



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 2008



* for identification purposes only

CONTENTS

CORPORATE INFORMATION	2
FINANCIAL HIGHLIGHTS	3
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS	
Condensed Consolidated Income Statement	4
Condensed Consolidated Balance Sheet	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Cash Flow Statement	7
Notes to Condensed Financial Statements	8
MANAGEMENT DISCUSSION AND ANALYSIS	16
CORPORATE GOVERNANCE	23
DISCLOSURE OF INTERESTS	24
OTHER INFORMATION	28

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

02379

Company's website

www.irasia.com/listco/hk/zhongtian

Principal place of business in Hong Kong

Suites 2201-03, 22nd Floor
Jardine House
1 Connaught Place
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 KY1-1107
Cayman Islands
British West Indies

Registered office

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman KY1-1107
Cayman Islands

Head office and principal place of business

21st Floor
Huaren Int'l Mansion
No. 2 Shandong Road
Shinan District
Qingdao City
Shandong Province
The People's Republic of China ("PRC")

FINANCIAL HIGHLIGHTS

The directors (the “Directors”) of Zhongtian International Limited (the “Company”, together with its subsidiaries, the “Group”) are pleased to present the Group’s interim report and condensed accounts for the six months ended 30 June 2008. 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 2008, and the consolidated balance sheet as at 30 June 2008 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 8 to 15 of this report.

IMPORTANT FINANCIAL INDICATORS

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2,573	6,540
(Loss)/profit for the period	(4,581)	(25,890)
(Loss)/earnings per share		
– Basic	(1.15 Cents)	(6.47 Cents)
– Diluted	N/A	N/A

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Unaudited	
		Six months ended 30 June	
		2008	2007
	<i>Notes</i>	RMB'000	RMB'000
Turnover	2	2,573	6,540
Cost of sales		(758)	(5,098)
Gross profit		1,815	1,442
Other operating income	3	97	1,175
Distribution costs		(538)	(1,652)
General and administrative expenses		(4,708)	(15,386)
Impairment loss on loans receivables		-	(11,469)
Loss from operation		(3,334)	(25,890)
Finance costs		(1,247)	-
Loss before income tax	4	(4,581)	(25,890)
Income tax	5	-	-
Loss for the period		(4,581)	(25,890)
Attributable to:			
Equity holders of the Company		(4,581)	(25,889)
Minority interests		-	(1)
		(4,581)	(25,890)
Dividends	6	-	-
Loss per share			
- Basic	7	(1.15 cents)	(6.47 cents)
- Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008 and 31 December 2007

		Unaudited	Audited
		30 June	31 December
		2008	2007
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,353	1,753
Land use rights		62,809	63,654
Property held for development		42,798	41,315
		106,960	106,722
CURRENT ASSETS			
Trade receivables	9	2,573	–
Securities held for trading		48	6,180
Deposits, prepayments and other receivables		3,160	2,838
Land use rights		1,746	1,746
Cash and bank balances		23,792	28,354
		31,319	39,118
CURRENT LIABILITIES			
Interest-bearing bank borrowings		30,000	30,000
Trade, bills and other payables	10	2,281	3,435
Obligations under finance leases		100	100
Amounts due to directors		435	427
Income tax payable		1,100	1,100
		33,916	35,062
NET CURRENT ASSETS		(2,597)	4,056
TOTAL ASSETS LESS CURRENT LIABILITIES		104,363	110,778
NON-CURRENT LIABILITIES			
Obligations under finance leases		197	259
NET ASSETS		104,166	110,519
CAPITAL AND RESERVES			
Issued capital	11	42,428	42,428
Reserves		61,738	68,091
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY		104,166	110,519
MINORITY INTERESTS		–	–
TOTAL EQUITY		104,166	110,519

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2008

	Attributable to equity holders of the Company										
	Share	Share	Special	Statutory	Public	Share	Retained		Minority	Total	
	capital	premium	reserve	Translation	surplus	welfare	option	profits	Total	interests	equity
	RMB'000	RMB'000	(Note)	reserve	reserve	fund	reserve	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)	12,065	5,331	8,216	(2,576)	118,118	-	118,118
At 1 January 2008	42,428	47,246	6,740	(1,816)	12,065	5,331	8,216	(9,691)	110,519	-	110,519
Net loss for the period	-	-	-	-	-	-	-	(4,581)	-	-	(4,581)
Exchange difference arising from translation of foreign subsidiaries	-	-	-	(1,772)	-	-	-	-	-	-	(1,772)
Recognition of equity compensation benefit	-	-	-	-	-	-	-	-	-	-	-
At 30 June 2008	42,428	47,246	6,740	(3,588)	12,065	5,331	8,216	(14,272)	104,166	-	(104,166)

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 2008

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash used in operating activities	(2,693)	(3,876)
Net cash used in investing activities	(97)	(117)
Net decrease in cash and cash equivalents	(2,790)	(3,993)
Cash and cash equivalents at beginning of the period	28,354	29,173
Effect of foreign exchange rate changes	(1,772)	(226)
Cash and cash equivalents at the end of the period, represented by cash and bank balances	23,792	24,954

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

This interim report has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the HKICPA. This interim report should be read in conjunction with the annual financial statements for the year ended 31 December 2007.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in the annual financial statements for the year ended 31 December 2007.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group and the Company for current and previous accounting periods.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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	
	2008	2007
	RMB'000	RMB'000
System integration	400	1,620
Customized software products	1,618	852
Sale of hardware and software products	22	3,466
Maintenance and other services	533	602
Total	2,573	6,540

NOTES TO CONDENSED FINANCIAL STATEMENTS

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(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.

Business segments for the period are as follows:

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Turnover		
System integration	400	1,620
Customized software products	1,618	852
Sale of hardware and software products	22	3,466
Maintenance and other services	533	602
	2,573	6,540
Segment results		
System integration	150	349
Customized software products	479	111
Sale of hardware and software products	6	832
Maintenance and other services	123	150
	1,815	1,442
Unallocated other operating income	97	1,175
Unallocated corporate expenses	(6,493)	(28,507)
Loss from operation	(4,581)	(25,890)
Share of result of an associate	–	–
Loss for the period	(4,581)	(25,890)

NOTES TO CONDENSED FINANCIAL STATEMENTS

2. TURNOVER AND SEGMENT INFORMATION *(Continued)*

(b) Business segments *(Continued)*

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.

(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	
	2008	2007
	RMB'000	RMB'000
Interest income on bank deposits	24	53
Interest income from loans receivable	-	351
Others	73	127
Reversal of impairment loss on trade receivables	-	644
	97	1,175

4. LOSS BEFORE INCOME TAX

Loss before income tax has been arrived at after charging:

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Amortization of development costs	-	106
Cost of inventories recognized as expense	-	5,098
Depreciation of property, plant and equipment	400	416
Impairment loss on trade receivables	-	427

NOTES TO CONDENSED FINANCIAL STATEMENTS

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.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC enterprise income tax of the Group's subsidiaries is 30% and the local income tax at 3%. Zhongtian Information is granted certain tax relief, under which they are exempted from the PRC enterprise income tax for the first two profit making years and entitled to an income tax reduction of 15% for the next three years with full exemption from local income tax.

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"), which will be effective from 1 January 2008. According to the new CIT Law, the PRC income tax for both domestic and foreign investment enterprises will be unified at 25% effective from 1 January 2008. There will be a transition period for enterprises that currently receive preferential tax treatments granted by relevant tax authorities. Enterprises that are subject to a PRC income tax rate lower than 25% may continue to enjoy the lower PRC income tax rate and gradually transfer to the new PRC income tax rate within five years after the effective date of the new CIT Law. Enterprises that are currently entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

No provision nor deferred tax assets have been recognised for the period in respect of the tax losses due to unpredictability of future profit streams.

6. DIVIDENDS

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

NOTES TO CONDENSED FINANCIAL STATEMENTS

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 2008 of approximately RMB4,581,000 (six months ended 30 June 2007: loss of approximately RMB25,890,000) and weighted average number of ordinary shares in issue during six months ended 30 June 2008 of 400,000,000 (six months ended 30 June 2007: 400,000,000).

No diluted loss per share has been presented for the six months ended 30 June 2008 as the share options outstanding had no dilute effect on basic loss per share for the period (six months ended 30 June 2007: Nil).

8. PROPERTY, PLANT AND EQUIPMENT

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 RMB'000
Cost		
At the beginning of the period/year	4,623	4,226
Additions	-	932
Disposals	(127)	(536)
Exchange difference	-	1
	4,496	4,623
Depreciation and amortization		
At the beginning of the period/year	2,870	2,418
Provided for the period	400	884
Eliminated on disposals	(127)	(432)
	3,143	2,870
Net book value	1,353	1,753

NOTES TO CONDENSED FINANCIAL STATEMENTS

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	Audited
	30 June	31 December
	2008	2007
	RMB'000	<i>RMB'000</i>
Current to 90 days	–	–
91 to 180 days	2,573	1,987
181 to 365 days	–	1,770
Over 365 days	–	2,591
	2,573	6,348
Less: Allowance for doubtful debts	–	(6,348)
	2,573	–

10. TRADE AND OTHER PAYABLES

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

	Unaudited	Audited
	30 June	31 December
	2008	2007
	RMB'000	<i>RMB'000</i>
Current to 90 days	–	1,747
91 to 180 days	19	659
181 to 365 days	–	241
Over 365 days	2,262	788
	2,281	3,435

NOTES TO CONDENSED FINANCIAL STATEMENTS

11. SHARE CAPITAL

	Number of shares	Issued share capital <i>HK\$'000</i>	Share capital equivalent of <i>RMB'000</i>
Ordinary shares of HK\$0.10 each Authorized:			
At 30 June 2008 and 31 December 2007	1,000,000,000	100,000	
Issued and fully paid:			
At 30 June 2008 and 31 December 2007	400,000,000	40,000	42,428

12. SHARE OPTION SCHEME

The following table shows the movement of the Company's share options during the six months ended 30 June 2008.

Employee and consultants (see below)

Date of share options granted	Outstanding at the beginning of the period	Granted during the period	Waved by share option holder during the period	Outstanding at the end of the period	Subscription price (HK\$)	Exercise period
11 May 2007	40,000,000	-	-	40,000,000	0.55	11 May 2007 - 10 May 2017

NOTES TO CONDENSED FINANCIAL STATEMENTS

13. 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 2008 RMB'000	Audited 31 December 2007 <i>RMB'000</i>
Authorized but not contract for	–	–
Contracted but not provided for	227,730	227,730
	227,730	227,730

(b) Operating lease commitments

	Unaudited 30 June 2008 RMB'000	Audited 31 December 2007 <i>RMB'000</i>
Minimum lease payments paid under operating leases	1,931	239

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

During the reporting period, the Group was principally engaged in two major business segments, which were information technology and property development and investment respectively.

Information Technology

The Group's information technology segment is divided into four operating divisions, including (i) provision of system integration services; (ii) research and development of customized software products; (iii) sale of software and hardware products; and (iv) provision of maintenance and other services. During the reporting period, the main customers of the Group are Rural Credit Co-operatives ("RCCs") in the PRC.

The provision of electronic network services for RCCs was still the major source of income of the Group. Since 2007, most of the RCCs electronic network construction projects have been upgraded from a municipal or local level to a provincial level and the projects which are in local level have been under a process of revision. RCCs adhered to the adjustments of the provincial policies and therefore newly or already signed software projects have been suspended or shelved and pending further instructions. As a result, most of the projects under the new software contracts entered into by the RCCs and the Group have delayed. Such adjustments of the policies have directly led to a massive impact on the Group's operating income in the reporting period.

Property Development and Investment

As stated in the 2007 annual report, the Group has been facing the difficult business environment and challenges under the segment of information technology, and realised that the risks of relying on a single market. The Group has been proactively exploring to develop a new business to mitigate this risk, and had thus invested considerable resources in developing a piece of commercial land in Laoshan District in Qingdao City of Shandong Province. The Group has intended to utilize part of the land for the development of its R&D centre and the remaining for long term property investment or for sale. Through the development of the abovementioned land, the Group aims to start a new line of business to reduce the risks derived from its heavy reliance on a single market and diversify its business. During the reporting period, there was still no contribution to the Group's turnover and result from this project as it was still at the construction stage that no profit or revenue contribution was recorded during the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Turnover and Gross Profit Margin

The Group's total turnover for the period ended 30 June 2008 was approximately RMB2,573,000, representing a decrease of 61% from approximately RMB6,540,000 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.

The gross profit margin increased from 22% by 49% to 71% compared to the corresponding period last year as the major portion of turnover was from service items which resulted in a more favourable gross profit margin.

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 61% from approximately RMB1,652,000 for the period ended 30 June 2007 to RMB538,000 for the period ended 30 June 2008.

General and Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2008 were approximately RMB4,708,000 (same period in 2007: approximately RMB6,743,000 exclusive of RMB8,216,000 recognised as an expense arise from the share options granted to employees), representing a decrease of approximately 30% over the corresponding period in year 2007.

Provision for Impairment Loss of Loan Receivables

As disclosed in the 2007 Interim Report of the Group, the Group has made a provision of RMB11,469,200 for impairment loss of 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Despite repeated demands made by the Group, the Companies have failed to make full repayment.

Knowing that the Companies are in bankruptcy proceedings, the Group has initiated arbitration proceedings against the Companies respectively, and the Group has received favourable arbitration results from the relevant arbitration committees. The Group will continually explore all legal and practicable means in order to enforce the arbitration awards against the Companies for repayment.

However, as the Companies may not have substantial assets sufficient for repayment, the Group has adopted a prudent approach to make the full provision.

Save as disclosed above, there were no other loan receivables as at 30 June 2008, nor any provision was made during the reporting period.

Net Loss

During the period, the Group recorded a net loss of approximately RMB4,581,000 as compared to the net loss of approximately RMB25,890,000 for the corresponding period last year. The loss was decreased compared to the corresponding period last year as (a) a provision for impairment loss of loan receivables amounted to RMB11,469,200 was made, and (b) RMB8,216,000 was recognised as an expense arose from the share options granted to employees, in the first six months of the year 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Analysis by Business Segment

The following is an analysis of the Group's turnover for the six months ended 30 June 2008 by business segment:

	For the period ended 30 June			
	2008		2007	
	RMB'000	%	RMB'000	%
	(approximate)		(approximate)	
Provision of system integration services	400	16	1,620	25
Development of customised software products	1,618	63	852	13
Sale of software and hardware products	22	1	3,466	53
Provision of maintenance and other services	533	20	602	9
Total	2,573	100	6,540	100

During the period under review, the Group's principal source of income was derived from development of customised software products and provision of maintenance and other services, which accounted for approximately 63% and 20% respectively of the total turnover of the Group, while incomes from sale of software and hardware products and provision of system integration services took up approximately 1% and 16% of the total turnover respectively.

Similar to the same period of last year, the Group's revenues were mainly derived from the provision of services to RCCs, which accounted for approximately 86% of the Group's total turnover (2007: 80%).

Analysis by Geographic Segment

During the reporting period, most of the Group's income was derived from Hubei Province, which accounted for over 58% of the Group's total turnover (2007: 16%). Contribution from Shangdong Province and Guangdong Province was 15% and 20% respectively as compared to 54% and 11% in the same period of last year. The contribution from other provinces in the total turnover decreased from 19% in the same period of last year to currently 7%.

MANAGEMENT DISCUSSION AND ANALYSIS

Analysis of Turnover by Customer Type

The following is an analysis of the Group's turnover for the period ended 30 June 2008 by customer type:

	For the period ended 30 June			
	2008		2007	
	RMB'000	%	RMB'000	%
	<i>(approximate)</i>		<i>(approximate)</i>	
Banking and finance sector				
– RCCs	2,200	86	5,243	80
– non-RCCs	–	–	–	–
Non-banking and finance sector	373	14	1,297	20
Total	2,573	100	6,540	100

During the period under review, the Group's revenues remained mainly from the provision of services to RCCs, which accounted for approximately 86% of the Group's total turnover.

Though the Group was actively exploring the market of non-RCCs banking and finance sector, the Group had failed to conclude large-scale contracts with the potential customers in this sector during the period under review due to policy revision in terms of system specification in RCCs markets. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE OUTLOOK

In order to mitigate the risks of relying on a single market, the Group will continue to 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.

The Directors believe that the Group will explore potential market in the non-finance sector by leveraging on its experiences gained from the provision of RCCs services, its leading position in the industry and its own strengths. Meanwhile, the Group has been proactively exploring to develop other markets, in particular, the property development and investment market in addition to its information technology business to diversify its income stream.

INTEREST-BEARING BANK BORROWINGS

During the period under review, the Group had interest-bearing bank borrowings of RMB30,000,000 which was short-term loan to be repaid in one year with interest at rate of 8.217% per annum (2007: NIL).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

During the year, the Group obtained a one-year fixed rate term loan facility of RMB30 million from a bank, which is designated for financing the property project in Laoshan District in Qingdao City of Shangdong Province (the "Project"). The bank loan facility is secured by the Project's land use rights.

As at 30 June 2008, the Group had cash of approximately RMB23,792,000 (31 December 2007: approximately RMB28,354,000) that comprised HKD2,850,000 and RMB21,286,000 respectively and approximately. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 28.8% (31 December 2006: 25.7%).

During the six months ended 30 June 2008, the Group did not employ any material financial instrument for hedging purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

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. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates and has not adopted any currency hedging policy or other hedging instruments during the period ended 30 June 2008.

SUBSTANTIAL INVESTMENT AND ACQUISITION

During the first six months of 2008, the Group did not have any substantial investment and acquisition.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 30 June 2008.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2008, the Group had 34 employees (30 June 2007: 27) which increased slightly as compared to the same period last year. Most of the Group's employees are based in the head office of the Group in Qingdao City of Shandong Province in the PRC.

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 2008 was approximately RMB534,000 (30 June 2007: approximately RMB826,000).

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries had 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 2008 (six months ended 30 June 2007: HK\$Nil).

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 Issuers 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 2008.

AUDIT COMMITTEE

The Audit Committee of the Company and the management have reviewed the Group's 2008 interim report including the unaudited interim financial report of the Group for the six months ended 30 June 2008 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 2008, 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 (<i>Note</i>)	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 2008, 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.

DISCLOSURE OF INTERESTS

SUBSTANTIAL SHAREHOLDER

As at 30 June 2008, 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 (<i>Note 1</i>)	Beneficial owner	197,834,637	49.46%
Ms. Su Haiqing (<i>Note 2</i>)	Interest of spouse	197,834,637	49.46%

Notes:

- (1) Fine Mean Investments Limited is 100% beneficially 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.

DISCLOSURE OF INTERESTS

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 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.

DISCLOSURE OF INTERESTS

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 2008 is as follows:

Category of participants	As at 1 January 2008	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	As at 30 June 2008	Date of grant of share options	Exercise period of share options	Share price of the Company as at	
								Exercise price of share options HK\$	the date of grant of share options** 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, 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.

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.

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.

By Order of the Board

CHEN Jun

Chairman

Qingdao City, Shandong Province, the PRC
24 September 2008