



**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**  
**2012**

\* for identification purposes only

## **CONTENTS**

<b>CORPORATE INFORMATION</b>	2
<b>UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS</b>	
Condensed Consolidated Statement of Comprehensive Income	3
Condensed Consolidated Statement of Financial Position	5
Condensed Consolidated Statement of Changes in Equity	6
Condensed Consolidated Statement of Cash Flow	7
Notes to Condensed Financial Statements	8
<b>MANAGEMENT DISCUSSION AND ANALYSIS</b>	17
<b>CORPORATE GOVERNANCE</b>	22
<b>DISCLOSURE OF INTERESTS</b>	25

## CORPORATE INFORMATION

### Executive Directors

CHEN Jun (*Chairman*)  
ZHAO Yun

### Independent Non-executive Directors

GUO Qiang  
CHEN Wen Ping  
LIU Jin Lu

### Company secretary

TAI Man Hin, Tony

### Audit committee

CHEN Wen Ping (*Chairman*)  
GUO Qiang  
LIU Jin Lu

### Remuneration committee

CHEN Wen Ping (*Chairman*)  
GUO Qiang  
LIU Jin Lu

### Nomination committee

CHEN Jun (*Chairman*)  
CHEN Wen Ping  
GUO Qiang

### Hong Kong legal advisors

Loong & Yeung

### 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”) is pleased to present the Group’s unaudited consolidated results for the six months ended 30 June 2012, together with the comparative figures for the corresponding period in 2011 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
		<b>2012</b>	2011
	Notes	<b>RMB'000</b>	(restated) RMB'000
Turnover	2	<b>6,802</b>	5,996
Cost of sales		<b>(5,671)</b>	(4,772)
Gross profit		<b>1,131</b>	1,224
Other operating income	3	<b>7</b>	21
General and administrative expenses		<b>(2,876)</b>	(3,344)
Impairment loss of available-for-sale equity investment		<b>–</b>	(27,630)
Loss before income tax	5	<b>(1,738)</b>	(29,729)
Income tax	6	<b>–</b>	6,907
Loss for the period		<b>(1,738)</b>	(22,822)
Attributable to:			
Equity holders of the Company		<b>(1,738)</b>	(22,822)

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2012

		<b>Unaudited Six months ended 30 June</b>	
		<b>2012</b>	2011
		<b>RMB'000</b>	(restated) RMB'000
Notes			
	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)
	Net other comprehensive income for the period	–	2,441
	Total comprehensive loss for the period	<b>(1,738)</b>	(20,381)
	Attributable to:		
	Equity holders of the Company	<b>(1,738)</b>	(20,381)
	Loss per share (RMB Cents)	8	
	– Basic	<b>(0.80)</b>	(10.5)
	– Diluted	<b>(0.80)</b>	(10.5)

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2012

	Notes	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets		20,674	21,028
Investment properties	9	29,605	29,605
Available-for-sale equity investment	10	18,879	18,879
		<b>69,158</b>	69,512
<b>CURRENT ASSETS</b>			
Trade and other receivables	11	27,733	22,300
Cash and bank balances		43,436	29,873
		<b>71,169</b>	52,173
<b>CURRENT LIABILITIES</b>			
Trade and other payables	12	27,933	7,780
Amounts due to directors		249	22
Income tax payable		1,371	1,371
		<b>29,553</b>	9,173
<b>NET CURRENT ASSETS</b>		<b>41,616</b>	43,000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>110,774</b>	112,512
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		12,319	12,319
<b>NET ASSETS</b>		<b>98,455</b>	100,193
<b>CAPITAL AND RESERVES</b>			
Share capital	13	2,073	2,073
Reserves		96,382	98,120
<b>TOTAL EQUITY</b>		<b>98,455</b>	100,193

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

### Attributable to equity holders of the Company

	Share capital RMB'000	Share premium RMB'000	Warrant Reserve RMB'000	Investment reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	1,772	127,885	-	(2,441)	(36,599)	90,617
Issue of new ordinary shares	300	19,514	-	-	-	19,814
Net loss for the period	-	-	-	-	(22,822)	(22,822)
Deemed contribution (note 4)	-	-	-	-	2,710	2,710
Other comprehensive income	-	-	-	2,441	-	2,441
At 30 June 2011 (restated)	2,072	147,399	-	-	(56,711)	92,760
At 1 January 2012	2,073	146,794	315	-	(48,989)	100,193
Net loss for the period	-	-	-	-	(1,738)	(1,738)
At 30 June 2012	2,073	146,794	315	-	(50,727)	98,455

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2012

	Unaudited Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash (used in)/generated from operating activities	13,563	(1,956)
Net cash (used in)/generated from investing activities	–	(374)
Net cash generated from financing activities	–	19,814
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>13,563</b>	<b>17,484</b>
Cash and cash equivalents at beginning of the period	29,873	27,922
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, REPRESENTED BY CASH AND BANK BALANCES</b>	<b>43,436</b>	<b>45,406</b>



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 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 the 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 2011.

#### *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 2011, 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 2012

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

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

Amendments to HKFRS 7

Disclosures – Transfers of Financial Assets

Amendments to HKAS 12

Deferred Tax – Recovery of Underlying Assets

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 statements.

### 2. Turnover and segment information

#### *(a) Turnover*

The Group's turnover represents external customers' 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 2012

### 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>2012</b>	2011
	<b>RMB'000</b>	(restated) RMB'000
Turnover		
Information technology	<b>6,232</b>	5,475
Equity investment	–	455
Property investment	<b>570</b>	66
	<b>6,802</b>	5,996
Segment results		
Information technology	<b>561</b>	715
Equity investment	–	(27,175)
Property investment	<b>570</b>	54
	<b>1,131</b>	(26,406)
Unallocated other operating income	<b>7</b>	21
Unallocated corporate expenses	<b>(2,876)</b>	(3,344)
Loss before income tax	<b>(1,738)</b>	(29,729)
Income tax		
Information technology	–	–
Equity investment	–	6,907
Property investment	–	–
	–	6,907
Loss for the period	<b>(1,738)</b>	(22,822)

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 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	
	2012 RMB'000	2011 RMB'000
Interest income on bank deposits	7	21

### 4. Disposal of subsidiaries

On 18 April 2011, the Group entered into an agreement with Mr. Chen Jun, one of the Company's directors and one of the controlling shareholders of the Company for the disposal of Golden Century Trade Limited, a then directly wholly-owned subsidiary of the Company, and its subsidiaries (collectively, 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 during the period ended 30 June 2011 was approximately RMB2,710,000.

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 4. Disposal of subsidiaries (Continued)

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

	Unaudited Six months ended 30 June	
	2012	2011 (restated)
	RMB'000	RMB'000
Property, plant and equipment	–	231
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	–	(2,710)
Disposal Proceed	–	–
Gain on disposal of the Disposal Group (as deemed contribution to Mr. Chen Jun)	–	(2,710)

As the disposal was transacted with the controlling shareholder of the Company in his capacity of the Company, the gain has been regarded as a deemed contribution from Mr. Chen Jun and credited to reserves.

### 5. Loss before income tax

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

	Unaudited Six months ended 30 June	
	2012	2011 (restated)
	RMB'000	RMB'000
Cost of inventories sold	5,671	4,772
Depreciation of property, plant and equipment	354	462

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 6. Income tax

	Unaudited Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
PRC Enterprise Income Tax		
Current tax	–	–
Deferred tax (Note)	–	(6,907)
	–	(6,907)

Note: The deferred tax was recognised due to reversal of temporary difference arising from impairment of available-for-sale equity investment for the period ended 30 June 2011.

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% (2011: 25%).

### 7. Dividends

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 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 2012 of approximately RMB1,738,000 (six months ended 30 June 2011: loss of approximately RMB22,822,000) and weighted average number of ordinary shares in issue during six months ended 30 June 2012 of 217,029,122 (six months ended 30 June 2011: 217,029,122).

There were no dilutive potential shares for the six months period ended 30 June 2012 and 30 June 2011, and diluted loss per share is the same as basic loss per share.

### 9. Investment properties

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Investment properties, at fair value	29,605	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 2012.

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

	Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
Unlisted equity investment, at fair value	18,879	18,879

Available-for-sale equity investment represented 2.14% equity interest in Qingdao Huafeng Rural Co-operative Bank Limited in Qingdao, the PRC (the "Bank"). No fair value adjustment was considered necessary by the directors of the Company for the period ended 30 June 2012.

## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 11. Trade and other receivables

Trade and other receivables of RMB27,733,000 (31 December 2011: RMB22,300,000) include trade receivables of RMB8,118,000 (31 December 2011: RMB22,198,000).

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 30 June 2012 RMB'000</b>	<b>Audited 31 December 2011 RMB'000</b>
Current to 90 days	<b>8,118</b>	21,198

### 12. Trade and other payables

Trade and other payables of RMB27,933,000 (31 December 2011: RMB7,780,000) include trade payables of RMB6,635,000 (31 December 2011: RMB5,914,000).

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

	<b>Unaudited 30 June 2012 RMB'000</b>	<b>Audited 31 December 2011 RMB'000</b>
Current to 90 days	<b>6,635</b>	5,914



## NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

### 13. Share capital

	Number of shares		Share capital	
	30 June 2012 '000	31 December 2011 '000	30 June 2012 HK\$'000	31 December 2011 HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	10,000,000	10,000,000	100,000	100,000
Issued and fully paid:				
At 1 January 2012/2011	217,029	180,859	2,170	1,808
Issue of new ordinary shares (note)	-	36,170	-	362
At 30 June 2012/31 December 2011	217,029	217,029	2,170	2,170
Equivalent to RMB'000			2,073	2,073

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.

### 14. Commitments

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

### 15. Approval of the interim financial statements

The interim financial statements were approved and authorised for issue by the Board on 20 August 2012.

## 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 years of operation, the development and sales of intelligent electronic products began to generate revenue for the Group's business and became a business with fewer transformation obstructions within the Group's diversified operation policy. Attributed to the stable customers base and the advantage of a high output with low investment, the sales of intelligent electronic products, which the Group attaches 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 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.

#### *Property Investment*

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

## **FINANCIAL REVIEW**

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

The Group's total turnover for the six months ended 30 June 2012 was approximately RMB6,802,000, representing an increase of approximately 13% from approximately RMB5,996,000 of the same period in last year. This was mainly attributable to the turnover growth in the segment of information technology. The gross profit margin decreased by 3% from 20% in 2011 to 17% in 2012 mainly due to the lack of contribution from the equity investment segment which has a relatively higher gross profit margin.

### ***Distribution Costs***

During the reporting period, the Group postponed all marketing activities due to the lack of large-scale tender projects. There is no distribution cost for the period ended 30 June 2012 (30 June 2011: Nil).

### ***General and Administrative Expenses***

The Group's administrative expenses for the six months ended 30 June 2012 were approximately RMB2,876,000 (corresponding period in 2011: approximately RMB3,344,000) representing a decrease of approximately 14% over the corresponding period in 2011. This was mainly attributable to the decrease in professional fee.

### ***Net Loss***

During the reporting period, the Group recorded a net loss of approximately RMB1,738,000, which decreased by approximately 92% as compared to the net loss of approximately RMB22,822,000 for the corresponding period last year. The decrease of loss was mainly attributable to the effect of the impairment loss of the available-for-sale equity investment during the corresponding period ended 30 June 2011 which did not re-occur during the reporting period.

## **BUSINESS REVIEW**

### ***Analysis by Business Segment***

During the reporting period, the Group's principal source of income was derived from the sales of intelligent electronic products from the Group's information technology segment, which accounted for approximately 92% of the total turnover of the Group whereas the property investment segment accounted for approximately 8% respectively of the Group's total turnover.

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

## **FUTURE OUTLOOK**

The Group will continue to promote its development and sales of intelligent components products business, and will endeavour to consolidate its existing customers base as well as to fully explore its profit generation potential.

In the property investment domain, after renovation, the Group's properties have been partly leased out and commenced generating rental income. The rental income is anticipated to increase continuously in the future.

Foreseeing a prosperous commercial estate industry in Mainland China in future and leveraging on its experience in leasing and managing commercial properties and the integrated operation team, the Group will seriously and continuously consider the possibility to invest in the operation and management of commercial properties for further development.

## **DEBTS**

As at 30 June 2012, the Group had no debt securities that were issued, outstanding, approved or otherwise created but unissued. The Group also had no term loans or other borrowings or debts of borrowing nature, including bank overdrafts, acceptance liabilities or acceptance credits, obligations under financing lease or mortgages (30 June 2011: Nil).

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

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

As at 30 June 2012, the Group had cash and bank balances of approximately RMB43,436,000 (31 December 2011: approximately RMB29,873,000) of which 95% and 5% 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 2011: 0%).

During the reporting period, 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 reporting period.

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

During the reporting period, there was no material acquisition and disposal of subsidiaries and associated companies by the Company.

## **AMENDMENT TO THE MEMORANDUM AND ARTICLES OF ASSOCIATION**

On 28 March 2012, the shareholders of the Company have passed by way of special resolutions to amend the memorandum and articles of association of the Company and to adopt the new memorandum and articles of association of the Company. For details, please refer to the announcements of the Company dated 23 February 2012 and 28 March 2012, the circular of the Company dated 5 March 2012 and the memorandum and articles of association of the Company published on 29 March 2012.

## **CHARGE ON ASSET AND CONTINGENT LIABILITIES**

As at 30 June 2012, leasehold land and buildings with an aggregate carrying value of RMB22,000,000 and investment properties with carrying value of RMB22,295,000 were pledged as security to a bank for banking facilities not exceeding RMB18,000,000 granted to an independent third party supplier of goods in the consideration of which the Group was not required to pay for purchase deposit for the same amount under the goods purchase contract dated 25 October 2011.

The supplier, together with its beneficial owner, had agreed to provide for a counter guarantee, by way of all its assets in favour of the Group for the amount of RMB44,000,000 to indemnify the Group for any loss arising from the pledge of properties of the Group as aforesaid .

In the opinion of the Directors, the above pledge of properties for trade credit finance was conducted in the ordinary course of business of the Group and exposure is remote.

Apart from the above, the Group had no other material pledge of assets and contingent liabilities as at 30 June 2012 (30 June 2011: Nil).

## **EVENTS AFTER THE REPORTING PERIOD**

There were no significant events occurred since the end of the reporting period.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2012, the Group had 9 employees (30 June 2011: 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 2012 was approximately RMB204,000 (30 June 2011: approximately RMB160,000).

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

During the reporting period, 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 2012 (six months ended 30 June 2011: Nil).

## **CORPORATE GOVERNANCE**

The Company had complied with all the code provisions as set out in the Code on Corporate Governance (the "Code") contained 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") from 1 January 2012 to 31 March 2012. The Code had been amended which took effect from 1 April 2012 (the "Revised Code"). The Company had complied with all the code provisions as set out in the Revised Code during the period from 1 April 2012 to 30 June 2012 except for the following:

Code provision A.6.7 of the Revised Code: The independent non-executive Directors and the non-executive Directors should attend the general meetings of the Company. However, due to other commitments, the independent non-executive Directors, Mr. Chen Wen Ping, Mr. Guo Qiang and Mr. Liu Jin Lu did not attend the annual general meeting of the Company held on 31 May 2012.

All the Directors have given the Board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They will also endeavor to attend future general meetings and develop a balanced understanding of the views of shareholders.

## **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 reporting period.

## **AUDIT COMMITTEE**

The audit committee of the Company ("Audit Committee"), comprises three independent non-executive Directors, namely Mr. Guo Qiang, Mr. Liu Jin Lu and Mr. Chen Wen Ping (Chairman). The Audit Committee is primarily responsible for reviewing and supervising the financial reporting process and internal control system of the Group as well as external auditor of the Group.

The Audit Committee held a meeting during the reporting period to review the financial results and reports of the Group for the six months ended 30 June 2012. Financial controls, internal controls, risk management systems of the Group, had also been reviewed by the Audit Committee at the meeting.

The Audit Committee had reviewed this interim report and had confirmed that this interim report is complete, accurate and complies with all applicable rules and regulations, including but not limited to the Listing Rules.

## **REMUNERATION COMMITTEE**

The Company established a remuneration committee ("Remuneration Committee") on 25 April 2005, which comprises two independent non-executive Directors namely Mr. Guo Qiang and Mr. Chen Wen Ping (Chairman) and one executive Director, namely Mr. Zhao Yun.

The written terms of reference of the Remuneration Committee adopted by the Board are in line the code provisions of the Revised Code and are available on the Company and the Stock Exchange's websites.



## REMUNERATION COMMITTEE *(CONTINUED)*

The principal responsibilities of the Remuneration Committee include making recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration, reviewing and approving management's remuneration proposal by reference to corporate goals and objectives resolved by the Board from time to time. No individual Director or any of his/her associates is allowed to involve in deciding his/her own remuneration.

## NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") on 28 March 2012, which comprises two independent non-executive Directors, namely Mr. Chen Wen Ping and Mr. Guo Qiang and one executive Director, namely Mr. Chen Jun (Chairman).

The written terms of reference of the Nomination Committee are in line with the code provisions of the Revised Code and are available on the Company and the Stock Exchange's website.

Under the term of reference, the Nomination Committee will be responsible for, including but not limited to

- review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independence of independent non-executive Directors; and
- make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2012, 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***

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

Save as disclosed above, as at 30 June 2012, 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 2012, 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***

<b>Name</b>	<b>Capacity/Nature</b>	<b>Number of shares</b>	<b>Approximate shareholding percentage</b>
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#### **Substantial Shareholder**

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 wholly-owned by Mr. Chen Jun. Mr. Chen Jun is the sole 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 or taken 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 2012, 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.

## SHARE OPTION SCHEME *(CONTINUED)*

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 2012, there were no outstanding share options of the Company and no share option of the Company was granted, lapsed or cancelled during the reporting period under the Scheme.

By Order of the Board  
**CHEN Jun**  
*Chairman*

Qingdao City, Shandong Province, the PRC  
20 August 2012