



山西長城微光器材股份有限公司 SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD.*

(A joint stock limited company incorporated in the People's Republic of China)



Interim Report 2004

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This report, for which the directors of Shanxi Changcheng Microlight Equipment Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Shanxi Changcheng Microlight Equipment Company Limited. The Directors, having made all reasonable enquires, confirm that, to the best of their knowledge and belief: 1) the information contained in this report is accurate and complete in all material respects and not misleading; 2) there are no other matters the omission of which would make any statement in this report misleading; and 3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the six months ended 30 June 2004, unaudited turnover of the Company was approximately RMB17.3 million, representing a substantial increase of approximately 33.4% over the corresponding period in the previous year.
- Profits attributable to shareholders increased by approximately 55.9% compared to the corresponding period in the previous year to approximately RMB5.8 million for the six months ended 30 June 2004.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004.

INTERIM RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co., Ltd. (the “Company”) is pleased to announce the unaudited results of the Company for the three months and six months ended 30 June 2004, together with the comparative unaudited figures for the corresponding periods in 2003, as set out below:

UNAUDITED PROFIT AND LOSS ACCOUNT

For the three months and the six months ended 30 June 2004 and 30 June 2003

		Three months ended 30 June 2004 (Unaudited) RMB'000	Three months ended 30 June 2003 (Unaudited) RMB'000	Six months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
	<i>Notes</i>				
TURNOVER	2	9,730	6,292	17,274	12,946
Cost of sales		(3,949)	(2,331)	(7,044)	(4,708)
Gross profit		5,781	3,961	10,230	8,238
Selling and distribution expenses		(79)	(35)	(113)	(106)
Administrative expenses		(1,456)	(1,316)	(2,853)	(2,977)
Other operating expenses		(7)	(407)	(21)	(407)
PROFIT FROM OPERATING ACTIVITIES		4,239	2,203	7,243	4,748
Finance costs		(197)	(131)	(373)	(269)
PROFIT BEFORE TAX		4,042	2,072	6,870	4,479
Tax	5	(606)	(493)	(1,030)	(733)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		3,436	1,579	5,840	3,746
EARNINGS PER SHARE					
Basic (in RMB)	6	0.011	0.005	0.019	0.012

BALANCE SHEET

		As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Non-Current Assets			
Fixed assets		22,463	18,397
Deposit for acquisition of a land use right		–	4,000
Deposit for acquisition of fixed assets		–	150
Interests in an associate		3,325	3,325
Deferred tax assets		434	434
		<hr/>	<hr/>
		26,222	26,306
Current Assets			
Due from shareholders		5	5
Due from a director		–	20
Inventories	9	6,753	7,951
Trade receivables	10	11,135	10,675
Prepayments, deposits and other receivables		2,542	5,783
Short term investments		100	100
Cash and bank balances		54,618	3,535
		<hr/>	<hr/>
		75,153	28,069
Current Liabilities			
Due to shareholders		(707)	(707)
Trade payables	11	(483)	(340)
Tax payables		(1,760)	(640)
Accrued liabilities, deposits received and other payables		(7,618)	(5,935)
Interest-bearing bank borrowings	12	(11,000)	(3,000)
Deferred income	13	(10,193)	–
		<hr/>	<hr/>
		(31,761)	(10,622)
Net Current Assets		<hr/>	<hr/>
		43,392	17,447
Total Assets Less Current Liabilities		<hr/>	<hr/>
		69,614	43,753
Non-Current Liabilities			
Interest-bearing bank borrowings	12	(4,000)	(4,000)
		<hr/>	<hr/>
		65,614	39,753
Capital and reserves			
Issued capital	14	30,886	20,886
Reserves	7	34,728	18,867
		<hr/>	<hr/>
Shareholders' equity		<hr/>	<hr/>
		65,614	39,753

UNAUDITED CONDENSED CASHFLOW STATEMENTS

For the six months ended 30 June 2004 and 30 June 2003

	(Unaudited)	
	For the six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
Net cash inflow from operating activities	14,914	3,508
Net cash outflow from investing activities	(2,045)	(5,400)
Net cash inflow from financing activities	38,214	–
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	51,083	(1,892)
Cash and cash equivalents at 1 January	3,535	2,699
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	<u>54,618</u>	<u>807</u>

UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004 and 30 June 2003

	Issued share capital (unaudited) RMB'000	Capital surplus (unaudited) RMB'000	Retained profits/ (accumulated losses) (unaudited) RMB'000	Statutory surplus reserve (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Proposed final dividend (unaudited) RMB'000	Total (unaudited) RMB'000
At 1 January 2003	20,886	1,187	(83)	1,766	882	6,266	30,904
Net profit for the period	–	–	3,746	–	–	–	3,746
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2003	<u>20,886</u>	<u>1,187</u>	<u>3,663</u>	<u>1,766</u>	<u>882</u>	<u>6,266</u>	<u>34,650</u>
At 1 January 2004	20,886	1,187	7,235	2,786	1,393	6,266	39,753
Net profit for the period	–	–	5,840	–	–	–	5,840
Proposed final dividend approved by shareholders	–	–	–	–	–	(6,266)	(6,266)
Net proceeds from placing of shares	10,000	16,287	–	–	–	–	26,287
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2004	<u>30,886</u>	<u>17,474</u>	<u>13,075</u>	<u>2,786</u>	<u>1,393</u>	<u>–</u>	<u>65,614</u>

NOTES

1. Company reorganization and basis of preparation

The interim results was unaudited. The interim results have been reviewed by the audit committee of the Company.

The above results were prepared on the basis that the existing Company's structure had been in place throughout the period from 1 January 2003 to 30 June 2004.

The interim results have been prepared in accordance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of the Rules of Governing the Listing of the Securities on GEM of the Stock Exchange. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company's annual financial statements for the year ended 31 December 2003.

The Company was established and registered in Shanxi, the People's Republic of China (the "PRC") as a joint stock company with limited liability under the Company Law of the PRC on 10 November 2000.

Further details of the Reorganisation are set out in the Company's prospectus dated 10 May 2004 (the "Prospectus") issued in respect of the listing of the Company's shares on GEM.

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA").

2. Turnover and revenue

The Company is principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC. Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, valued added tax and other taxes related to sales.

3. Segment information

As the turnover and the profit from operating activities of the Company for the three months and six months ended 2003 and 2004 are wholly generated from the manufacture and sale of optical fibre products, no further segment information by business activity has been presented.

The Company has determined that geographical segments based on the location of sales are its primary segment reporting format. The Company's operating businesses are organized and managed separately according to the location of the customers. In determining the Company's geographical segments, revenues and results are attributed based on the location of the customers. All assets and liabilities of the Company are located in the PRC.

The following table presents revenue and profit information for each of the Company's geographical segments for the three months and six months ended 30 June 2003 and 2004.

	People's Republic of China				Europe				North America				Total			
	Three months ended		Six months ended		Three months ended		Six months ended		Three months ended		Six months ended		Three months ended		Six months ended	
	30 June		30 June		30 June		30 June		30 June		30 June		30 June		30 June	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:																
Sales to external customers	708	2,588	995	3,000	7,078	3,968	14,056	7,620	1,944	(264)	2,223	2,326	9,730	6,292	17,274	12,946
Segment results	(65)	1,605	(271)	1,799	4,633	2,604	9,105	4,926	1,134	(283)	1,283	1,407	5,702	3,926	10,117	8,132
Administrative expenses													(1,456)	(1,316)	(2,853)	(2,977)
Other operating expenses													(7)	(407)	(21)	(407)
Profit from operating activities													4,239	2,203	7,243	4,748
Finance costs													(197)	(131)	(373)	(269)
Profit before tax													4,042	2,072	6,870	4,479
Tax													(606)	(493)	(1,030)	(733)
Net profit from ordinary activities attributable to shareholders													3,436	1,579	5,840	3,746

4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Three months ended 30 June 2004 (Unaudited) <i>RMB'000</i>	Three months ended 30 June 2003 (Unaudited) <i>RMB'000</i>	Six months ended 30 June 2004 (Unaudited) <i>RMB'000</i>	Six months ended 30 June 2003 (Unaudited) <i>RMB'000</i>
Auditors' remuneration	20	3	60	25
Cost of inventories sold	3,949	2,313	7,044	4,708
Staff costs (including directors' and supervisors' emoluments):				
Wages, salaries and other benefits	1,733	1,361	3,028	2,605
Pension scheme contributions	269	267	542	496
	<u>2,002</u>	<u>1,628</u>	<u>3,570</u>	<u>3,101</u>
Depreciation	481	417	895	828
Research and development costs	53	120	86	294
Minimum lease payments under operating lease rentals in respect of:				
Land and buildings	168	168	336	336
Machineries	30	30	60	60
	<u>198</u>	<u>198</u>	<u>396</u>	<u>396</u>
Provision for doubtful debts	-	-	-	-
Provision for inventories, included in cost of sales	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

5. Tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Current tax charge for the period	<u>(606)</u>	<u>(493)</u>	<u>(1,030)</u>	<u>(733)</u>

No provision for Hong Kong profits tax has been made as the Company had no assessable profit in Hong Kong during the period. (2003: Nil)

The provision for corporate income tax ("CIT") of the Company has been calculated at the applicable rate of tax prevailing in the area in which the Company operates, based on the existing legislation, interpretations and practices in respect thereof. According to the Income Tax Law of the PRC, as the Company operates in the high technology industrial development zone in Taiyuan, the PRC and is registered as a high technology development enterprise, it is entitled to a concessionary CIT rate of 15%, which has been applied for each of the three months and six months ended 30 June 2003 and 2004.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred tax.

Deferred tax liabilities are provided in full on all taxable temporary differences while deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

6. Earnings per share

Earnings per share has been computed by dividing the net profit from ordinary activities attributable to shareholders for the three months and six months ended 30 June 2004, of approximately RMB3,436,000 and RMB5,840,000, respectively (three months and six months ended 30 June 2003: approximately RMB1,579,000 and RMB3,746,000, respectively) by the 198,860,000 Domestic Shares of the Company in issue throughout the period and 110,000,000 H Shares of the Company in issue after the placing in June 2004.

Diluted earnings per share amounts for the three months and six months ended 30 June 2003 and 2004 have not been calculated as there were no dilutive potential ordinary shares in existence during those periods.

7. Reserves

There were no movements in the reserves other than profit attributable to shareholders of approximately RMB3,746,000 for the six months ended 30 June 2003. The movements for the profit attributable to shareholders, dividends and net proceeds from placing of shares were approximately RMB5,840,000, RMB6,266,000 and RMB26,287,000, respectively for the six months ended 30 June 2004.

8. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2004 (six months ended 30 June 2003: Nil).

9. Inventories

Inventories consist of:

	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Raw materials	571	471
Work in progress	4,460	5,336
Finished goods	1,722	2,144
	<u>6,753</u>	<u>7,951</u>

At the balance sheet date, no inventories were stated at their net realizable values.

10. Trade receivables

An aged analysis of trade receivables is as follows:

	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Within 30 days	3,539	4,728
31 to 60 days	3,613	3,060
61 to 90 days	2,328	1,371
91 to 180 days	1,101	1,390
181 to 365 days	554	126
	<hr/>	<hr/>
	11,135	10,675
	<hr/>	<hr/>

The trading terms with customers are largely on credit. Invoices are normally payable within three months of issuance. The Company maintains strict control over its outstanding receivables and has a credit control policy to minimize its credit risk. Overdue balances are regularly reviewed by management.

11. Trade payables

An aged analysis of trade payables is as follows:

	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Within 30 days	234	292
31 to 60 days	10	3
61 to 90 days	47	–
91 to 180 days	160	7
181 to 365 days	32	–
Over 365 days	–	38
	<hr/>	<hr/>
	483	340
	<hr/>	<hr/>

12. Interest-bearing bank borrowings

The bank loan of RMB3,000,000 (current portion) and RMB4,000,000 (non-current portion) of the Company as at 30 June 2003 and 30 June 2004 was secured by the pledge of certain properties of Taiyuan Changcheng with the aggregate book value of approximately RMB11,790,000. The loan bears interest at the rate of 6.0% per annum and is repayable by annual instalments until 2005.

On 8 March 2004, the Company obtained a short-term bank loan of RMB8,000,000 with maturity of one year from one of the Company's bankers. The bank loan was guaranteed by 太原自來水公司 (Taiyuan Water Supply Company), which was counter-guaranteed by a pledged of certain land use rights held by Taiyuan Changcheng.

An application has been made and consent has been obtained from the Company's banker for the assets pledged by Taiyuan Changcheng and the guarantee given by Taiyuan Water Supply Company to be released upon the listing of the shares of the Company on the GEM. This security will be replaced by corporate guarantees and/or other security to be provided by the Company. Due to the procedure for examination and approval of the land by the government has not yet completed, the assets pledged by Taiyuan Changcheng and the guarantee by Taiyuan Water Supply Company are still being used temporary.

13. Deferred income

The deferred income of the Company was approximately RMB10,193,000 (31 December 2003: Nil) which represented the government grants obtained from the PRC government.

Government grants are recognized at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be compared with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an assets, the fair value is credited to a deferred income account and is released to the profit and loss account over the expected useful life of the relevant assets by equal annual instalments.

14. Share capital

	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
<i>Authorised, issued and fully paid:</i>		
208,860,000 Domestic Shares of RMB0.1 each	N/A	20,886
198,860,000 Domestic Shares of RMB0.1 each	19,886	N/A
110,000,000 H Shares of RMB0.1 each (including 10,000,000 H Shares converted from Domestic Shares)	11,000	N/A
	<u>30,886</u>	<u>20,886</u>

15. Commitments

Capital commitments:

As at 30 June 2004 and 30 June 2003, the Company had the following significant capital commitments:

		As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
	<i>Notes</i>		
Contracted, but not provided for			
– Acquisition of land use right	<i>(a)</i>	<u>2,570</u>	<u>2,600</u>
Authorised, but not contracted for			
– Establishment of a joint venture	<i>(b)</i>	<u>15,000</u>	<u>15,000</u>

Notes:

- (a) On 18 December 2001, the Company entered into an agreement with Haimen, a company owned by Beijing Gensir, a shareholder of the Company, to acquire a land use right in the PRC at a consideration of RMB5,000,000. A discount of RMB2,000,000 was subsequently offered by Haimen and the reduced consideration of RMB3,000,000 was paid on 8 January 2002. The legal title of the land use right passed to the Company on 10 June 2002.

During the year ended 31 December 2002, the Company made a proposal to the management committee of the Taiyuan Economic and Technology Development Zone (the “Committee”) for the Company’s business expansion. On 16 October 2002, the Company entered into an agreement with the Committee pursuant to which the Committee agreed to provide a piece of land at a preliminary consideration of RMB6,000,000 for the development of new factories by the Company upon the approval of the aforesaid proposal. Based on a confirmation from the Committee dated 26 March 2004, the consideration for the land use right had been confirmed to be RMB6,600,000, of which RMB4,000,000 had been paid as a deposit as at 31 December 2003. A separate agreement will be entered into for the acquisition of the related land use right.

Pursuant to be aforesaid agreement, the consideration of the land use right will be adjusted to RMB14,000,000 should the Company fail to achieve an aggregate tax payment of RMB10,000,000 to the Taiyuan municipal government within three years from the commencement of production of the factories.

- (b) On 18 September 2002, the Company entered into a letter of intent with Shanxi Economic and Trade Limited Liability Company to establish a joint venture, which the Company will own a 60% interest, for the development of new factories. The Company’s contribution to the joint venture will amount to approximately RMB15,000,000. Up to the date of this report, the joint venture has not yet been established.

Commitments under operating leases:

The Company leases its office properties and land use right from Taiyuan Changcheng for the establishment of production plants under operating lease arrangements for terms ranging from five to thirty years. The Company also leases plant and equipment from Shanxi Huayuan Transport Optical Technology and Engineering Company Limited (“Shanxi Transport”) for the production of optic fibres on an annual renewal basis.

At the balance sheet dates, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	As at 30 June 2004 (Unaudited) RMB'000	As at 31 December 2003 (Audited) RMB'000
Within one year	708	768
In the second to fifth years, inclusive	2,613	2,638
After five years	13,546	13,857
	<u>16,867</u>	<u>17,263</u>

16. Contingent liabilities

As at 30 June 2004, the Company did not have any significant contingent liabilities.

17. Related party transactions

Particulars of material transactions between the Company and related parties during the three months and six months ended 30 June 2003 and 2004 are summarized below:

		Three months ended 30 June 2004 (Unaudited) RMB'000	Six months ended 30 June 2004 (Unaudited) RMB'000	Three months ended 30 June 2003 (Unaudited) RMB'000	Six months ended 30 June 2003 (Unaudited) RMB'000
	<i>Notes</i>				
Rental expenses paid to a shareholder	<i>(i)</i>	283	566	112	224
Purchase of fixed assets from a shareholder	<i>(ii)</i>	48	48	–	–
Rental expenses paid to an associate	<i>(iii)</i>	30	60	30	60
		<u>30</u>	<u>60</u>	<u>30</u>	<u>60</u>

Notes:

- (i) The rental expenses were paid to Taiyuan Changcheng Optics and Electronics Industrial Corporation (“Taiyuan Changcheng”) for the leases of the office premises and a land use right. The rental expenses paid to Taiyuan Changcheng were based on mutually agreed terms with reference to the corresponding market values. The rental expense for the land use right was approximate to its corresponding market value, whereas the rental expense of the office premises was at an approximate 36% to 48% discount to the market value.
- (ii) The payment has made to Taiyuan Tanghai Automatic Control Company Limited (“Taiyuan Tanghai”) for the purchase of production equipments. The directors of the Company consider that the prices and terms of the purchase approximated to those with independent third parties.

- (iii) The rental expenses were paid to Shanxi Transport for the lease of production equipment to the Company. The rental expenses paid to Shanxi Transport were based on mutually agreed terms with reference to the corresponding market values and the rental expense of the equipment.
- (iv) The Company's bank loan as at 31 December 2003 and 30 June 2004 was secured by the pledge of certain properties of Taiyuan Changcheng at net book value of approximately RMB11,790,000.

The directors of the Company have confirmed that all of the above transactions were entered into in the ordinary course of the Company's business.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Business review

During the period under review, the Company was principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC.

For the six months ended 30 June 2004, the Company reported an unaudited turnover of approximately RMB17.3 million (for the six months ended 30 June 2003: approximately RMB12.9 million), representing an increase of approximately 33.4% from previous period's turnover. This is mainly attributable to the increase in revenue from fibre optic inverters of approximately RMB3.6 million, resulting from the higher demand and orders received from the existing customers.

The unaudited gross profit margin ratio for the six months ended 30 June 2004 is approximately 59.2%, represented a decrease of 4.4% from the corresponding period last year. The decrease is attributable to the increase in cost of sales resulted from the reduction of the "export tax refund rate" (出口退稅率) for approximately 4%.

The unaudited profit before tax for the six months ended 30 June 2004 increased by approximately 53.4% from RMB4.5 million to approximately RMB6.9 million. The increase in profit was mainly due to the increase in the sales of fibre optic inverters. Notwithstanding the increment mentioned above, the Company maintained a stable and effective overhead structure.

Prospects

With the development of digital image transmission technology especially in the medical and commercial areas, the Directors believe that the demand for image transmission fibre optic products, which form part of the major components of digital image transmission devices, will remain strong in the future. Hence, the Directors believe that the Company is poised to experience steady growth in the future and to be one of the major manufacturers of image transmission and light transmission fibre optic products.

Liquidity and financial resources

The Company financed its operation primarily with internally generated cash flows and the balance of the net proceeds from the listing of the Company's shares on GEM on 18 May 2004.

As at 30 June 2004, the Company had total assets of approximately RMB101.4 million (31 December 2003: approximately RMB54.4 million), of which approximately RMB54.6 million (31 December 2003: approximately RMB3.5 million) were cash and bank balances.

Gearing ratio

The gearing ratio of the Company, based on total liabilities to shareholders' equity, was approximately 54.5% as at 30 June 2004 (31 December 2003: approximately 36.8%). The higher gearing ratio was due to the increase in short term borrowings and deferred income as at 30 June 2004.

Significant investment and material acquisition and disposal of subsidiaries

The Company did not hold material investments or had made any material acquisition and disposal of subsidiaries and associates during the six months ended 30 June 2004 and the same period of last year.

Employees and remuneration policy

For the six months ended 30 June 2004, the staff remuneration of the Company was approximately RMB3.6 million (2003: approximately RMB6.0 million) and the Company had a total of approximately 426 employees (2003: approximately 432 employees).

There is no significant change in the Company's employees and remuneration policy compared to that disclosed in the prospectus of the Company dated 10 May 2004 ("Prospectus").

Significant future investment plans and expected financial resources

Details of the significant future investment plans and the expected financial resources for capital expenses of the Company are set out in the section headed "Statement of Business Objectives" in the Prospectus. Save as disclosed above, the Company had no other significant future investment plan as at 30 June 2004.

Capital Commitment

Details of capital commitment are set out in note 15 of the condensed interim results.

Foreign exchange exposure

The books and records of the Company are maintained in RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction date as quoted by the People's Bank of China (the "PBOC"). Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into RMB at the applicable exchange rates ruling at that date as quoted by the PBOC. Exchange differences are dealt with in the profit and loss account.

Pledge of assets and banking facilities

The Company's bank loan of RMB3,000,000 (current portion) and RMB4,000,000 (non-current portion) as at 31 December 2003 and 30 June 2004 was secured by the pledge of certain properties of Taiyuan Changcheng with an aggregate book value of approximately RMB11,790,000. The loan bears interest at the rate of 6.0% per annum and is repayable by annual instalments until 2005.

An application has been made and consent has been obtained from the Company's banker for the assets pledged by Taiyuan Changcheng to be released upon the listing of the shares of the Company on the GEM. This security will be replaced by corporate guarantees and/or other security to be provided by the Company. Due to the procedure for examination and approval of the land by the government has not yet completed, the assets pledged by Taiyuan Changcheng is still being used temporary.

As at 30 June 2004, the Company did not have any banking facilities obtained from bank.

Contingent liabilities

As at 30 June 2004 and 30 June 2003, the Company had no material contingent liabilities.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Comparison of the Company's business objectives as set out in the Prospectus dated 10 May 2004 to actual business progress for the period ended 30 June 2004 is as follows:

	Business objectives stated in the Prospectus	Actual progress as at 30 June 2004
Increase production capacity and capability	Set up the New Development Zone Joint Venture	The application process of setting up the New Development Zone Joint Venture is still in progress.
<ul style="list-style-type: none">capital investment in New Development Zone Joint Venturepurchase of machinery		

Use of proceeds from the Initial Placement from the date of listing on 18 May 2004, the Company has not been utilized in the following areas. Although the applications have been submitted, the procedure for examination and approval of the land by the government has not yet completed and hence cannot utilize the proceeds from the Placing to invest on the New Development Zone Joint Venture. The Directors believed that the procedure for examination and approval of the land by the government will be completed in September 2004.

	From 18 May 2004 to 30 June 2004 As stated in the Prospectus (Date of Listing) HK\$ million	Actual business progress HK\$ million
Increase production capacity and capability		
• capital investment in New Development Zone Joint Venture	14	–
• purchase of machinery	–	–

OTHER INFORMATION

Directors' and supervisors' interest and short positions in shares, underlying shares and debentures

As at 30 June 2004, none of the Directors had any interest and short position and immediately following completion of the Placing, the interests and short positions in shares, underlying shares or debentures of the Directors or supervisors of the Company in the registered capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") (a) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which are taken or deemed to have taken under such provisions of the SFO) or (b) which will be required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or (c) which will be required, pursuant to the required standards of dealing by the Directors as referred to in Rule 5.46 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' and supervisors' rights to acquire H shares

Save as disclosed above, during the six months ended 30 June 2004, none of the directors or supervisors of the Company are granted options to subscribe for H shares of the Company. As at 30 June 2004, none of the directors or the supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Share option scheme

The Company does not have share option scheme.

Substantial Shareholders

As at 30 June 2004 and immediately following completion of the Placing, so far as the Directors are aware and without taking into account of the H shares to be taken up pursuant to Placing, the persons who have an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or which will be required, pursuant to section 336 of the SFO to be recorded in the register of the Company or be directly or indirectly interested in 10% or more of the nominal value of any class of issue share capital carrying rights to vote in all circumstances of general meetings of the Company.

Name (Note 1)	Nature and capacity in the shareholding of the Company	Number of Domestic Shares	Approximate percentage of holding of the Domestic Shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Taiyuan Changcheng	Registered and the beneficial owner of the Domestic Shares	80,160,000	40.31%	25.95%
Beijing Gensir	Registered and the beneficial owner of the Domestic Shares and interest in a controlled corporation	82,200,000 (Note 2)	41.34%	26.61%
Dandong Shuguang	Registered and the beneficial owner of the Domestic Shares	34,000,000	17.10%	11.01%
Taiyuan Tanghai	Registered and the beneficial owner of the Domestic Shares	24,900,000	12.52%	8.06%
Lin Yin Ping	Interest in a controlled corporation	82,200,000 (Note 3)	41.34%	26.61%
Shen Gang	Interest in a controlled corporation	24,900,000 (Note 4)	12.52%	8.06%
Li Jin Dian	Interest in a controlled corporation	34,000,000 (Note 5)	17.10%	11.01%
Zhang Wen Qin	Family	82,200,000 (Note 3)	41.34%	26.61%
Liu Gui Ying	Family	34,000,000 (Note 5)	17.10%	11.01%
Ma Fong Ping	Family	24,900,000 (Note 4)	15.52%	8.06%

* Shareholding percentages have been rounded to the nearest two decimal places.

Notes:

1. Please refer to the section headed “Shareholding Structure” in the Prospectus for further details.
2. Part of these Domestic Shares (24,900,000 Domestic Shares) are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 36.37% by Beijing Gensir. As Beijing Gensir is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the purpose of the SFO, Beijing Gensir is deemed to be interested in the entire 24,900,000 Domestic Shares held by Taiyuan Tanghai.
3. Part of these Domestic Shares (57,300,000 Domestic Shares) are registered in the name of Beijing Gensir. Beijing Gensir is owned as to an approximately 78.52% by Lin Yin Ping, a non-executive Director. The rest of these Shares are registered in the name of Taiyuan Tanghai in which Lin Yin Ping has an indirect interest through his shareholdings in Beijing Gensir. As Lin Yin Ping is entitled to exercise of one-third or more of the voting power at the general meeting of Beijing Gensir, for the purpose of the SFO, Lin Yin Ping is deemed to be interested in the entire 57,300,000 Domestic Shares held by Beijing Gensir and 24,900,000 Domestic Shares held by Taiyuan Tanghai. Ms. Zhang Wen Qin (張文琴), as the wife of Lin Yin Ping, is taken to be interested in the Shares held by Mr. Lin by virtue of Part XV of the SFO.
4. These Shares are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 47.28% by Shen Gang. As Shen Gang is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the purpose of the SFO, Shen Gang is deemed to be interested in the entire 24,900,000 Domestic Shares held by Taiyuan Tanghai. Ms. Ma Fong Ping (馬鳳萍), as the wife of Shen Gang, is taken to be interested in the Shares held by Mr. Shen by virtue of Part XV of the SFO.
5. These Shares are registered in the name of Dandong Shuguang. Dandong Shuguang is owned as to approximately 48.11% by Li Jin Dian. As Li Jin Dian is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Dandong Shuguang, for the purpose of the SFO, Li Jin Dian is deemed to be interested in the entire 34,000,000 Domestic Shares held by Dandong Shuguang. Ms. Liu Gui Ying (劉桂英), as the wife of Li Jin Dian, is taken to be interested in the Shares held by Mr. Li by virtue of Part XV of the SFO.

Competing interest

Up to 30 June 2004, none of the Directors and management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

Sponsor’s interest

As notified and updated by the Company’s sponsor, Deloitte & Touche Corporate Finance Limited (“DTCFL”), as at 30 June 2004, none of DTCFL, its directors, employees and their associates had an interest in the share capital of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

Pursuant to the sponsor agreement dated 17 May 2004 entered into between DTCFL and the Company, DTCFL will receive, fees for acting as the Company’s retained sponsor for the period from 18 May 2004 up to 31 December 2006 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

Audit Committee

In compliance with Rules 5.28, 5.29 and 5.30 of the GEM Listing Rules, the Company has established an audit committee with written terms of reference. The primary duties of the audit committee are to review, in draft form, the Company's annual report and accounts, half-year report, quarterly report and to provide advice and comments thereon to the Company's board of directors. The audit committee is also responsible for reviewing and supervising the financial reporting and internal control procedures of the Company.

The audit committee comprises four independent non-executive Directors, Ni Guo Qiang, Shen Ming Hong, Li Li Cai and Chen Yue Jie. Ni Guo Qiang is appointed as the chairman of the audit committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters, including a review of the interim report for the six months ended 30 June 2004, with the Directors.

Board Practices and Procedures

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM listing Rules since the shares of the Company were listed on the GEM of the Stock Exchange on 18 May 2004.

Code of conduct regarding securities transactions by directors

During the six months ended 30 June 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

Repurchase, sale or redemption of listed securities of the Company

During the six months ended 30 June 2004 there was no purchase, sales or redemption of the Company's listed securities by the Company.

By order of the Board
Wang Gen Hai
Chairman

10 August 2004

Shanxi, the People's Republic of China