Finance costs		–	(734)
Net profit for the period		5,048	19,296
Profit attributable to equity holders of the Company		5,096	19,330
Minority interests		(48)	(34)
		5,048	19,296
Dividend	6	–	31,830
Earnings per share			
– Basic	7	1.27 fen	7.02 fen
– Diluted	7	N/A	6.18 fen

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June, 2005 and 31 December, 2004

		Unaudited 30 June, 2005 RMB'000	Audited 31 December, 2004 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	13,309	13,946
Development costs	9	5,753	3,007
Interests in associates		213	248
		19,275	17,201
CURRENT ASSETS			
Inventories		2,908	257
Trade receivables	10	33,474	37,348
Deposits, prepayments and other receivables		36,882	15,999
Financial assets dealt with in profit and loss account and stated at fair value		1,006	-
Bank balances and cash		85,141	105,015
		159,411	158,619
CURRENT LIABILITIES			
Trade and other payables	11	16,429	18,471
NET CURRENT ASSETS		142,982	140,148
NET ASSETS		162,257	157,349
CAPITAL AND RESERVES			
Paid-in capital	12	42,428	42,428
Reserves		119,817	114,769
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		162,245	157,197
MINORITY INTERESTS		12	152
		162,257	157,349

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June, 2005

	Unaudited	
	Six months ended 30 June,	
	2005	2004
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Profit from operations	5,010	20,130
Adjustments for:		
Interest income on bank deposits	(243)	(360)
Amortisation of development costs	360	205
Depreciation and amortisation on property, plant and equipment	764	739
Allowances for doubtful debts	283	405
Investment income	(14)	–
Bad debts recovered	–	(500)
	<hr/>	<hr/>
Operating cash flows before movements in working capital	6,160	20,619
Decrease (increase) in inventories	(2,651)	988
(Increase) decrease in trade receivables	3,591	(6,638)
Increase in deposits, prepayments and other receivables	(20,883)	(8,829)
(Decrease) increase in trade and other payables	(2,042)	(21,878)
Decrease in amount due to a related company	–	(902)
	<hr/>	<hr/>
Cash (used in) generated from operations	(15,825)	(16,640)
PRC income taxes paid	–	(1,147)
	<hr/>	<hr/>
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(15,825)	(17,787)
	<hr/>	<hr/>
INVESTING ACTIVITIES		
Interest received	243	360
Expenditure on software development	(3,483)	(1,350)
Disposal of investment in associates	–	1,024
Disposal of a subsidiary (<i>note 15</i>)	336	–
Purchase of financial asset	(993)	–
Purchase of property, plant and equipment	(152)	(688)
	<hr/>	<hr/>
NET CASH USED IN INVESTING ACTIVITIES	(4,049)	(654)
	<hr/>	<hr/>

	Unaudited	
	Six months ended 30 June,	
	2005	2004
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Dividend paid	–	(31,830)
Convertible notes raised	–	32,903
	<hr/>	<hr/>
NET CASH FROM FINANCING ACTIVITIES	–	1,073
	<hr/>	<hr/>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,874)	(17,368)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	105,015	68,143
	<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	85,141	50,775
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June, 2005

	Paid-in Capital	Share premium	Special reserve	Exchange reserve	Surplus reserve fund	Public welfare fund	Reserve fund	Development fund	Accumulated (losses)/ profits	Minority interests	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
At 31 December, 2004	42,428	47,246	20,001	90	7,903	3,950	-	-	35,579	152	157,349
Net profit for the period	-	-	-	-	-	-	-	-	5,096	(48)	5,048
Exchange difference arising from translation of overseas operations and net gains not recognised in the income statement	-	-	-	(48)	-	-	-	-	-	-	(48)
Disposal of a subsidiary	-	-	-	-	-	-	-	-	-	(92)	(92)
Transfer	-	-	-	-	-	-	3,512	1,053	(4,565)	-	-
At 30 June, 2005	<u>42,428</u>	<u>47,246</u>	<u>20,001</u>	<u>42</u>	<u>7,903</u>	<u>3,950</u>	<u>3,512</u>	<u>1,053</u>	<u>36,110</u>	<u>12</u>	<u>162,257</u>
At 31 December, 2003	20,001	-	-	-	3,423	1,711	-	-	39,266	234	64,635
Share swap in accordance with reorganisation of the Group	(20,001)	-	20,001	-	-	-	-	-	-	-	-
Net profit for the period	-	-	-	-	-	-	-	-	19,330	(35)	19,295
Transfer	-	-	-	-	4,480	2,239	-	-	(6,719)	-	-
Dividend	-	-	-	-	-	-	-	-	(31,830)	-	(31,830)
At 30 June, 2004	<u>-</u>	<u>-</u>	<u>20,001</u>	<u>-</u>	<u>7,903</u>	<u>3,950</u>	<u>-</u>	<u>-</u>	<u>20,047</u>	<u>199</u>	<u>52,100</u>

NOTES TO CONDENSED ACCOUNTS

1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

These unaudited condensed consolidated accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 34, “Interim Financial Reporting”, issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has had no material effect on how the results for the current or prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

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,	
	2005	2004
	RMB'000	<i>RMB'000</i>
System integration		
– Hardware products	20,721	16,973
– Software products	770	6,491
	21,491	23,464
Customised software products	4,034	4,817
Sale of hardware and software products		
– Hardware products	1,781	17,667
– Software products	1,037	1,719
	2,818	19,386
Maintenance and other services	10,741	9,715
Total	39,084	57,382

(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,	
	2005	2004
	RMB'000	RMB'000
Turnover		
System integration	21,491	23,464
Customised software products	4,034	4,817
Sale of hardware and software products	2,818	19,386
Maintenance and other services	10,741	9,715
	<u>39,084</u>	<u>57,382</u>
Segment results		
System integration	4,877	9,780
Customised software products	3,464	4,354
Sale of hardware and software products	348	2,578
Maintenance and other services	5,413	6,335
	<u>14,102</u>	<u>23,047</u>
Unallocated other operating income	2,663	3,154
Investment income	14	–
Unallocated corporate expenses	(11,769)	(6,071)
	<u>5,010</u>	<u>20,130</u>
Share of results of associates	(36)	(137)
Gain on disposal of a subsidiary	74	37
Finance costs	–	(734)
	<u>5,048</u>	<u>19,296</u>
Net profit for the period	<u>5,048</u>	<u>19,296</u>

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,	
	2005	2004
	RMB'000	RMB'000
Tax refund (<i>Note a</i>)	1,360	1,561
Government subsidy (<i>Note b</i>)	1,050	1,090
Interest income	243	360
Others	10	143
	2,663	3,154

Notes:

- (a) The rate of value added tax is 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 January, 2005 to 30 June, 2005 and for the period from 1 January, 2004 to 30 June, 2004 respectively as Qingdao Zhongtian is ranked as a software enterprise.
- (b) Qingdao Science and Technology Bureau 青島市科學技術局 together with Finance Bureau of Qingdao 青島市財政局 and Qingdao Information Industry Bureau 青島市信息產業局, granted RMB1,000,000 and RMB50,000 respectively to Qingdao Zhongtian during the six months ended 30 June, 2005, for the purpose of giving immediate financial support to its development activities.

4. PROFIT FROM OPERATIONS

	Unaudited	
	Six months ended 30 June,	
	2005	2004
	RMB'000	RMB'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	451	19
Amortisation of development costs	360	205
Depreciation and amortisation of property, plant and equipment	764	739
Operating lease rentals on rented premises	169	39
Staff costs:		
Directors' emoluments	1,441	580
Other staff costs	4,003	2,798
Retirement benefits scheme contribution (excluding Directors)	262	304
	5,706	3,682
Allowances for doubtful debts	283	405
Research and development expenditure	3,483	1,731
Less: Amount capitalised	(3,483)	(1,350)
	–	381
Cost of inventories recognised as expense	18,191	29,265
and after crediting:		
Bad debts recovered	–	500

5. INCOME TAX EXPENSE

	Unaudited	
	Six months ended 30 June,	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
PRC enterprise income tax for the period	—	—

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

On 2 January, 2004, Qingdao Zhongtian was transformed to a wholly foreign-owned enterprise. In accordance with the tax legislation applicable to foreign investment enterprises, Qingdao Zhongtian is entitled to exemptions from PRC income tax for the two years commencing from its 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:

	Unaudited			
	Six months ended 30 June,			
	2005		2004	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before taxation	5,048	—	19,296	—
Tax at domestic income tax rate	1,666	33.0	6,368	33.0
Tax effect of expenses that are not deductible in determining taxable profit	573	11.3	259	1.3
Tax effect of income that are not taxable in determining taxable profit	(449)	(8.9)	(515)	(2.7)
Tax effect of income that are not taxable under tax holidays	(1,790)	(35.5)	(6,223)	(32.3)
Income tax at concessionary rate	—	—	—	—
Others	—	—	111	0.6
Tax expense and effective tax rate for the period	—	—	—	—

6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June, 2005.

The Company declared a special dividend of HK\$30,000,000 to its then shareholders on 21 June, 2004.

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 June, 2005 is based on the net profit for the period less minority interests and on 400,000,000 shares in issue during the period.

No diluted earnings per share have been presented as there were no potential dilutive shares in existence as at 30 June, 2005.

The calculation of basic earnings per share for the six months ended 30 June, 2004 is based on the net profit for the period less minority interests, taking into account the shares in issue after completion of the share offer on 22 September, 2004 and shares issued under the capitalisation issue and 275,308,733 shares issued at the offer price of HK\$0.80 per offer share.

The calculation of diluted earnings per share for the six months ended 30 June, 2004 is based on the net profit for the period less minority interests, and the shares in issue after completion of the share offer on 22 September, 2004 and issuable under the capitalization issue, taking into account the weighted average of 37,661,922 shares to be issued upon conversion of the convertible notes at a conversion price of HK\$0.80 per offer share in accordance with the terms of the convertible notes issued by the Company on 15 January, 2004 and 7 January, 2004.

8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited <i>RMB'000</i>
Cost	
At 1 January, 2005	16,739
Additions	160
Disposal	38
	<hr/>
At 30 June, 2005	16,861
	<hr/>
Depreciation and amortisation	
At 1 January, 2005	2,793
Provided for the year	764
Eliminated on disposals	5
	<hr/>
At 30 June, 2005	3,552
	<hr/>
Net Book Value at 30 June, 2005	<u>13,309</u>
	<hr/>
Net Book Value at 31 December, 2004	<u>13,946</u>

9. DEVELOPMENT COSTS

	Unaudited <i>RMB'000</i>
Cost	
At 1 January, 2005	4,018
Additions	3,483
Disposal	419
	<hr/>
At 30 June, 2005	7,082
	<hr/>
Amortisation	
At 1 January, 2005	1,011
Provided for the year	360
Eliminated on disposals	42
	<hr/>
At 30 June, 2005	1,329
	<hr/>
Net Book Value at 30 June, 2005	<u>5,753</u>
	<hr/>
Net Book Value at 31 December, 2004	<u>3,007</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 ranging from 90 to 180 days. The aging analysis of trade receivables is stated as follows:

	Unaudited 30 June, 2005 <i>RMB'000</i>	Audited 31 December, 2004 <i>RMB'000</i>
Current to 90 days	21,719	31,802
91 to 180 days	2,749	1,716
181 to 365 days	7,874	3,830
Over 365 days	1,132	—
	<hr/>	<hr/>
	<u>33,474</u>	<u>37,348</u>

11. TRADE AND OTHER PAYABLES

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

	Unaudited 30 June, 2005 RMB'000	Audited 31 December, 2004 RMB'000
Current to 90 days	11,683	14,666
91 to 180 days	138	3,105
181 to 365 days	398	700
Over 365 days	4,210	–
	<u>16,429</u>	<u>18,471</u>

12. SHARE CAPITAL

	<i>Number of shares</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
At 30 June, 2005		
Authorised:	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:	<u>400,000,000</u>	<u>40,000</u>
Equivalent to RMB'000		<u>42,428</u>

No new shares were issued during the period ended 30 June, 2005.

13. OPERATING LEASE COMMITMENTS

	Unaudited 30 June, 2005 RMB'000	Audited 31 December, 2004 <i>RMB'000</i>
Minimum lease payments paid under operating leases	<u><u>169</u></u>	<u><u>383</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, 2005 RMB'000	Audited 31 December, 2004 <i>RMB'000</i>
Within one year	144	760
2nd to 5th year	—	760
	<u><u>144</u></u>	<u><u>1,520</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, 2005.

14. RELATED PARTY TRANSACTIONS

The Group did not have any related party transaction for the six months ended 30 June, 2005 (2004: Nil).

15. DISPOSAL OF A SUBSIDIARY

On 8 May, 2005, the Group disposed of its entire 90% interest in its subsidiary Qingdao Embedded Software Engineering Technology Research Centre Co., Ltd. (“Embedded Software”) to an independent third party for a consideration of RMB900,000.

	Unaudited Six months ended 30 June 2005 RMB'000
Net assets disposed of:	
Property, plant and equipment	12
Inventories	61
Trade receivables	110
Bank balance and cash	30
Deposits, prepayments and other payables	367
Development cost	342
Trade and other receivables	(4)
Minority interests	(92)
	<u>826</u>
Gain on disposal of a subsidiary	<u>74</u>
Total consideration	<u><u>900</u></u>
Satisfied by:	
Deferred consideration	<u><u>900</u></u>
Net Cash derived from the disposal:	
Cash consideration	900
Cash and cash equivalents disposed of	<u>564</u>
	<u><u>336</u></u>

Disposal of the subsidiary has no significant impacts on the results of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period, the Group was principally engaged in four business segments, namely (i) provision of system integration services; (ii) development of customised software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services.

FINANCIAL REVIEW

The Group's total turnover for the period ended 30 June, 2005 was RMB39,084,000, representing a decrease of 31.9% from RMB57,382,000 of last year. This was mainly attributable to the lack of large-scale tender projects in the market as the Rural Credit Cooperatives (the "RCC") in various provinces are still in their planning stage for information network constructions.

During the period, the Group continued to take the price-cut approach to draw the attention of customers to the Group's products in more regions. This resulted in a drop in the overall gross profit margin by 4.1% to 36.1% compared to the corresponding period last year. During the period, the overall distribution costs and administrative expenses increased owing to the exploration of other markets outside Shangdong Province by the Group. For the six months ended 30 June, 2005, the Group recorded a net profit of RMB5,048,000, representing a decrease of 73.8% compared to the corresponding period last year.

BUSINESS REVIEW

Analysis by Business Segment

The following is an analysis of the Group's turnover for the six months ended 30 June, 2005 by business segment:

	For the period ended 30 June			
	2005		2004	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Provision of system integration services	21,491	55	23,464	41
Development of customised software products	4,034	10	4,817	8
Sale of software and hardware products	2,818	7	19,386	34
Provision of maintenance and other services	10,741	28	9,715	17
Total	<u>39,084</u>	<u>100</u>	<u>57,382</u>	<u>100</u>

During the period under review, the Group's principal source of income were derived from the provision of system integration services and the provision of maintenance and other services, which accounted for 55% and 28% respectively of the total turnover of the Group, while incomes from the development of customised software products and the sale of software and hardware products took up 10% and 7% of the total turnover respectively.

The Group believes that the provision of system integration services will continue to be its principal source of income, which however is largely dependent on the progress of the RCC information network construction in various provinces. Given that the Group has a comprehensive product of RCC information network system in store, it is believed that the turnover and profit of the Group will increase significantly when it is able to secure more provincial RCC information network constructions during the year without substantial investment for development.

With increasing number of completed system integration projects and expiry of free maintenance period, income from provision of maintenance services increase gradually, the Group believes that provision of maintenance and other services will become another important and stable source of income.

Analysis by Geographic Segment

During the period under review, most of the Group's income was derived from the Shandong Province and the Hubei Province, which accounted for 44% and 35% of the Group's total turnover respectively. The first provincial RCC information network construction project completed by the Group is in Shandong Province. It is also the first provincial RCC information network system developed by one single provider in the nation. Currently, the Group is developing a new generation banking and peripheral application system for the Shandong Province.

In 2004, the Group was awarded the project to construct the provincial RCC information network for the Hubei Province. The Phase II construction, which started in early 2005, is mainly the implementation of fundamental systems in the centre of the province and certain cities. It is believed that the Phase II construction will be completed during the year.

Analysis of the Turnover by Customer Type

The following is an analysis of the Group's turnover for the year ended 30 June, 2005 by customer type:

	For the year ended 30 June,			
	2005		2004	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Banking and finance sector				
– RCCs	30,390	78%	47,776	83%
– non-RCCs	973	3%	–	–
Non-banking and finance sectors	7,721	19%	9,606	17%
Total	39,084	100%	57,382	100%

During the period under review, the Group's revenues were mainly derived from the provision of total business solutions and relevant services to RCCs, which accounted for approximately 78% of the Group's total turnover. During the period, the Group continued to actively promote other products such as electric power system, wireless application system, cable television digital network operation system and e-government administration products. The Group intends to diversify its revenue base through the development and promotion of different products.

FUTURE OUTLOOK

Although the RCC information network construction in the Shandong Province was completed last year, the Group still continued to develop value-added products and second generation banking system for the Province's RCCs. Riding on the good cooperation relationship between us and our customers, it is believed that the Group will continue to make contribution to Shandong Province's RCC information network development.

Furthermore, the commencement of Hubei Province's RCC information network construction did not only ensure the Group's income in the future, but also positively contributed to the Group's brand awareness. In the next few years, certain provinces will gradually complete the planning of their RCC information network construction. With the experience in constructing large scale projects in the Shandong and Hubei Provinces, the Group is expected to have tremendous business opportunities.

INDEBTEDNESS

As at 30 June, 2005, 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.

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, 2005, the Group had cash of RMB85,141,000 (2004: RMB105,015,000). The gearing ratio (defined as total interest bearing debts divided by shareholder's equity) was 0% (2004: 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.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 June, 2005, the interests and short positions of the Directors of the Company and their associates in the shares and underlying shares of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the “SFO”) (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) contained in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), were as follows:

Ordinary shares of HK\$0.1 each of the Company

Name of Directors	Capacity	Number of shares held (Long Position)	Approximate percentage of the issued share capital	Notes
Mr. Sun Lianggui	Interest of a controlled corporation	182,216,113	45.6%	1
Mr. Wang Zhaobo	Interest of a controlled corporation	46,855,572	11.7%	2
Ms. Sun Xianfang	Interest of a controlled corporation	15,618,524	3.9%	3
Mr. Wang Jiaqing	Interest of a controlled corporation	15,618,524	3.9%	4

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.

Save as disclosed above, at 30 June, 2005, none of the Directors and chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be recorded in the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Save as disclosed above, at 30 June, 2005, the Company had no other record relating to 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.

Substantial shareholder

Save as disclosed in the paragraph headed “Directors’ interests in share capital” 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 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 the 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, 2005, the Group had 115 employees (2004: 110), 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, 2005 was RMB5,706,000 (2004: RMB3,682,000).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June, 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

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.

REMUNERATION COMMITTEE

The Company established a remuneration committee in 2005 with written terms of reference. The remuneration committee is primarily responsible for determining specific remuneration of all executive Directors and senior management and making recommendations to the board relating to the remuneration of non-executive Directors. The remuneration committee comprises three independent non-executive Directors, namely Mr. Hung, Randy King Kuen, Mr. Wang Yuechao and Mr. Wei Zhiqiang, and two executive Directors, namely Mr. Sun Lianggui and Ms. Sun Xianfang.

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 complied with such code of conduct throughout the accounting period covered by this interim report.

CODE ON CORPORATE GOVERNANCE PRACTICE

The Board of Directors considers that the Company has complied with the Code on Corporate Governance Practice as set out in Appendix 14 of the Listing Rules during the reporting period.

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

22 September, 2005