



**Zhongtian International Limited**

**中天國際控股有限公司\***

Incorporated in the Cayman Islands with limited liability

Stock Code: 02379



INTERIM REPORT

2011

\* for identification purposes only



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## CORPORATE INFORMATION

### Executive Directors

CHEN Jun  
ZHAO Yun

### Independent Non-executive Directors

GUO Qiang  
CHEN Wen Ping  
LIU Jin Lu

### Company secretary

TAI Man Hin, Tony

### Audit committee

GUO Qiang  
CHEN Wen Ping  
LIU Jin Lu

### Hong Kong legal advisors

Loong & Yeung Solicitors

### Authorised representatives

CHEN Jun  
ZHAO Yun

### Stock code

02379

### Company's website

[www.irasia.com/listco/hk/zhongtian](http://www.irasia.com/listco/hk/zhongtian)

### Principal place of business in Hong Kong

Suites 2001-05, 20th Floor  
Jardine House  
1 Connaught Place  
Central, Hong Kong

### Auditors

CCIF CPA Limited

### Principal bankers

China Construction Bank,  
No.3 branch, Shinan District, 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

### Registered office

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

### Head office and principal place of business

21st Floor  
Huaren International Mansion  
No. 2 Shandong Road  
Shinan District  
Qingdao City  
Shandong Province  
The People's Republic of China

## UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The board (the “Board”) of directors (the “Directors”) of Zhongtian International Limited (the “Company”, together with its subsidiaries, the “Group”) herein present the Group’s interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2011.

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

		Unaudited Six months ended 30 June	
	Notes	2011 RMB'000	2010 RMB'000
Turnover	2	5,996	5,633
Cost of sales		(4,772)	(4,583)
Gross profit		1,224	1,050
Other operating income	3	21	3
Gain on disposal of subsidiaries	4	2,756	–
General and administrative expenses		(3,164)	(2,898)
Impairment loss of available-for-sale equity investment	10	(27,630)	–
Loss before income tax	5	(26,793)	(1,845)
Income tax	6	6,907	–
Loss for the period		(19,886)	(1,845)
Attributable to:			
Equity holders of the Company		(19,886)	(1,845)
Other comprehensive income/(loss) for the period			
Fair value change for available-for-sale equity investment		(24,375)	–
Deferred tax arising from fair value change for available-for-sale equity investment		6,093	–
Reclassification adjustment for the cumulative loss on available-for-sale equity investment included in profit or loss upon recognition of impairment loss		27,630	–
Reclassification adjustment for the cumulative deferred tax on available-for-sale equity investment included in profit or loss upon recognition of impairment loss		(6,907)	–
Exchange differences on translation of foreign operations		(180)	–
Net other comprehensive income for the period		2,261	–
Total comprehensive loss for the period		(17,625)	(1,845)

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***(Continued)*

For the six months ended 30 June 2011

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	Notes	<b>2011</b>	2010
		<b>RMB'000</b>	RMB'000
Attributable to:			
Equity holders of the Company		<b>(17,625)</b>	(1,845)
Loss per share (RMB Cents)			
– Basic	8	<b>(9.16)</b>	(1.02)
– Diluted		<b>(9.16)</b>	(1.02)



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

	Notes	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		21,230	21,876
Investment properties	9	29,605	29,605
Available-for-sale equity investment	10	6,510	30,885
		<b>57,345</b>	82,366
<b>CURRENT ASSETS</b>			
Trade and other receivables	11	6,718	5,677
Amount due from directors		719	–
Cash and bank balances		45,406	27,922
		<b>52,843</b>	33,599
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	7,055	6,377
Amounts due to directors		–	2,551
Income tax payable		1,100	1,100
		<b>8,155</b>	10,028
<b>NET CURRENT ASSETS</b>		<b>44,688</b>	23,571
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>102,033</b>	105,937
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		9,227	15,320
<b>NET ASSETS</b>		<b>92,806</b>	90,617
<b>CAPITAL AND RESERVES</b>			
Share capital	13	2,072	1,772
Reserves		90,734	88,845
<b>TOTAL EQUITY</b>		<b>92,806</b>	90,617

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to equity holders of the Company					
	Share capital RMB'000	Share premium RMB'000	Translation reserve RMB'000	Investment revaluation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2010	1,237	58,876	-	-	(9,067)	51,046
Issue of new ordinary shares	535	69,009	-	-	-	69,544
Net loss for the period	-	-	-	-	(1,845)	(1,845)
Deemed distribution	-	-	-	-	(23,165)	(23,165)
At 30 June 2010	1,772	127,885	-	-	(34,077)	95,580
At 1 January 2011	<b>1,772</b>	<b>127,885</b>	-	<b>(2,441)</b>	<b>(36,599)</b>	<b>90,617</b>
Issue of new ordinary shares	<b>300</b>	<b>19,514</b>	-	-	-	<b>19,814</b>
Net loss for the period	-	-	-	-	<b>(19,886)</b>	<b>(19,886)</b>
Other comprehensive income	-	-	<b>(180)</b>	<b>2,441</b>	-	<b>2,261</b>
At 30 June 2011	<b>2,072</b>	<b>147,399</b>	<b>(180)</b>	-	<b>(56,486)</b>	<b>92,806</b>



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Net cash (used in)/generated from operating activities	(1,776)	(1,875)
Net cash (used in)/generated from investing activities	(374)	9,096
Net cash generated from/(used in) financing activities	19,814	–
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>17,664</b>	<b>7,221</b>
Cash and cash equivalents at beginning of the period	27,922	20,318
Effect of foreign exchange rate changes	(180)	(73)
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY CASH AND BANK BALANCES</b>	<b>45,406</b>	<b>27,466</b>





## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30 June 2011

### **1. Basis of preparation**

These unaudited interim condensed consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of an interim financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The unaudited interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

### **Significant accounting policies**

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2010, except for the adoption of the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) and amendments to HKFRSs issued by the HKICPA for the first time for the current period’s unaudited interim condensed consolidated financial statements:



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 1. Basis of preparation *(Continued)*

#### Significant accounting policies *(Continued)*

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards-Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adoptors
HKAS 24 (Revised)	Related party disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HKAS 34 (Amendment)	Interim Financial Reporting
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current and prior accounting periods.

The Group has not early applied the new and revised standards, amendments or interpretations that have been issued but are not yet effective for the accounting period of these financial statement.

### 2. Turnover and segment information

#### *(a) Turnover*

The Group's turnover represents external customer income earned from the sale of information technology products, investment income and property rental income.

#### *(b) Business segments*

The Group was principally engaged in three major business segments, which were information technology, equity investment and property investment, respectively.

- (i) Information technology-sale of intelligent electronic products
- (ii) Equity investment-investment in bank shares
- (iii) Property investment

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 2. Turnover and segment information *(Continued)*

#### *(b) Business segments (Continued)*

Business segments for the period are as follows:

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Turnover		
Information technology	<b>5,475</b>	5,041
Equity investment	<b>455</b>	592
Property investment	<b>66</b>	–
	<b>5,996</b>	5,633
Segment results		
Information technology	<b>715</b>	458
Equity investment	<b>(27,175)</b>	592
Property investment	<b>54</b>	–
	<b>(26,406)</b>	1,050
Unallocated other operating income	<b>21</b>	3
Unallocated gain on disposal of subsidiaries	<b>2,756</b>	–
Unallocated corporate expenses	<b>(3,164)</b>	(2,898)
Loss before income tax	<b>(26,793)</b>	(1,845)
Income tax		
Information technology	–	–
Equity investment	<b>6,907</b>	–
Property investment	–	–
	<b>6,907</b>	–
Loss for the period	<b>(19,886)</b>	(1,845)



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 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 are located in the People's Republic of China (the "PRC").

### 3. Other operating income

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Interest income on bank deposits	21	3

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 4. Disposal of subsidiaries

On 18 April 2011, the Group entered into an agreement with Mr. Chen Jun, Company's director and controlling shareholder for the disposal of Golden Century Trade Limited, a then directly wholly-owned subsidiary of the Company, and its subsidiaries (the "Disposal Group") at an aggregate cash consideration of US\$1, which completed on the same date. The gain on the disposal of the Disposal Group recorded in the consolidated financial statement is approximately RMB2,756,000.

The net liabilities of the Disposal Group, at the date of disposal were as follows:

	2011 RMB'000
Property, plant and equipment	185
Cash and bank balances	395
Deposits, prepayment and other receivables	5
Amounts due to directors	(3,257)
Trade and other payables	(84)
Net liabilities disposed of	(2,756)
Disposal Proceed	-
Gain on disposal of the Disposal Group	(2,756)

### 5. Loss before income tax

Loss before income tax has been arrived at after charging/(crediting):

	Unaudited Six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Cost of inventories sold	4,772	4,583
Depreciation of property, plant and equipment	462	32
Gain on disposal of subsidiaries	(2,756)	-



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 6. Income tax

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
PRC Enterprise Income Tax		
Current tax	–	–
Deferred tax (Note)	<b>(6,907)</b>	–
	<b>(6,907)</b>	–

Note: The deferred tax was recognised due to reversal of temporary difference arising from impairment of available-for-sale equity investment.

No provision for Hong Kong Profits Tax is made as the Group has no assessable profit for both periods.

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands.

Pursuant to the income tax rules and regulations of the PRC, the applicable PRC Enterprise Income Tax of the Group's subsidiaries is 25% (2010: 25%).

### 7. Dividends

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 8. 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 2011 of approximately RMB19,886,000 (six months ended 30 June 2010: loss of approximately RMB1,845,000) and weighted average number of ordinary shares in issue during six months ended 30 June 2011 of 217,029,122 (six months ended 30 June 2010: 180,859,122).

There were no dilutive potential shares for the six months period ended 30 June 2011 and 30 June 2010, and diluted loss per share is the same as basic loss per share.

### 9. Investment properties

	<b>Unaudited 30 June 2011 RMB'000</b>	Audited 31 December 2010 RMB'000
Investment properties, at fair value	<b>29,605</b>	29,605

The investment properties are located in Qingdao, the PRC. No fair value adjustment was considered necessary by the directors of the Company for the period ended 30 June 2011.

### 10. Available-for-sale equity investment

	<b>Unaudited 30 June 2011 RMB'000</b>	Audited 31 December 2010 RMB'000
Unlisted equity investment, at fair value	<b>6,510</b>	30,885

Available-for-sale equity investment represented 2.14% equity interest in Qingdao Huafeng Rural Co-operative Bank Limited in Qingdao, the PRC (the "Bank").

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 10. Available-for-sale equity investment *(Continued)*

As advised by the Bank and the PRC legal advisers to the Company, the Bank is undergoing a reorganization with other banks for the establishment of a new bank (the "New Bank"). Since the Group is not qualified to be one of the shareholders of the New Bank under applicable PRC laws and regulations, the equity interests held by the Group in the Bank is expected to be bought back according to the proposal of the reorganization. The estimated recoverable amount of the said equity interests at the end of the period was RMB6,510,000. In the opinion of the Directors, an impairment loss of RMB27,630,000 was necessary to be provided from original cost of the investment RMB34,140,000 during the period ended 30 June 2011.

### 11. Trade and other receivables

Trade and other receivables of RMB6,718,000 (31 December 2010: RMB5,677,000) include trade receivables of RMB6,472,000 (31 December 2010: RMB5,426,000).

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 end of reporting period, based on payment due date, is as follows:

	<b>Unaudited</b>	Audited
	<b>30 June</b>	31 December
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Current to 90 days	<b>6,472</b>	5,426



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

### 12. Trade and other payables

Trade and other payables of RMB7,055,000 (31 December 2010: RMB6,377,000) include trade payables of RMB5,570,000 (31 December 2010: RMB4,934,000).

The aging analysis of trade payables at the end of reporting period, based on payment due date, is as follows:

	<b>Unaudited 30 June 2011 RMB'000</b>	Audited 31 December 2010 RMB'000
Current to 90 days	<b>5,570</b>	4,934

### 13. Share Capital

	Number of shares		Share capital	
	<b>30 June 2011 '000</b>	31 December 2010 '000	<b>30 June 2011 HK\$'000</b>	31 December 2010 HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<b>10,000,000</b>	10,000,000	<b>100,000</b>	100,000
Issued and fully paid:				
At 1 January 2011/2010	<b>180,859</b>	120,000	<b>1,808</b>	1,200
Issue of new ordinary shares (note)	<b>36,170</b>	60,859	<b>362</b>	608
At 30 June 2011/December 2010	<b>217,029</b>	180,859	<b>2,170</b>	1,808
Equivalent to RMB'000			<b>2,072</b>	1,772

Note:

On 31 May 2011, the Company issued 36,170,000 new ordinary shares of HK\$0.01 each at a price of HK\$0.66 each which rank pari passu in all respects with the then existing shares of the Company for general working capital of the Group.

On 25 February 2010, the Company issued 60,859,122 new ordinary shares of HK\$0.01 each at a price of HK\$1.30 each which rank pari passu in all respects with the then existing shares of the Company as part of the consideration for the acquisitions of subsidiaries.



## **NOTES TO CONDENSED FINANCIAL STATEMENTS**

For the six months ended 30 June 2011

### **14. Commitments**

At the end of reporting period, the Group had no significant commitments.

### **15. Event after the reporting period**

The Company entered into the placing agreement (“Placing Agreement”) with Astrum Capital Management Limited (“Placing Agent”) on 28 July 2011 pursuant to which the Company has agreed to grant, and the Placing Agent has agreed to procure not less than six placees to subscribe for, up to 43,405,824 warrants, on a best effort basis, at the placing price of HK\$0.01 per warrant. The subscription price is HK\$0.64 (subject to adjustment) per warrant share. The net proceeds from placing are intended for working capital of the Group. The placing completed on 24 August 2011 and 43,400,000 warrants were issued to not less than six placees pursuant to the terms of the Placing Agreement. For details, please refer to the announcements of the Company dated 28 July 2011 and 24 August 2011 respectively.

### **16. Approval of the interim financial statements**

The interim financial statements were approved and authorised for issue by the Board on 30 August 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS

### OVERVIEW

During the reporting period, the Group was principally engaged in three major business segments, namely, information technology, equity investment and property investment.

#### *Information Technology*

After several years of operation, the development and sale of intelligent electronic products began to generate revenue for the Group's business and became a business with fewer obstructions in the course of the transition to the Group's diversified operation. With a stable customer base and the advantage of a high output with low investment, the sale of intelligent electronic products, to which the Group attached great importance, has a steady and promising prospect for development. Meanwhile, as the competition in this domain is keen and the overall costs for exploring new customers has increased, the Group is fully aware of the fact that this domain cannot be the only source of income.

#### *Equity Investment*

During the reporting period, the Group still continued to hold equity interests in a commercial bank (the "Bank"). As advised by the Bank and the PRC legal advisers to the Company, the Bank is undergoing a reorganization with other banks for the establishment of a new bank (the "New Bank"). Since the Group is not qualified to be one of the shareholders of the New Bank under applicable PRC laws and regulations, the equity interests held by the Group in the Bank is expected to be repurchased according to the proposal of the reorganization. The estimated recoverable amount of the said equity interests at the end of the period was RMB6,510,000. In the opinion of the Directors, an impairment loss of RMB27,630,000 was necessarily to be provided for the original cost of the investment RMB34,140,000 during the period ended 30 June 2011.

#### *Property Investment*

Recently, the commercial property rentals in Qingdao City have continued its uprising trend, and the property lease market keeps thriving. In the previous years, the Group has acquired quality properties with potential for appreciation in the long run, and the properties, after renovation and rearrangement of their interior layouts, have been leased out during the period and generated rental incomes.



## **FINANCIAL REVIEW**

### **Turnover and Gross Profit Margin**

The Group's total turnover for the six months ended 30 June 2011 was approximately RMB5,996,000, representing an increase of approximately 6% from approximately RMB5,633,000 of the same period in last year. This was mainly attributable to the growth in the segment of sales in information technology. The gross profit margin increased by 1% from 19% in 2010 to 20% in 2011.

### **Distribution Costs**

During the period, the Group postponed all the marketing activities due to the lack of large-scale tender projects. There is no distribution cost for the period ended 30 June 2011 (30 June 2010: Nil).

### **General and Administrative Expenses**

The Group's administrative expenses for the six months ended 30 June 2011 were approximately RMB3,164,000 (corresponding period in 2010: approximately RMB2,898,000) representing an increase of approximately 9% over the corresponding period in 2010. This was mainly attributable to the increase in professional fee.

### **Net Loss**

During the period, the Group recorded a net loss of approximately RMB19,886,000, the loss increased as compared to the net loss of approximately RMB1,845,000 for the corresponding period last year. The increase of loss was mainly attributable to the impairment loss of the available-for-sale equity investment during the period.



## **BUSINESS REVIEW**

### **Analysis by Business Segment**

During the period under review, the Group's principal source of income was derived from the sale of intelligent electronic products from information technology segment, which accounted for approximately 91% of the total turnover of the Group. Equity investment segment and property investment segment accounted for approximately 8% and 1% respectively of the Group's total turnover.

During the reporting period, all of the Group's income was derived from Shandong Province, accounting for 100% of the Group's total turnover.

### **FUTURE OUTLOOK**

The Group will continue to promote the development and sales of intelligent components products, and endeavour to consolidate its existing customer base as well as to fully explore its potential in generating profit.

In the property investment domain, the acquisition of quality commercial properties has been completed in the previous years, and the properties, after renovation and well planning, has started to be partly leased out to generate rental income, and the rental income is anticipated to increase continuously in the future.

Foreseeing a prosperous Mainland China's commercial estate industry in the future and leveraging on the experience in the leasing and management of commercial properties and its integrated operation team, the Group will keep seriously considering the possibility of investment in the operation and management of commercial properties for further development.

### **DEBTS**

As at 30 June 2011, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued, or term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease, mortgages or charges, guarantees or major contingent liabilities (30 June 2010: Nil).



## **LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

The Group's capital requirement represents mainly working capital in relation to the sale of information technology products, costs of business expansion and investment. The Group used to finance its operation and investment from operating income and internal resources.

As at 30 June 2011, the Group had cash and bank balances of approximately RMB27,466,000 (31 December 2010: approximately RMB 27,466,000) of which 45% and 55% was held in RMB and HK\$ respectively. The gearing ratio (defined as total interest-bearing debts divided by shareholder's equity) was 0% (31 December 2010: 0%).

During the six months ended 30 June 2011, the Group did not employ any material financial instrument for hedging purposes.

## **FOREIGN EXCHANGE**

Since the Group mainly operates in the PRC and most of the revenue and transactions arising from its operations were settled in Renminbi, and the Group's assets and liabilities are primarily denominated in Renminbi, 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 2011.

## **MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

On 18 April 2011, the Group entered into an agreement with Mr. Chen Jun, an executive Director and controlling shareholder of the Company for the disposal of Golden Century Trade Limited, a then directly wholly-owned subsidiary of the Company, and its subsidiaries at an aggregate cash consideration of US\$1, which completed on the same date. The gain on the disposal of the subsidiaries recorded in the consolidated financial statement is approximately RMB2,756,000.

During the period, save as disclosed above, there was no other material acquisition and disposal of subsidiaries and associated companies by the Company.



## **CHARGE ON ASSET**

None of the Group's assets was pledged as at 30 June 2011 (30 June 2010: Nil).

## **CONTINGENT LIABILITIES**

The Group had no contingent liabilities as at 30 June 2011 (30 June 2010: Nil).

## **EVENTS AFTER THE REPORTING PERIOD**

The Company entered into the placing agreement with Astrum Capital Management Limited ("Placing Agent") on 28 July 2011 pursuant to which the Company has agreed to grant, and the Placing Agent has agreed to procure not less than six placees to subscribe for, up to 43,405,824 warrants, on a best effort basis, at the placing price of HK\$0.01 per warrant. The subscription price is HK\$0.64 (subject to adjustment) per warrant share. The net proceeds from placing are intended for working capital of the Group. The placing completed on 24 August 2011 and 43,400,000 warrants were issued to not less than six placees pursuant to the terms of the Placing Agreement. For details, please refer to the announcements of the Company dated 28 July 2011 and 24 August 2011 respectively.

Save as disclosed above, there were no significant events occurred since the end of the reporting period.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2011, the Group had 7 employees (30 June 2010: 7). 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 2011 was approximately RMB160,000 (30 June 2010: approximately RMB160,000).



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

### **Proposed Rights Issue**

On 17 December 2010, the Board proposed to issue rights shares to the shareholders on the basis of ten rights shares for every one share held on 26 January 2011 (the "Record Date") which was proposed to be fully underwritten by Fine Mean Investments Limited, a company wholly-owned by Mr. Chen Jun, the controlling shareholder and a director of the Company. Each one existing share held on the Record Date would entitle the holder thereof to subscribe in cash for ten rights shares at a subscription price of HK\$0.03 per rights share. On the basis of 180,859,122 shares in issue as at 17 December 2010, 1,808,591,220 rights shares would be issued and the net proceeds of approximately HK\$53.26 million would be raised for the Company's general working capital and the establishment of a new line of business in trading of precious metals and coal. At the extraordinary general meeting held on 26 January 2011, the proposed issue of rights shares was not approved by the independent shareholders of the Company and the proposed rights issues was lapsed. In the opinion of the Directors, there would be no material adverse impact on the financial position and operation of the Group. For details, please refer to the announcements of the Company dated 17 December 2010 and 26 January 2011, respectively and the circular of the Company dated 10 January 2011.

### **Placing**

The Company has issued an aggregate of 36,170,000 new Shares on 31 May 2011 to independent investors at a placing price of HK\$0.66 per placing share (the "Placing") pursuant to a placing agreement entered into between the Company and Astrum Capital Management Limited (acting as the placing agent) dated 29 April 2011. The net proceeds from the Placing of approximately HK\$23,360,000 were used for general working capital of the Group. Further details of the Placing were announced by the Company in its announcements dated 29 April 2011 and 31 May 2011 respectively.

Save as disclosed above, during the six months ended 30 June 2011, 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 2011 (six months ended 30 June 2010: Nil).





## **CORPORATE GOVERNANCE**

### **Code on Corporate Governance Practices**

During the six months ended 30 June 2011, the Company has applied the principles of, and complied with, the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

### **CODE OF CONDUCT REGARDING DIRECTORS’ SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the period under review.

### **AUDIT COMMITTEE**

The audit committee of the Company, comprising the three independent non-executive Directors, namely Mr. Guo Qiang, Mr. Liu Jin Lu and Mr. Chen Wen Ping, has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the interim report of the Company for the six months ended 30 June 2011.

### **DISCLOSURE OF INTERESTS**

#### **DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SHARES AND UNDERLYING SHARES**

As at 30 June 2011, 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 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 are as follows:



## A) Long Positions in ordinary shares of the Company

Name of Directors	Capacity/Nature	Number of shares involved	Approximate shareholding percentage
Mr. Chen Jun	Interest of a controlled corporation (Note)	108,042,781	49.78%
	Beneficial owner	5,525,000	2.55%
		113,567,781	52.33%

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.

## B) Long Positions in shares of Associated Corporations

Name of Directors	Name of the associated corporation	Capacity	Number of shares held	Approximate shareholding percentage
Mr. Chen	Fine Mean Investments Limited	Beneficial owner	1	100%

Save as disclosed above, as at 30 June 2011, 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 2011, as far as is known to the Directors, the following persons (other than 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
<b>Substantial Shareholder</b>			
Fine Mean Investments Limited (Note 1)	Beneficial owner	108,042,781	49.78%
Ms. Su Haiqing (Note 2)	Interest of spouse	113,567,781	52.33%

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, Ms. Su Haiqing is deemed to be interested in all the shares of the Company in which Mr. Chen Jun is interested.

Save as disclosed above, as at 30 June 2011, 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

Pursuant to a share option scheme approved by a resolution of the shareholders of the Company dated 27 July 2004 (the “Scheme”), the Company may grant options to the directors, employees and shareholders of the Company or its subsidiaries and consultants, customers and suppliers, for the recognition of their contributions to the Group, to subscribe for shares in the Company with a payment of HK\$1.00 upon each grant of options offered and the options granted must be taken up within 28 days from the date of grant. The exercise price of the share option will be determined at the higher of the average of closing prices of shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the option; the closing price of the Company’s shares on the Stock Exchange on the date of grant; and the nominal value of the shares.

The share options are exercisable at any time during a period of not more than 10 years from the date of grant, subject to the terms and conditions of the Scheme, the relevant PRC laws and regulations and any conditions of grant as may be stipulated by the Board.

The maximum number of shares in respect of which options may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the number of shares of the Company in issue from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the Scheme and any other schemes must not, in aggregate, exceed 10% of the number of shares of the Company in issue as at the date of approval of the Scheme unless further shareholders’ approval has been obtained pursuant to the conditions set out in the Scheme. No person shall be granted an option which, if all the options granted to the person (including both exercised and outstanding options) in any 12 months period up to the date of grant are exercised in full, would result in such person’s maximum entitlement exceeding 1% of the number of issued shares of the Company.

At 30 June 2011, there were no outstanding share options.

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 two independent non-executive Directors, namely Mr. Guo Qiang and Mr. Chen Wen Ping and one executive Director, namely Mr. Zhao Yun.

By Order of the Board

**CHEN Jun**

*Chairman*

Qingdao City, Shandong Province, the PRC

30 August 2011