中天

ZHONGTIAN INTERNATIONAL LIMITED

中天國際控股有限公司*

(incorporated in the Cayman Islands with limited liability)

Stock Code: 2379

2007

Interim Report

* for identification purposes only

CONTENTS

CORPORATE INFORMATION

Executive Directors

CHEN Jun
ZHAO Yun

Independent Non-executive Directors

HUNG, Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Company secretary

HUNG Man Yuk, DICSON

Qualified accountant

HUNG Man Yuk, DICSON

Audit committee

HUNG, Randy King Kuen
CHEN Wen Ping
QI Fa Cheng

Legal advisors in Hong Kong

Loong & Yeung Solicitors

Authorised representatives

ZHAO Yun
HUNG Man Yuk, DICSON

Stock code

2379

Company's website

www.irasia.com/listco/hk/zhongtian

Principal place of business in Hong Kong

Suites 2911-12, 29th Floor
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

Auditors

CCIF CPA Limited

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

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head office and principal place of business

15th Floor, Block G-2
Shinan Software Industrial Base
No. 288 Ningxia Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China ("PRC")

FINANCIAL HIGHLIGHTS

The board (the "Board") of directors (the "Directors") of Zhongtian International Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007 with the comparative figures are set out as follows. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee of the Company and the Company's auditors, CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagement 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

IMPORTANT FINANCIAL INDICATORS

	Unaudited	
	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Turnover	**6,540**	12,787
(Loss)/profit for the period	**(25,890)**	(3,688)
(Loss)/earnings per share		
– Basic	**(6.47) Cents**	(0.92 Cents)
– Diluted	**N/A**	N/A

CCIF

CCIF CPA LIMITED
20/F Sunning Plaza
10 Hysan Avenue
Causeway Bay, Hong Kong

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors of Zhongtian International Limited

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial statements set out on pages 6 to 20, which comprise the condensed consolidated balance sheet of Zhongtian International Limited (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2007 and the related condensed consolidated statements of income, changes in equity and cash flows for the six months then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and fair presentation of this interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Report". Our responsibility is to express a conclusion on this interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 21 September 2007

Leung Chun Wa
Practising Certificate Number P04963

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007

		Unaudited	
		Six months ended 30 June	
		2007	2006
	Notes	***RMB'000***	*RMB'000*
Turnover	*2*	**6,540**	12,787
Cost of sales		**(5,098)**	(8,397)
Gross profit		**1,442**	4,390
Other operating income	*3*	**1,175**	888
Distribution costs		**(1,652)**	(1,718)
General and administrative expenses		**(15,386)**	(7,241)
Impairment loss on loans receivables		**(11,469)**	–
Loss from operation		**(25,890)**	(3,681)
Share of result of an associate		**–**	(7)
Loss before income tax	*4*	**(25,890)**	(3,688)
Income tax	*5*	**–**	–
Loss for the period		**(25,890)**	(3,688)
Attributable to:			
Equity holders of the Company		**(25,889)**	(3,686)
Minority interests		**(1)**	(2)
		(25,890)	(3,688)
Dividends	*6*	**–**	–
Loss per share			
– Basic	*7*	**(6.47 cents)**	(0.92 cents)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2007 and 31 December 2006

	Notes	Unaudited 30 June 2007 RMB'000	Audited 31 December 2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	8	**1,826**	1,808
Development costs		**384**	490
Land use rights		**64,905**	65,778
Construction in progress		**1,849**	1,762
		68,964	69,838
CURRENT ASSETS			
Inventories, at cost		**49**	3,389
Trade receivables	9	**2,791**	4,667
Loans receivable	10	**21,020**	30,869
Deposits, prepayments and other receivables		**3,133**	3,255
Land use rights		**1,746**	1,746
Amount due from a director		**118**	118
Cash and cash equivalents		**24,954**	29,173
		53,811	73,217
CURRENT LIABILITIES			
Trade and other payables	11	**3,148**	5,515
Amounts due to directors		**409**	422
Income tax payable		**1,100**	1,100
		4,657	7,037
NET CURRENT ASSETS		**49,154**	66,180
NET ASSETS		**118,118**	136,018
CAPITAL AND RESERVES			
Share capital	12	**42,428**	42,428
Reserves		**75,690**	93,589
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		**118,118**	136,017
MINORITY INTERESTS		**–**	1
TOTAL EQUITY		**118,118**	136,018

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Share capital	Share premium	Special reserve *(Note)*	Translation reserve	Share option reserve	Statutory surplus reserve	Public welfare fund	Retained profits	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	42,428	47,246	6,740	(1,106)	–	12,065	5,331	23,313	136,017	1	136,018
Net loss for the period	–	–	–	–	–	–	–	(25,889)	(25,889)	(1)	(25,890)
Exchange difference arising from translation of foreign subsidiaries	–	–	–	(226)	–	–	–	–	(226)	–	(226)
Recognition of equity compensation benefit	–	–	–	–	8,216	–	–	–	8,216	–	8,216
At 30 June 2007	42,428	47,246	6,740	(1,332)	8,216	12,065	5,331	(2,576)	118,118	–	118,118
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 arising from translation of foreign subsidiaries	–	–	–	(3)	–	–	–	–	(3)	–	(3)
2005 final dividend	–	–	–	–	–	–	–	(3,120)	(3,120)	–	(3,120)
At 30 June 2006	42,428	47,246	20,001	(727)	–	11,415	5,004	23,489	148,856	3	148,859

Note:

The special reserve represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition prior to the listing of the Company's shares.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	Unaudited	
	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Net cash used in operating activities	**(3,876)**	(1,825)
Net cash (used in)/generated from investing activities	**(117)**	450
Net decrease in cash and cash equivalents	**(3,993)**	(1,375)
Cash and cash equivalents at beginning of the period	**29,173**	111,215
Effect of foreign exchange rate changes	**(226)**	(3)
Cash and cash equivalents at end of the period, represented by cash and bank balances	**24,954**	109,837

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed interim financial report (the "interim financial report") has been reviewed by the Company's audit committee and the Company's auditor, CCIF CPA Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

This interim financial report has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the HKICPA. This interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006, as described in the annual financial statements for the year ended 31 December 2006.

The following new standards, amendments to standards and interpretations are relevant to the Group and are mandatory for financial year ending 31 December 2007:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of these new standards, amendments to standards and interpretations has no significant impact on the Group interim results and financial position.

The following new standard and interpretation, which are relevant to the Group, have been issued but are not effective for 2007 and have not been early adopted by the Group:

HKFRS 8	Operating Segments
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new standard or interpretation will have no material impact on the financial statement of the Group and will not result in substantial changes to the Group's accounting policies.

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 customers, less returns and allowances during the reporting periods.

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
System integration	**1,620**	4,276
Customized software products	**852**	1,540
Sale of hardware and software products	**3,466**	3,215
Maintenance and other services	**602**	3,756
Total	**6,540**	12,787

(b) Business segments

For management purposes, the Group's operation is currently organized into four operating divisions – system integration, customized 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.

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Business segments *(Continued)*

Business segments for the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Turnover		
System integration	**1,620**	4,276
Customized software products	**852**	1,540
Sale of hardware and software products	**3,466**	3,215
Maintenance and other services	**602**	3,756
	6,540	12,787
Segment results		
System integration	**349**	902
Customized software products	**111**	1,084
Sale of hardware and software products	**832**	786
Maintenance and other services	**150**	1,618
	1,442	4,390
Unallocated other operating income	**1,175**	888
Unallocated corporate expenses	**(28,507)**	(8,959)
Loss from operation	**(25,890)**	(3,681)
Share of result of an associate	**–**	(7)
Loss for the period	**(25,890)**	(3,688)

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

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(c) Geographical segments

No geographical segments information of the Group is shown as the Group's operations, sales by geographical market and assets are substantially located in the People's Republic of China ("PRC").

3. OTHER OPERATING INCOME

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Government subsidy *(Note)*	**–**	360
Interest income on bank deposits	**53**	467
Interest income from loans receivable	**351**	–
Others	**127**	61
Reversal of impairment loss on trade receivables	**644**	–
	1,175	888

Note:

The amount was from Qingdao Science and Technology Bureau 青島市科學技術局 and Finance Bureau of Qingdao 青島市財政局 for the purpose of subsidizing the Group's research and development.

4. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	Unaudited Six months ended 30 June	
	2007	2006
	RMB'000	*RMB'000*
Amortization of development costs	**106**	843
Cost of inventories recognized as expense	**5,098**	8,397
Depreciation of property, plant and equipment	**416**	835
Impairment loss on trade receivables	**427**	–
Loss on disposal of property, plant and equipment	**–**	26

5. INCOME TAX

No provision for Hong Kong Profits Tax is made as the Group has no assessable profit for both periods. Profits tax outside Hong Kong is calculated at the rates prevailing in the respective jurisdictions.

The applicable income tax rate for the Company's subsidiaries is 33%. On 2 January 2004, Qingdao Zhongtian Information Technology Co., Limited ("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 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. Qingdao Zhongtian is entitled to a 50% relief from PRC income tax of 33% for the current period.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of People's Republic of China (the "New CIT Law"). The New CIT Law introduces a wide range of changes, which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% with effect from 1 January 2008. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New CIT Law to the Group cannot be reasonably estimated at this stage.

6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

7. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2007 of approximately RMB25,889,000 (six months ended 30 June 2006: loss of approximately RMB3,686,000) and weighted average number of ordinary shares in issue during six months ended 30 June 2007 of 400,000,000 (six months ended 30 June 2006: 400,000,000).

No diluted loss per share have been presented for the six months ended 30 June 2007 as the share options outstanding had no dilute effect on basic loss per share for the period (six months ended 30 June 2006: Nil).

8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
Cost		
At the beginning of the period/year	**4,226**	16,882
Additions	**434**	39
Addition of a subsidiary *(Note 14)*	**–**	5
Disposals	**(120)**	(12,700)
At the end of the period/year	**4,540**	4,226
Depreciation and amortization		
At the beginning of the period/year	**2,418**	4,680
Provided for the period	**416**	1,827
Eliminated on disposals	**(120)**	(4,089)
At the end of the period/year	**2,714**	2,418
Net book value	**1,826**	1,808

9. TRADE RECEIVABLES

The Group has a policy of allowing a credit period ranging from 90 to 180 days.

The aging analysis of trade receivables net of provision for impairment at the balance sheet dates, based on payment due date, is as follows:

	Unaudited 30 June 2007 ***RMB'000***	Audited 31 December 2006 *RMB'000*
Current to 90 days	**2,398**	2,270
91 to 180 days	**224**	1,653
181 to 365 days	**–**	461
Over 365 days	**169**	283
	2,791	4,667

10. LOANS RECEIVABLE

The whole balance of the loans, net of provision for impairment losses recognized of RMB11,469,200 (31 December 2006: RMB Nil) were subsequently settled up to the date of the report.

11. TRADE AND OTHER PAYABLES

The aging analysis of trade and other payables at the balance sheet dates, base on payment due date, is as follows:

	Unaudited 30 June 2007 ***RMB'000***	Audited 31 December 2006 *RMB'000*
Current to 90 days	**471**	2,193
91 to 180 days	**302**	848
181 to 365 days	**729**	840
Over 365 days	**1,646**	1,634
	3,148	5,515

12. SHARE CAPITAL

	Number of shares	Issued share capital	Share capital equivalent of
		HK$'000	*RMB'000*
Ordinary shares of HK$0.10 each			
Authorized:			
At 30 June 2007 and 31 December 2006	1,000,000,000	100,000	
Issued and fully paid:			
At 30 June 2007 and 31 December 2006	400,000,000	40,000	42,428

13. SHARE OPTION SCHEME

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the six months ended 30 June 2007 are as follows:

	Number of share options
Outstanding at the beginning of the period	–
Granted during the period	40,000,000
Forfeited during the period	–
Exercised during the period	–
Outstanding at the end of the period	40,000,000

In the current period, share options were granted on 11 May 2007. The fair value of the options determined at the date of grant using the Binomial model was HK$0.2054.

13. SHARE OPTION SCHEME *(Continued)*

The following assumptions were used to calculate the fair values of share options:

Grant date	11 May 2007
Grant date price per share	HK$0.55
Exercise price per share	HK$0.55
Expected life	10 years
Expected volatility	41.83%
Dividend yield	–
Risk-free interest rate	4.235%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions. The Group recognized the total expense of RMB8,216,000 for six months ended 30 June 2007 (six months ended 30 June 2006: Nil).

At each balance sheet date, the Group revised its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in the income statement, with a corresponding adjustment to the share options reserve.

14. ACQUISITION OF A SUBSIDIARY

On 31 December 2006, the Group acquired 100 per cent of the issued share capital of Qingdao Zhongtian Software Park Co. Ltd. for consideration of approximately RMB39,942,000 from Chen De Zhao and Wang Gui Ju, who are the parents of a director of the Company, Chen Jun. This transaction has been accounted for by the purchase method of accounting. The fair value of the net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustment**	**Fair value**
	RMB'000	*RMB'000*	*RMB'000*
Property, plant and equipment	5	–	5
Land use rights	14,669	52,855	67,524
Construction in progress	1,762	–	1,762
Deposits, prepayment and other receivables	679	–	679
Cash and cash equivalents	125	–	125
Trade and other payables	(30,065)	–	(30,065)
	(12,825)	52,855	
Net assets acquired			40,030
Negative goodwill			(88)
Cash consideration			39,942
Net cash outflow arising on acquisition:			
Cash consideration paid			39,942
Cash and cash equivalents acquired			(125)
			39,817

15. COMMITMENTS

At the balance sheet dates, the Group had the following commitments:

(a) Capital commitments

The Group had capital commitments not provided for in the financial statements as follows:

	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
Authorized but not contract for	**10,871**	10,871
Contracted but not provided for	**2,480**	2,480
	13,351	13,351

(b) Operating lease commitments

	Unaudited 30 June 2007 *RMB'000*	Audited 31 December 2006 *RMB'000*
Minimum lease payments paid under operating leases	**260**	173

Operating lease payments represent rentals payable by the Group for certain of its office premises.

OVERVIEW

During the period, the Group was principally engaged in four business segments, namely (i) provision of system integration services; (ii) development of customized software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services. The main customers of the Group are Rural Credit Co-operatives ("RCCs") in the PRC.

As of today, 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 resulting in operating ineffectiveness and inefficiency. To assist RCCs improving their operating effectiveness and efficiency, the Group has been specializing in the provision of system integration solutions and technical support services to RCCs. The Group believes that: "An established and reliable information technology system is a critical and necessary tool to improve the effectiveness and efficiency of the management of a bank." At present, the Group has successfully assisted and completed the construction of provincial RCCs information networks for Shangdong Province and Hubei Province as well as continuously providing maintenance service and other relevant services to the RCCs.

The management of the Group is of the view that most of the RCCs have imminent needs for electronic solutions to improve their operating efficiencies. System infrastructure and technical support is definitely a solution to improve the operating effectiveness and efficiency of RCCs, which is also in fact a policy of reform to the RCCs, and hence will generate great business opportunities to the Group in foreseeable future.

MARKET CONDITIONS

Since the Group has been focusing on the RCCs market, the industry trend and changes in the market demand of RCCs are of paramount importance to the Group.

At present, most of the RCC information network construction projects have been upgraded from a municipal or local level to a provincial level. However, the projects which are in local level have been under a process of revision currently. The market demand for the relevant products have been slowed down since early 2006 till now. This leads directly to a significant decline in the income of the Group generating from the provision of system integration services, development of customized software products and provision of maintenance and other services during the reporting period.

The management of the Group believes that the review of projects might still take time, which will continuously affect the Group's income in the upcoming fiscal period/year. However, it is believed that the decline in income from which is temporary in nature. The need of RCCs for electronic solutions to improve their operating efficiencies exists despite of any policy changes. It is expected that the aforesaid review might be completed shortly in the foreseeable future. As a result, it is expected that the recovery in demand of RCCs market will thereafter contribute materially to the Group's entire income.

Looking forward, in view of the relatively large proportion of RCCs that have yet to construct their information network and the expanding market of information network in the urban commercial banking sector, the Group will leverage on its excellent reputation and solid goodwill to expand its market share in the RCCs information network development and to enter into the urban commercial banking information network sector. On the other hand, the Group will continuously invest in the non-banking and finance sector. Given that some relevant software products have been successfully developed, it is anticipated that they will create benefits to the Group in the upcoming fiscal period/year.

FINANCIAL REVIEW

Turnover and gross profit margin

The Group's total turnover for the period ended 30 June 2007 was approximately RMB6,540,000, representing a decrease of 49% from approximately RMB12,787,000 of the same period in last year. This was mainly attributable to the lack of large-scale tender projects in the market of the RCCs in various provinces, due to a revision of information network construction projects being conducted by their supervisory bodies at provincial level.

During the period, the Group has continuously invested considerable manpower and funds to develop the non-banking and finance sector. However, the result from non-banking and finance sector still fell below expectation. The total income from banking and finance sector represents 80% of total turnover (83% of the same period in last year). The total income from non-banking and finance sector represents only 20% of total turnover (17% of the same period in last year).

In order to attract more customers to the Group's products in more regions, the Group continued to adopt the price-cut approach aiming at attracting more potential customers, which resulted in a drop in the overall gross profit margin by 12% to 22% 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 RCCs market which led to the continuous decrease in overall distribution costs by 4% from approximately RMB1,718,000 for the period ended 30 June 2006 to RMB1,652,000 for the period ended 30 June 2007.

General and administrative expenses

Excluding the factor that the fair value of the share options of RMB8,216,000 granted to employees were recognized as an expense and an impairment loss of accounts receivables of approximately RMB427,000 made in the first half year of 2007, the Group's administrative expenses for the six months ended 30 June 2007 were approximately RMB6,743,000 (same period in 2006: approximately RMB7,241,000), representing a decrease of approximately 7% over the corresponding period in year 2006.

Provision for impairment loss on loan receivables

During the period, the Group has made a provision of RMB11,469,200 for impairment loss on loan receivables. The provision represented the non-repayment of the loans from two companies named 青島易貝科技有限公司 (Qingdao Yi Bei Technology Limited) and 青島銀通科技開發有限公司 (Qingdao Yin Tong Technology Development Limited) (collectively, the "Companies") (both are independent third parties) in the amount of RMB1,722,200 and RMB9,747,000 respectively. The Group has recently learnt that the Companies are under the process of liquidation. Despite repeated demands made by the Group, the Companies have failed to make full repayment.

To cope with the non-repayment of the Companies, the Group has adopted a prudent approach to make the full provision. In addition, the Group has sought legal advice and has appointed a law firm in the PRC promptly so as to adopt relevant legal proceedings against the relevant companies for demanding repayment.

Except the above, other loan receivables amounted RMB21,020,000 as at 30 June 2007 has been fully settled as at the report date.

Net Loss

During the period, the Group recorded a net loss of approximately RMB25,890,000 as compared to the net loss of approximately RMB3,688,000 for the corresponding period last year. The loss was increased due to decline in demands of RCCs market.

BUSINESS REVIEW

Analysis by Business Segment

The following is an analysis of the Group's turnover for the six months ended 30 June 2007 by business segment:

	For the period ended 30 June			
	2007		2006	
	RMB'000	**%**	*RMB'000*	%
Provision of system integration services	**1,620**	**25**	4,276	33
Development of customised software products	**852**	**13**	1,540	12
Sale of software and hardware products	**3,466**	**53**	3,215	25
Provision of maintenance and other services	**602**	**9**	3,756	30
Total	**6,540**	**100**	12,787	100

During the period under review, the Group's principal source of income was derived from the sale of software and hardware products and the provision of system integration services, which accounted for 53% and 25% respectively of the total turnover of the Group, while incomes from the development of customised software products and the provision of maintenance and other services took up 13% and 9% of the total turnover respectively.

The Group realizes the problem of the risk of relying on a single market that the Group's revenues were mainly derived from the provision of services to RCCs, which accounted for over 80% of the Group's total turnover on average in the past few years. From which, the income from the provision of system integration services accounted for RMB1,620,000, representing a decrease of 62% from approximately RMB4,276,000 of the same period in last year, while income from the provision of maintenance and other services recorded a sharp decrease of 84% to RMB602,000 compared to RMB3,756,000 of the same period in last year.

Given that the Group has comprehensive products of RCCs information network system in store, it is believed that the turnover and profit of the Group will increase significantly when the RCCs market recovers. The Group is expected to secure more provincial RCCs information network constructions during the year without substantial investment for development.

With an overview on the performance of the four major business segments, income from the sale of software and hardware products is the only business outperformed over the market expectation. In general, due to product generation cycle, most of the hardwares need periodical replacement or upgrade, for which, the Group believes that the income generating from this sector might continuously act as a main contributor to the Group's income in upcoming period. The income from the sale of software and hardware products totaled approximately RMB3,466,000, which accounted for 53% of the Group's total turnover, representing an increase of 8% approximately compared to that of the same period in last year.

Analysis by Geographic Segment

Similar to the same period of last year, most of the Group's income was derived from Shandong Province, which accounted for over 54% of the Group's total turnover (2006: 80%). Contribution from Hubei Province and Guangdong Province increased to 16% and 11% respectively as compared to 3% and 10% in the same period of last year. The contribution from other provinces in the total turnover increased from 7% in the same period of last year to currently 19%.

As the Group will continuously expand its market share in the RCCs information network development in the PRC. The Group anticipates that income from other provinces will continue to increase.

Analysis of Turnover by Customer Type

The following is an analysis of the Group's turnover for the period ended 30 June 2007 by customer type:

	For the period ended 30 June			
	2007		2006	
	RMB'000	**%**	*RMB'000*	*%*
Banking and finance sector				
– RCCs	**5,243**	**80**	10,570	83
– non-RCCs	**–**	**–**	380	3
Non-banking and finance sector	**1,297**	**20**	1,837	14
Total	**6,540**	**100**	12,787	100

During the period under review, the Group's revenues remained mainly from the provision of services to RCCs, which accounted for approximately 80% of the Group's total turnover, representing a slightly decreased of 3% compared to 83% in the same period last year.

Though the Group was 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 remained minimal. As for the non-banking and finance sector, the Group is still negotiating the contracts with potential customers, the contribution from this sector was insignificant during the period under review. The Directors expect a gradual rise in income from non-banking and finance sector in the upcoming years since the Group will invest continuously considerable manpower and funds to develop in the non-banking and finance sector in order to minimize the market risk on relying on a single market.

FUTURE OUTLOOK

In order to mitigate the risk of relying on a single market, it is the most practicable and effective way the Group should explore the market for financial institute application software in addition to the RCCs segment, including state-owned banks that are undergoing radical reforms and other leading commercial banks in the PRC.

On the non-banking and finance sector, the Group is also aggressively identifying markets with immense growth opportunities with the aim of further diversifying its income stream.

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 sector in the PRC.

NEW BUSINESS VENTURES

The Group has been on a constant lookout for opportunities that would provide a platform for new sources of long-term growth and product diversification. Apart from the existing businesses, the Group has been aggressively in consideration of developing other industries with great potential, in order to explore new business ventures and income source as well as to mitigate the risk of relying on a single market.

INDEBTEDNESS

As at 30 June 2007, 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, financial 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 2007, the Group had cash of approximately RMB24,954,000 (31 December 2006: approximately RMB29,173,000). The gearing ratio (defined as total interest bearing debts divided by shareholder's equity) was 0% (31 December 2006: 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 2007, the Group did not have any substantial investment and acquisition.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2007, the Group had 27 employees (30 June 2006: 47), most of whom are based in the head office of the Group in Qingdao City of Shandong Province in the PRC. During the period, the number of employees reduced significantly as the Group has been under a reorganisation process on employee structure that is mainly focused on marketing department and research and development department.

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 2007 was approximately RMB826,000 (30 June 2006: approximately RMB4,179,000).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2007 (six months ended 30 June 2006: HK$Nil).

SHARE OPTION SCHEME

As incentives or rewards to eligible persons for their contribution to the Group, the Company conditionally adopted a share option scheme (the "Scheme") on 27 July 2004 whereby the Directors are authorised, at their absolute discretion and subject to the terms of the Scheme, to grant options to subscribe the shares of the Company (the "Shares") to, inter alia, any employees (full-time or part-time), directors, consultants, customers, shareholders of and suppliers of goods and services to the Group. The Scheme shall be valid and effective for a period of ten years commencing on the date on which the Scheme becomes unconditional, subject to the early termination provisions contained in the Scheme.

An offer for the grant of options must be accepted within 28 days from the day on which such offer was made. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price of a Share in respect of any particular option granted under the Scheme shall be a price at the discretion of the Directors, provided that it shall be at the highest of : (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the options; (ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the options; and (iii) the nominal value of the Shares on the date of grant of the options.

The Company shall be entitled to issue options, provided that the total number of Shares which may be issued upon exercise of all outstanding options to be granted under the Scheme and any other share option scheme of the Company does not exceed 10% of the Shares in issue at the date when the Shares were first listed on the Stock Exchange. The Company may at any time refresh such limit, subject to in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, provided that the total number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme of the Company does not exceed 30% of the Shares in issue from time to time.

An option may be exercised at any time during a period which shall not exceed ten years from the date of grant subject to the provisions of early termination under the Scheme.

The status of the share options granted up to 30 June 2007 is as follows:

Category of participants	As at 1 January 2007	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 30 June 2007	Date of grant of share option	Exercise period of share options	Exercise price of share options	Share price of the Company as at the date of grant of share option**
								HK$	*HK$*
Employee*	–	40,000,000	–	–	40,000,000	11 May 2007	10 years from the date of grant	0.55	0.55

* There was a total of 10 employees of the Company being granted options under the Scheme during the period, all of whom are not Directors, chief executive or substantial shareholders of the Company or their respective associates.

** The closing price of the Shares immediately before the date on which the options were granted was HK$0.46.

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to the eligible participants during the period are set out under Note 13 to condensed financial statements of this report.

Apart from the foregoing, at no time during the period prior to the date of this report was the Company, any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the period under review.

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 2007.

AUDIT COMMITTEE

The Audit Committee of the Company and the management have reviewed this report including the unaudited interim financial report of the Group for the six months ended 30 June 2007 and have discussed the internal control, accounting principles and practices adopted by the Group.

DISCLOSURE OF INTERESTS

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

As at 30 June 2007, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

Long Positions in Ordinary Shares of the Company

Name of Directors	Capacity/Nature	Number of shares involved	Approximate shareholding percentage
Mr. Chen Jun *(Note)*	Interest of a controlled corporation	197,834,637	49.46%

Note:

Mr. Chen Jun is the beneficial owner of 100% of the issued shares in Fine Mean Investments Limited, and therefore, Mr. Chen Jun is deemed, or taken to be, interested in the shares of the Company which are beneficially owned by Fine Mean Investments Limited for the purposes of the SFO.

Save as disclosed above, as at 30 June 2007, none of the Directors nor chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDER

As at 30 June 2007, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Positions in Ordinary Shares of the Company

Name	Capacity/Nature	Number of Shares	Approximate shareholding percentage
Substantial Shareholder			
Fine Mean Investments Limited *(Note 1)*	Beneficial owner	197,834,637	49.46%
Ms. Su Haiqing *(Note 2)*	Interest of spouse	197,834,637	49.46%

Notes:

(1) Fine Mean Investments Limited is 100% benefically owned by Mr. Chen Jun. Mr. Chen Jun is a director of Fine Mean Investments Limited.

(2) Ms. Su Haiqing is the spouse of Mr. Chen Jun. Under the SFO, she is deemed to be interested in all the shares of the Company in which Mr. Chen is interested.

Save as disclosed 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.

OTHER INFORMATION

REMUNERATION COMMITTEE

The Company established a remuneration committee on 25 April 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. Chen Wen Ping and Mr. Qi Fa Cheng, and one executive Director, namely Mr. Zhao Yun.

EXPRESS OF GRATITUDE

The Board would like to take this opportunity to express its profound gratitude to all staff members, shareholders, bankers, customers, suppliers and professional bodies for the sincere support they have rendered to the Group to date.

By Order of the Board
CHEN Jun
Chairman

Qingdao City, Shandong Province, the PRC
21 September 2007