



**ZHONGTIAN INTERNATIONAL LIMITED**  
**中天國際控股有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

*Stock Code: 2379*

*Interim Report 2006*

Hardware  
Products



Integration  
Services

Customised  
Software Products



\* for identification purposes only

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## 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

### **Qualified accountant**

WONG Chun Wa

### **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](http://www.zhongtian.biz)  
[www.zhongtian.com](http://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  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Hong Kong

### **Principal share registrar and transfer office**

Butterfield Fund Services (Cayman) Limited  
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 People's Republic of China ("PRC")

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 2006. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30 June 2006, and the consolidated balance sheet as at 30 June 2006 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 4 to 8 of this report.

### IMPORTANT FINANCIAL INDICATORS

|                                  | <b>Unaudited</b>                |                |
|----------------------------------|---------------------------------|----------------|
|                                  | <b>Six months ended 30 June</b> |                |
|                                  | <b>2006</b>                     | 2005           |
|                                  | <b><i>RMB'000</i></b>           | <i>RMB'000</i> |
| Turnover                         | <b>12,787</b>                   | 39,084         |
| Net (loss)/profit for the period | <b>(3,688)</b>                  | 5,048          |
| (Loss)/earnings per share        |                                 |                |
| – Basic                          | <b>(0.92) fen</b>               | 1.27 fen       |
| – Diluted                        | <b>N/A</b>                      | N/A            |

# CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

|                                     | Notes | Unaudited                |                        |
|-------------------------------------|-------|--------------------------|------------------------|
|                                     |       | 2006                     | 2005                   |
|                                     |       | RMB'000                  | RMB'000                |
| Turnover                            | 2     | 12,787                   | 39,084                 |
| Cost of sales                       |       | <u>(8,397)</u>           | <u>(24,982)</u>        |
| Gross profit                        |       | 4,390                    | 14,102                 |
| Other operating income              | 3     | 888                      | 2,663                  |
| Investment income                   |       | –                        | 14                     |
| Distribution costs                  |       | (1,718)                  | (4,405)                |
| General and administrative expenses |       | <u>(7,241)</u>           | <u>(7,364)</u>         |
| (Loss)/profit from operations       | 4     | (3,681)                  | 5,010                  |
| Share of result of an associate     |       | (7)                      | (36)                   |
| Gain on disposal of a subsidiary    | 16    | –                        | 74                     |
| Net (loss)/profit for the period    |       | <u><u>(3,688)</u></u>    | <u><u>5,048</u></u>    |
| Attributable to:                    |       |                          |                        |
| Equity holders of the Company       |       | (3,686)                  | 5,096                  |
| Minority interests                  |       | <u>(2)</u>               | <u>(48)</u>            |
|                                     |       | <u><u>(3,688)</u></u>    | <u><u>5,048</u></u>    |
| Dividend                            | 6     | <u>–</u>                 | <u>–</u>               |
| (Loss)/earnings per share           |       |                          |                        |
| – Basic                             | 7     | <u><u>(0.92) fen</u></u> | <u><u>1.27 fen</u></u> |
| – Diluted                           | 7     | <u><u>N/A</u></u>        | <u><u>N/A</u></u>      |

# CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2006 and 31 December 2005

|   |              | <b>Unaudited<br/>30 June<br/>2006<br/>RMB'000</b> | Audited<br>31 December<br>2005<br>RMB'000 |
|---|--------------|---|---|
|   | <i>Notes</i> |   |   |
| <b>NON-CURRENT ASSETS</b>                                       |              |   |   |
| Property, plant and equipment                                   | 8            | <b>11,358</b>                                     | 12,202                                    |
| Development costs   | 9            | <b>5,897</b>                                      | 6,740                                     |
| Interests in associates   |              | <b>459</b>  | 466                                       |
|   |              | <u><b>17,714</b></u>                              | <u>19,408</u>                             |
| <b>CURRENT ASSETS</b>   |              |   |   |
| Inventories   |              | <b>6,858</b>                                      | 807                                       |
| Trade receivables   | 10           | <b>11,692</b>                                     | 32,388                                    |
| Loan receivable   |              | <b>10,000</b>                                     | 10,000                                    |
| Deposits, prepayments and other receivables                     |              | <b>10,073</b>                                     | 2,036                                     |
| Bank balances and cash  |              | <b>109,837</b>                                    | 111,215                                   |
|   |              | <u><b>148,460</b></u>                             | <u>156,446</u>                            |
| <b>CURRENT LIABILITIES</b>                                      |              |   |   |
| Trade and other payables  | 11           | <b>12,034</b>                                     | 17,804                                    |
| Amounts due to directors  |              | <b>1,061</b>                                      | 1,280                                     |
| Dividend payable  |              | <b>3,120</b>                                      | –   |
| Income tax payable  |              | <b>1,100</b>                                      | 1,100                                     |
|   |              | <u><b>17,315</b></u>                              | <u>20,184</u>                             |
| <b>NET CURRENT ASSETS</b>                                       |              | <u><b>131,145</b></u>                             | <u>136,262</u>                            |
| <b>NET ASSETS</b>   |              | <u><b>148,859</b></u>                             | <u>155,670</u>                            |
| <b>CAPITAL AND RESERVES</b>                                     |              |   |   |
| Share capital   | 12           | <b>42,428</b>                                     | 42,428                                    |
| Reserves  |              | <b>106,428</b>                                    | 113,237                                   |
| <b>EQUITY ATTRIBUTABLE TO EQUITY<br/>HOLDERS OF THE COMPANY</b> |              |   |   |
| MINORITY INTERESTS  |              | <b>3</b>  | 5   |
|   |              | <u><b>148,859</b></u>                             | <u>155,670</u>                            |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

|   | <b>Unaudited</b>                |                |
|---|---------------------------------|----------------|
|   | <b>Six months ended 30 June</b> |                |
|   | <b>2006</b>                     | <b>2005</b>    |
|   | <b>RMB'000</b>                  | <b>RMB'000</b> |
| <b>OPERATING ACTIVITIES</b>                                       |                                 |                |
| (Loss)/profit from operations                                     | <b>(3,681)</b>                  | 5,010          |
| Adjustments for:  |                                 |                |
| Interest income on bank deposits                                  | <b>(467)</b>                    | (243)          |
| Amortisation of development costs                                 | <b>843</b>                      | 360            |
| Depreciation and amortisation on property,<br>plant and equipment | <b>835</b>                      | 764            |
| Loss on disposal of fixed assets                                  | <b>26</b>                       | –              |
| (Write-back of) allowances for doubtful debts                     | <b>(695)</b>                    | 283            |
| Investment income   | –                               | (14)           |
|   | <hr/>                           | <hr/>          |
| Operating cash flows before movements in working capital          | <b>(3,139)</b>                  | 6,160          |
| Increase in inventories   | <b>(6,051)</b>                  | (2,651)        |
| Decrease in trade receivables                                     | <b>21,391</b>                   | 3,591          |
| Increase in deposits, prepayments and other receivables           | <b>(8,037)</b>                  | (20,883)       |
| Decrease in trade and other payables                              | <b>(5,770)</b>                  | (2,042)        |
| Decrease in amounts due to directors                              | <b>(219)</b>                    | –              |
|   | <hr/>                           | <hr/>          |
| Cash used in operations   | <b>(1,825)</b>                  | (15,825)       |
| PRC income taxes paid   | –                               | –              |
|   | <hr/>                           | <hr/>          |
| <b>NET CASH USED IN OPERATING ACTIVITIES</b>                      | <b>(1,825)</b>                  | (15,825)       |
|   | <hr/>                           | <hr/>          |
| <b>INVESTING ACTIVITIES</b>                                       |                                 |                |
| Interest received   | <b>467</b>                      | 243            |
| Expenditure on software development                               | –                               | (3,483)        |
| Disposal of a subsidiary (note 16)                                | –                               | 336            |
| Purchase of financial asset                                       | –                               | (993)          |
| Purchase of property, plant and equipment                         | <b>(17)</b>                     | (152)          |
|   | <hr/>                           | <hr/>          |
| <b>NET CASH GENERATED FROM (USED IN)</b>                          |                                 |                |
| <b>INVESTING ACTIVITIES</b>                                       | <b>450</b>                      | (4,049)        |
|   | <hr/>                           | <hr/>          |

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006

|  | <b>Unaudited</b>                |                      |
|--|---------------------------------|----------------------|
|  | <b>Six months ended 30 June</b> |                      |
|  | <b>2006</b>                     | <b>2005</b>          |
|  | <b>RMB'000</b>                  | <b>RMB'000</b>       |
| <b>NET DECREASE IN CASH<br/>AND CASH EQUIVALENTS</b>   | <b>(1,375)</b>                  | <b>(19,874)</b>      |
| <b>CASH AND CASH EQUIVALENTS<br/>AT BEGINNING OF THE PERIOD</b>                                      | <b>111,215</b>                  | <b>105,015</b>       |
| <b>EFFECT OF FOREIGN EXCHANGE<br/>RATE CHANGES</b>   | <b>(3)</b>                      | <b>—</b>             |
| <b>CASH AND CASH EQUIVALENTS<br/>AT END OF THE PERIOD, REPRESENTED BY<br/>BANK BALANCES AND CASH</b> | <b><u>109,837</u></b>           | <b><u>85,141</u></b> |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006

|   | Attributable to equity holders of the Company |                             |                               |                                |                                       |                                      |                                   |                  |                                  |                  |
|---|---|-----------------------------|-------------------------------|--------------------------------|---------------------------------------|--------------------------------------|-----------------------------------|------------------|----------------------------------|------------------|
|   | Paid-in<br>Capital<br>RMB'000                 | Share<br>premium<br>RMB'000 | Special<br>reserve<br>RMB'000 | Exchange<br>reserve<br>RMB'000 | Surplus<br>reserve<br>fund<br>RMB'000 | Public<br>welfare<br>fund<br>RMB'000 | Accumulated<br>profits<br>RMB'000 | Total<br>RMB'000 | Minority<br>interests<br>RMB'000 | Total<br>RMB'000 |
| At 1 January 2006   | 42,428  | 47,246                      | 20,001                        | (724)                          | 11,415                                | 5,004                                | 30,295                            | 155,665          | 5                                | 155,670          |
| Net loss for the period   | -   | -                           | -                             | -                              | -                                     | -                                    | (3,686)                           | (3,686)          | (2)                              | (3,688)          |
| Exchange difference<br>arising from translation<br>of foreign subsidiaries    | -   | -                           | -                             | (3)                            | -                                     | -                                    | -                                 | (3)              | -                                | (3)              |
| 2005 final dividend   | -   | -                           | -                             | -                              | -                                     | -                                    | (3,120)                           | (3,120)          | -                                | (3,120)          |
| At 30 June 2006   | <u>42,428</u>                                 | <u>47,246</u>               | <u>20,001</u>                 | <u>(727)</u>                   | <u>11,415</u>                         | <u>5,004</u>                         | <u>23,489</u>                     | <u>148,856</u>   | <u>3</u>                         | <u>148,859</u>   |
| At 1 January 2005   | 42,428  | 47,246                      | 20,001                        | 90                             | 7,903                                 | 3,950                                | 35,579                            | 157,197          | 152                              | 157,349          |
| Net profit for the period   | -   | -                           | -                             | -                              | -                                     | -                                    | 5,096                             | 5,096            | (48)                             | 5,048            |
| Exchange difference<br>arising from<br>translation of<br>foreign subsidiaries | -   | -                           | -                             | (48)                           | -                                     | -                                    | -                                 | (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>11,415</u>                         | <u>5,003</u>                         | <u>36,110</u>                     | <u>162,245</u>   | <u>12</u>                        | <u>162,257</u>   |

## NOTES TO CONDENSED ACCOUNTS

### 1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

These unaudited condensed consolidated accounts are prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 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 2005. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

### 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 |               |
|  | 2006                     | 2005          |
|  | RMB'000                  | RMB'000       |
| System integration                     | 4,276                    | 21,491        |
| Customised software products           | 1,540                    | 4,034         |
| Sale of hardware and software products | 3,215                    | 2,818         |
| Maintenance and other services         | 3,756                    | 10,741        |
| Total                                  | <u>12,787</u>            | <u>39,084</u> |

## NOTES TO CONDENSED ACCOUNTS

### (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*

|  | <b>Unaudited</b>                |                 |
|--|---------------------------------|-----------------|
|  | <b>Six months ended 30 June</b> |                 |
|  | <b>2006</b>                     | <b>2005</b>     |
|  | <b>RMB'000</b>                  | <b>RMB'000</b>  |
| Turnover                               |                                 |                 |
| System integration                     | 4,276                           | 21,491          |
| Customised software products           | 1,540                           | 4,034           |
| Sale of hardware and software products | 3,215                           | 2,818           |
| Maintenance and other services         | 3,756                           | 10,741          |
|  | <u>12,787</u>                   | <u>39,084</u>   |
| Segment results                        |                                 |                 |
| System integration                     | 902                             | 4,877           |
| Customised software products           | 1,084                           | 3,464           |
| Sale of hardware and software products | 786                             | 348             |
| Maintenance and other services         | 1,618                           | 5,413           |
|  | <u>4,390</u>                    | <u>14,102</u>   |
| Unallocated other operating income     | 888                             | 2,663           |
| Investment income                      | –                               | 14              |
| Unallocated corporate expenses         | <u>(8,959)</u>                  | <u>(11,769)</u> |
| (Loss)/profit from operations          | <b>(3,681)</b>                  | 5,010           |
| Share of result of an associate        | (7)                             | (36)            |
| Gain on disposal of a subsidiary       | –                               | 74              |
|  | <u>–</u>                        | <u>74</u>       |
| Net (loss)/profit for the period       | <u><b>(3,688)</b></u>           | <u>5,048</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 |                |
|                                      | 2006                     | 2005           |
|                                      | <i>RMB'000</i>           | <i>RMB'000</i> |
| Tax refund ( <i>Note a</i> )         | –                        | 1,360          |
| Government subsidy ( <i>Note b</i> ) | 360                      | 1,050          |
| Interest income                      | 467                      | 243            |
| Others                               | 61                       | 10             |
|                                      | <u>888</u>               | <u>2,663</u>   |

*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”), a subsidiary of the Company, is entitled to refund of value added tax on sales of qualified software products for the period from 1 January 2006 to 30 June 2006 and for the period from 1 January 2005 to 30 June 2005 respectively as Qingdao Zhongtian is ranked as a software enterprise. However, the refund amount for the current period has not yet been confirmed by Qingdao Local Tax Bureau.
- (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 subsidies of RMB360,000 (2005: RMB1,000,000) and NIL (2005: RMB50,000) respectively to Qingdao Zhongtian during the six months ended 30 June 2006, for the purpose of giving immediate financial support to its development activities.

## NOTES TO CONDENSED ACCOUNTS

### 4. (LOSS)/PROFIT FROM OPERATIONS

|   | <b>Unaudited</b>                |                |
|---|---------------------------------|----------------|
|   | <b>Six months ended 30 June</b> |                |
|   | <b>2006</b>                     | 2005           |
|   | <i>RMB'000</i>                  | <i>RMB'000</i> |
| (Loss)/profit from operations has been arrived at after charging/(crediting): |                                 |                |
| Auditors' remuneration  | 280                             | 451            |
| Amortisation of development costs   | 843                             | 360            |
| Depreciation and amortisation of property, plant and equipment                | 835                             | 764            |
| Operating lease rentals on rented premises                                    | -                               | 169            |
| Staff costs:  |                                 |                |
| Directors' emoluments   | 1,497                           | 1,441          |
| Other staff costs   | 2,437                           | 4,003          |
| Retirement benefits scheme contribution (excluding Directors)                 | 245                             | 262            |
|   | <u>4,179</u>                    | <u>5,706</u>   |
| (Write-back of)/allowances for doubtful debts                                 | (695)                           | 283            |
| Loss on disposal of fixed assets  | 26                              | -              |
| Research and development expenditure  | 1,714                           | 3,483          |
| Less: Amount capitalised  | -                               | (3,483)        |
|   | <u>1,714</u>                    | <u>-</u>       |
| Cost of inventories recognised as expense                                     | <u>8,397</u>                    | <u>18,191</u>  |

## NOTES TO CONDENSED ACCOUNTS

### 5. INCOME TAX EXPENSE

**Unaudited**  
**Six months ended 30 June**  
**2006**                      2005  
*RMB'000*                      *RMB'000*

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 (loss)/profit for the period per the condensed consolidated income statement as follows:

|  | <b>Unaudited</b>                |                    |                     |                    |
|--|---------------------------------|--------------------|---------------------|--------------------|
|  | <b>Six months ended 30 June</b> |                    |                     |                    |
|  | <b>2006</b>                     |                    | <b>2005</b>         |                    |
|  | <i>RMB'000</i>                  | %                  | <i>RMB'000</i>      | %                  |
| (Loss)/profit before taxation  | <u><b>(3,688)</b></u>           |                    | <u><b>5,048</b></u> |                    |
| Tax at domestic income tax rate  | <b>(1,217)</b>                  | <b>(33.0)</b>      | 1,666               | 33.0               |
| Tax effect of expenses that are not deductible in determining taxable profit | -                               | -                  | 573                 | 11.3               |
| Tax effect of income that are not taxable in determining taxable profit      | -                               | -                  | (449)               | (8.9)              |
| Tax effect of income that are not taxable under tax holidays                 | -                               | -                  | (1,790)             | (35.4)             |
| Tax effect of tax losses not recognised                                      | <u><b>1,217</b></u>             | <u><b>33.0</b></u> | <u>          -</u>  | <u>          -</u> |
| Tax expense and effective tax rate for the period                            | <u>          -</u>              | <u>          -</u> | <u>          -</u>  | <u>          -</u> |

There was no significant unprovided deferred taxation for both periods or at the balance sheet dates.

## NOTES TO CONDENSED ACCOUNTS

### 6. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

### 7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity holders of the Company for the period of approximately RMB3,686,000 (2005: profit of approximately RMB5,096,000) and on 400,000,000 (2005: 400,000,000) shares in issue.

No diluted earnings per share have been presented as there were no potential dilutive shares in existence as at 30 June 2006.

### 8. PROPERTY, PLANT AND EQUIPMENT

|                                    | <b>Unaudited</b><br><i>RMB'000</i> |
|------------------------------------|------------------------------------|
| Cost                               |                                    |
| At 1 January 2006                  | 16,882                             |
| Additions                          | 17                                 |
| Disposal                           | (47)                               |
|                                    | <hr/>                              |
| At 30 June 2006                    | 16,852                             |
|                                    | <hr/>                              |
| Depreciation and amortisation      |                                    |
| At 1 January 2006                  | 4,680                              |
| Provided for the period            | 835                                |
| Eliminated on disposals            | (21)                               |
|                                    | <hr/>                              |
| At 30 June 2006                    | 5,494                              |
|                                    | <hr/>                              |
| Net Book Value at 30 June 2006     | <u>11,358</u>                      |
|                                    | <hr/>                              |
| Net Book Value at 31 December 2005 | <u>12,202</u>                      |

## NOTES TO CONDENSED ACCOUNTS

### 9. DEVELOPMENT COSTS

|                                    | <b>Unaudited</b><br><i>RMB'000</i> |
|------------------------------------|------------------------------------|
| Cost                               |                                    |
| At 1 January and 30 June 2006      | 8,429                              |
| Amortisation                       |                                    |
| At 1 January 2006                  | 1,689                              |
| Provided for the period            | 843                                |
| At 30 June 2006                    | 2,532                              |
| Net Book Value at 30 June 2006     | 5,897                              |
| Net Book Value at 31 December 2005 | 6,740                              |

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:

|                    | <b>Unaudited</b><br><b>30 June</b><br><b>2006</b><br><i>RMB'000</i> | Audited<br>31 December<br>2005<br><i>RMB'000</i> |
|--------------------|---|--|
| Current to 90 days | 4,807   | 23,256   |
| 91 to 180 days     | 823   | 2,257  |
| 181 to 365 days    | 6,004   | 4,061  |
| Over 365 days      | 58  | 2,814  |
|                    | <b>11,692</b>   | <b>32,388</b>                                    |

## NOTES TO CONDENSED ACCOUNTS

### 11. TRADE AND OTHER PAYABLES

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

|                    | <b>Unaudited</b> | Audited       |
|--------------------|------------------|---------------|
|                    | <b>30 June</b>   | 31 December   |
|                    | <b>2006</b>      | 2005          |
|                    | <b>RMB'000</b>   | RMB'000       |
| Current to 90 days | 7,284            | 14,528        |
| 91 to 180 days     | 1,046            | –             |
| 181 to 365 days    | –                | 2,431         |
| Over 365 days      | 3,704            | 845           |
|                    | <u>12,034</u>    | <u>17,804</u> |

### 12. SHARE CAPITAL

|                                  | <i>Number of shares</i> | <i>HK\$'000</i> |
|----------------------------------|-------------------------|-----------------|
| Ordinary shares of HK\$0.10 each |                         |                 |
| At 30 June 2006                  |                         |                 |
| 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 2006.

## NOTES TO CONDENSED ACCOUNTS

### 13. OPERATING LEASE COMMITMENTS

|  | <b>Unaudited</b>   | Audited              |
|--|--------------------|----------------------|
|  | <b>30 June</b>     | 31 December          |
|  | <b>2006</b>        | 2005                 |
|  | <b>RMB'000</b>     | <b>RMB'000</b>       |
| Minimum lease payments paid under operating leases | <u>          —</u> | <u>          135</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 2006.

### 14. CAPITAL COMMITMENTS

The Company had no significant capital lease commitments as at 30 June 2006.

### 15. RELATED PARTY TRANSACTIONS

The Group did not have any related party transaction for the six months ended 30 June 2006 (2005: Nil).

## NOTES TO CONDENSED ACCOUNTS

### 16. 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. to an independent third party for a consideration of RMB900,000.

|   | Unaudited<br>Six months ended<br>30 June<br>2005<br>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 receivables | 367  |
| Development cost                            | 342  |
| Trade and other payables                    | (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:                               |  |
| Cash  | <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.

**17. POST BALANCE SHEET EVENTS**

- (a) On 14 July 2006, Qingdao Zhongtian and Qingdao Boda Investment Consultancy Company Limited (the “Qingdao Boda”), an independent third party, entered into a disposal agreement, whereby Qingdao Zhongtian has agreed to sell the Group’s property located at Level 24 of Times Square, No. 52 Xianggangzhong Road, Shinan District, Qingdao City, Shandong Province, the PRC (the “Property”), to the Qingdao Boda at the consideration of RMB10,775,800. The details of the transaction have been disclosed in the Company’s announcement and circular dated 14 July 2006 and 23 August 2006, respectively.
- (b) On 9 August 2006, Qingdao Zhongtian has entered into a tenancy agreement with Qingdao Software Park Development Company Limited, an independent third party, for hiring the floor area at 15th Floor, Block G2, Qingdao (Shinan) Software Park, No. 288 Ningxia Road, Qingdao City, Shandong Province, the PRC for a tenancy period of 16 months commencing from 1 September 2006 at an aggregate rental of approximately RMB693,000. The details of this transaction have been disclosed in the Company’s announcement dated 10 August 2006.

## 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

#### Turnover and gross profit margin

The Group's total turnover for the period ended 30 June 2006 was approximately RMB12,787,000, representing a decrease of 67% from approximately RMB39,084,000 of the same period in last year. This was mainly attributable to the lack of large-scale tender projects in the market of the Rural Credit Cooperatives (the "RCC") in various provinces.

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 2 percentage points to 34% compared to the corresponding period last year.

#### Distribution costs

During the period, the Group reduced the scale of marketing activities due to the lack of large-scale tender projects in the RCC market which led to the decrease in overall distribution costs by 61% from approximately RMB4,405,000 for the period ended 30 June 2005 to approximately RMB1,718,000 for the period ended 30 June 2006.

#### General and administrative expenses

The expenses slightly decreased by 2% for the current period as compared to the corresponding period last year. The Group will continue to implement a tighter control on these expenses.

#### Net (Loss)/Profit

During the period, the Group recorded a net loss of approximately RMB3,688,000 as compared to net profit of approximately RMB5,048,000 for the corresponding period last year. The loss was attributable to the decrease in revenue generated during the current period.

## BUSINESS REVIEW

### Analysis by Business Segment

The following is an analysis of the Group's turnover for the six months ended 30 June 2006 by business segment:

|   | For the period ended 30 June |                   |                      |                   |
|---|------------------------------|-------------------|----------------------|-------------------|
|   | 2006                         |                   | 2005                 |                   |
|   | <i>RMB'000</i>               | %                 | <i>RMB'000</i>       | %                 |
| Provision of system integration services    | <b>4,276</b>                 | <b>33</b>         | 21,491               | 55                |
| Development of customised software products | <b>1,540</b>                 | <b>12</b>         | 4,034                | 10                |
| Sale of software and hardware products      | <b>3,215</b>                 | <b>25</b>         | 2,818                | 7                 |
| Provision of maintenance and other services | <b>3,756</b>                 | <b>30</b>         | 10,741               | 28                |
| <b>Total</b>                                | <b><u>12,787</u></b>         | <b><u>100</u></b> | <b><u>39,084</u></b> | <b><u>100</u></b> |

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 33% and 30% 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 12% and 25% 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.

## MANAGEMENT DISCUSSION AND ANALYSIS

With increasing number of completed system integration projects and expiry of free maintenance period, income from provision of maintenance services should increase gradually. During the period, the contribution from the provision of maintenance and other services decreased as compared to the corresponding period last year because the Group is still negotiating the terms of several new and renewed contracts with the customers. However, 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, which accounted for over 80% of the Group's total turnover. Contribution from Shandong Province is mainly contributed by the provision of maintenance and other services as provision of system integration services have been completed in 2005. Contribution from Hubei Province reduced substantially to less than 10% during the period under review from 35% in the last corresponding period. The decrease is mainly attributable to the substantial completion of system integration projects in 2005. Also, the terms of the provision of maintenance and other services to Hubei RCC are still under negotiation, which led to the decrease of contribution from Hubei Province. As a market explored by the Group in 2005, contribution from Guangdong Province accounted for over 10% of the Group's total turnover. We anticipate that income from Guangdong Province as a percentage of the Group's total income will continue to increase.

### Analysis of the Turnover by Customer Type

The following is an analysis of the Group's turnover for the year ended 30 June 2006 by customer type:

|                                 | For the year ended 30 June |            |                |            |
|---------------------------------|----------------------------|------------|----------------|------------|
|                                 | 2006                       |            | 2005           |            |
|                                 | <i>RMB'000</i>             | %          | <i>RMB'000</i> | %          |
| Banking and finance sector      |                            |            |                |            |
| – RCCs                          | 10,570                     | 83         | 30,390         | 78         |
| – non-RCCs                      | 380                        | 3          | 973            | 3          |
| Non-banking and finance sectors | 1,837                      | 14         | 7,721          | 19         |
| Total                           | <u>12,787</u>              | <u>100</u> | <u>39,084</u>  | <u>100</u> |

During the period under review, the Group's revenues were mainly derived from the provision of services to RCCs, which accounted for approximately 83% of the Group's total turnover. Though the Group is actively exploring the market of non-RCCs' banking and finance sector, the Group failed to conclude large-scale contracts with the potential customers in this sector during the period under review. Hence, the contribution from non-RCCs' banking and finance sector remains minimal. As for the non-banking and finance sectors, the Group is still negotiating the contracts with potential customers, the contribution from these sectors were insignificant during the period under review. The management expects a rise in income in the few years to come when contracts are concluded and the works begin.

### **FUTURE OUTLOOK**

Though the amounts of contribution from the provision of services to RCC's customers during the period reduced by 65% as compared with the last corresponding period, the Group expects more large-scale tender projects outside Shandong and Hubei Provinces will be coming out in the second half of 2006. The Group will actively explore these business opportunities and penetrate the market of these provinces so as to enlarge its share in the market of RCC information networking.

As a persistent belief, in order to mitigate the risk of relying on a single market, the Group will continue to focus on the exploration of market for financial institute application software beyond the RCC segment, including state-owned banks that are undergoing radical reforms and other leading commercial banks in the PRC.

On the non-financial front, the Group is also aggressively identifying markets with immense growth opportunities with the aim of diversifying its income stream.

### **INDEBTEDNESS**

As at 30 June 2006, 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 2006, the Group had cash of approximately RMB109,837,000 (31 December 2005: approximately RMB111,215,000). The gearing ratio (defined as total interest bearing debts divided by shareholder's equity) was 0% (31 December 2005: 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.

### **SUBSTANTIAL INVESTMENT AND ACQUISITION**

During the first six months of 2006, the Group did not have any substantial investment and acquisition.

### **DISCLOSABLE TRANSACTION**

On 14 July 2006, Qingdao Zhongtian and Qingdao Boda, entered into a disposal agreement, whereby Qingdao Zhongtian has agreed to sell the Property to Qingdao Boda at the consideration of RMB10,775,800. The Group has been looking for an alternative property with larger space in order to cope with its business expansion in the coming years. The disposal will provide an opportunity to the Group to realise the Property at reasonable market price and provide source of funding for the acquisition of a new property with larger space. The details of the transaction have been disclosed in the Company's announcement and circular dated 14 July 2006 and 23 August 2006, respectively.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the interests and short positions of the Directors and chief executives 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 Listing Rules on the Stock Exchange, 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:*

- These shares are held by Apex Faith Management Limited, a British Virgin Islands ("BVI") company wholly-owned by Sun Lianggui.
- These shares are held by South Honour Developments Limited, a BVI company wholly-owned by Wang Zhaobo.
- These shares are held by Clear Honour Investments Limited, a BVI company wholly-owned by Sun Xianfang.
- These shares are held by Time Prosper Investments Limited, a BVI company wholly-owned by Wang Jiaqing.

## OTHER INFORMATION

Save as disclosed above, at 30 June 2006, 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 2006, 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’ and chief executives’ interests in shares and underlying shares” 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 2006, the Group had 47 employees (30 June 2005: 115), most of whom are based in the head office of the Group in Qingdao City of Shandong Province in the PRC. The number of employees reduced significantly as the Company's wholly-owned subsidiary, Qingdao Zhongtian, has appointed a chief executive officer, who commenced to reorganise Qingdao Zhongtian's staffing arrangement during the current period. Reorganisation is mainly focused on marketing department and research and development department. The Group is now actively recruiting people of high calibre to boost our capability in sales and marketing as well as research and development.

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 2006 was approximately RMB4,179,000 (30 June 2005: approximately RMB5,706,000).

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES**

During the six months ended 30 June 2006, 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. The audit committee has reviewed with management the accounting principles and policies adopted by the Group and the interim report for the six months ended 30 June 2006.

## OTHER INFORMATION

### 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.

### 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. Specific enquiry has been made of all the Directors and the Directors have confirmed that they have complied with such code of conduct during the period ended 30 June 2006.

### 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 Lianggui**  
*Chairman*