



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)

SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD

SHANXI  
CHANGCHENG  
2004

Annual Report 2004

SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”)  
OF THE STOCK EXCHANGE OF HONG KONG LIMITED  
(THE “STOCK EXCHANGE”)**

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*This report, for which the directors (the “Directors”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to the Company. 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.*

# Contents

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Corporate Information	3
Corporate Profile	4
Chairman's Statement	5
Financial Summary	6
Business review and Prospects	7
Management Discussion and Analysis	8
Business Objectives Review	10
Directors and Senior Management	13
Report of the Directors	16
Report of the Supervisory Committee	25
Auditors' Report	26
Income Statement	27
Balance Sheet	28
Statement of Changes in Equity	29
Cash Flow Statement	30
Notes to the Financial Statements	32
Notice of Annual General Meeting	55

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**BOARD OF DIRECTORS**

**Executive Directors**

Wang Gen Hai (*Chairman*)  
Li Kang Sheng  
Tian Qun Xu

**Non-executive Director**

Lin Yin Ping

**Independent Non-executive Directors**

Ni Guo Qiang  
Shen Ming Hong  
Li Li Cai  
Chen Yue Jie

**SUPERVISORS**

Zhang Fu Sheng  
Meng Yan  
Wang Guang Hua  
Bai Yin Quan

**COMPANY SECRETARY**

Ma Ving Lung *CPA(USA), CPA(HK)*

**COMPLIANCE OFFICER**

Wang Gen Hai

**AUTHORISED REPRESENTATIVES**

Wang Gen Hai  
Ma Ving Lung *CPA(USA), CPA(HK)*

**QUALIFIED ACCOUNTANT**

Ma Ving Lung *CPA(USA), CPA(HK)*

**LEGAL ADVISERS**

*As to Hong Kong law*  
Fong & Ng  
(In association with King & Wood,  
PRC lawyers and Goodmans)

**AUDITORS**

Grant Thornton

**PRINCIPAL BANKERS**

DBS Bank (Hong Kong) Limited  
Taiyuan City Commercial Bank  
Hua Xia Bank  
Industrial and Commercial Bank of China

**AUDIT COMMITTEE**

Ni Guo Qiang (*Committee Chairman*)  
Shen Ming Hong  
Li Li Cai  
Chen Yue Jie

**HONG KONG SHARE REGISTRAR  
AND TRANSFER OFFICE**

Standard Registrars Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

**REGISTERED OFFICE**

No. 212 Nanneihuan Street  
Taiyuan City  
Shanxi Province  
PRC

**PRINCIPAL PLACE OF BUSINESS  
IN HONG KONG**

Rooms 1318-20, 13th Floor  
Hollywood Plaza  
610 Nathan Road  
Kowloon  
Hong Kong

**STOCK CODE**

8286

**COMPLIANCE ADVISER**

Deloitte & Touche Corporate  
Finance Limited

The Company is principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the People's Republic of China ("PRC"). Image transmission fibre optic products produced by the Company are currently used as intermediate products by different manufacturers in Japan, Korea, Singapore, India, Turkey, Europe, Canada and the US.

Image transmission fibre optic products manufactured by the Company are image transmission devices containing a rigidly fused bundle of optical fibres arranged in an ordered fashion so that images can be transmitted from one end of the optical fibre bundle and displayed on the other end of the bundle. A typical image transmission fibre optic product of the Company would consist of over 10 million optical fibres. Image transmission fibre optic products have become one of the key components for digital image transmission equipment. It is a major component for CCD coupling, one of the critical processes of digital imaging. When compared with the traditional way of using lenses to transmit images, image transmission fibre optic products allow images to be transmitted at a higher speed, and with higher efficiency and lower distortion. Even in a dark or dim environment, images can be transmitted through image transmission fibre optic products without the need for additional lighting.

Traditionally, image transmission fibre optic products are used for the manufacture of specialised image transmitting products such as night vision devices. Nowadays, the use of image transmission fibre optic products has been extended to other areas, such as medical radiography and high performance digital consumer products, including high performance photocopiers and digital cameras.

The Company's overseas listed foreign shares ("H Shares") were listed on GEM on 18 May 2004.

### **MISSION**

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 in the PRC.

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited results of Shanxi Changcheng Microlight Equipment Company Limited (the "Company") for the year ended 31 December 2004 to the shareholder of the Company (the "Shareholder"). Through the effort from all our staff, the fiscal year 2004 was very exciting and encouraging for the Company. For the year ended 31 December 2004, turnover and profits attributable to shareholders were approximately RMB35.0 million and approximately RMB9.4 million respectively.

During the year under review, the Company recorded rapid growth in its results. It has been the fastest growth year since its incorporation. Turnover and profits attributable to shareholders increased by approximately 13.7% and 5.8% respectively compared with last year. The Company's products were distributed to overseas markets such as Europe, Asia and North America, etc. As a result of the successful listing of the Company's H Shares, significant capital was injected to the Company to support the production and development of the Company's products.

For the year 2005 ahead, the Company will continue to explore opportunities to strive for growth and profitability despite existing challenges. With the increase of production capacity and capability of Taiyuan Economic and Technology Development Zone (太原經濟技術開發區), the Company's production volume will be increased significantly. The Company will take the advantage of low production cost in the PRC and its experience and expertise technology. The Company believes that the production capacity of transmission fibre optic products as well as its profits will increase significantly.

Finally, on behalf of the Board, I would like to express my heartfelt appreciation for Shareholders' confidence and support in the Company's business and prospects, as well as our employees and staff for their devotion and hard work.

By order of the Board

**SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD.**

**WANG GEN HAI**

*Chairman*

Shanxi, the People's Republic of China, 22 March 2005

## FINANCIAL SUMMARY

The following table summarises the audited results, assets and liabilities of the Company for the four years ended 31 December 2004.

	<b>Year ended 31 December</b>			
	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
Turnover	24,927	24,769	30,766	<b>34,968</b>
Profit from operating activities	8,504	8,271	11,205	<b>12,274</b>
Profit before tax	7,662	7,583	10,650	<b>11,459</b>
Tax	–	434	(1,801)	<b>(2,099)</b>
Net profit from ordinary activities				
attributable to shareholders	7,662	8,017	8,849	<b>9,360</b>
Dividend	7,310	6,266	–	<b>4,633</b>
Earnings per share – basic ( <i>in RMB</i> )	0.037	0.038	0.042	<b>0.035</b>
	<b>As at 31 December</b>			
	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>	2003 <i>RMB'000</i>	2004 <i>RMB'000</i>
<b>ASSETS AND LIABILITIES</b>				
Total Assets	46,321	46,891	54,375	<b>82,128</b>
Total Liabilities	16,124	15,987	14,622	<b>16,540</b>
Shareholders' Equity	<u>30,197</u>	<u>30,904</u>	<u>39,753</u>	<b><u>65,588</u></b>

### BUSINESS REVIEW

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

For the year ended 31 December 2004, the Company reported a turnover of approximately RMB35.0 million (2003: approximately RMB30.8 million), representing an increase of approximately 13.7% from previous year'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 gross profit margin ratio for the year ended 31 December 2004 is approximately 60.8%, representing an increase of approximately 1.0% as compared to the previous year. The increase is attributable to the decrease in cost of sales resulted from the lower prices offered by the suppliers.

The profit before tax for the year ended 31 December 2004 increased by approximately 7.6% from approximately RMB10.7 million to approximately RMB11.5 million. The increase in profit was mainly due to the increase in the sales of fibre optic inverters. Notwithstanding the increments 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 in the PRC.



### **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 H Shares on GEM on 18 May 2004.

As at 31 December 2004, the Company had total assets of approximately RMB82.1 million (2003: approximately RMB54.4 million), of which approximately RMB30.9 million (2003: approximately RMB3.5 million) were cash and bank balances.

### **GEARING RATIO**

The gearing ratio of the Company, based on total liabilities to total assets, was approximately 20.1% as at 31 December 2004 (2003: approximately 26.9%). The lower gearing ratio was due to the increase in cash and bank balances after the listing of the Company's H Shares during the year 2004.

### **CAPITAL STRUCTURE AND FOREIGN EXCHANGE RISK 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 income statement.

For the year ended 31 December 2004, approximately 78.2 % of the Company's sales was denominated in US dollars. The remaining sales were denominated in RMB. A majority of the Company's cost of sales and capital expenditure were denominated in RMB. Accordingly, the Directors are of the view that, to a certain extent, the Company is exposed to foreign currency exchange risk. However, as the exchange rate of US dollars to RMB has been comparatively stable in recent years, the Directors believe that such exposure does not have any significant adverse effect on the Company. Furthermore, the Company has not experienced any material operating difficulties or effects on liquidity as a result of fluctuations in currency exchange rates in the past. Therefore, the Company has not implemented any formal policy in dealing with this foreign exchange. For the year ended 31 December 2004, the Company did not enter into any arrangement to hedge its foreign exposure.

### **PLEDGE OF ASSETS AND BANKING FACILITIES**

As at 31 December 2004, the Company did not have any pledge of assets and banking facilities obtained from bank.

### **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 year ended 31 December 2004 (2003: Nil).

### **FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

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 “Business Objectives and Future Plans” in the prospectus of the Company dated 10 May 2004 (the “Prospectus”). Save as disclosed above, the Company had no other significant future investment plan as at 31 December 2004.

### **EMPLOYEE INFORMATION**

For the year ended 31 December 2004, the staff remuneration of the Company was approximately RMB7.1 million (2003: RMB6.0 million) and the Company had a total of approximately 429 employees (2003: approximately 432 employees).

There is no significant change in the Company’s employees and remuneration policy as compared with last year.

### **CAPITAL COMMITMENT**

Details of capital commitment are set out in note 27(i) of the financial statements.

### **CONTINGENT LIABILITIES**

As at 31 December 2004, the Company had no material contingent liabilities (2003: Nil).

### **SEGMENT INFORMATION**

Details of the segment information for the year ended 31 December 2003 and 2004 are set out in note 4 to the financial statements.

### COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

10 May 2004 to 30 June 2004

	<b>Business objectives stated in the Prospectus</b>	<b>Actual progress as at 30 June 2004</b>
Increase production capacity and capability	Set up the New Development Zone Joint Venture (as defined below)	The application process of setting up the New Development Zone Joint Venture is still in progress. The Land Use Right Transfer Agreement was signed on 3 December 2004. The Land Use Right Certificate is pending. Upon obtaining the approval in respect of the New Development Zone Joint Venture and the Land Use Right Certificate, the construction of the production plant will commence and machinery will be purchased for production.
<ul style="list-style-type: none"><li>capital investment in a joint venture between the Company and Shanxi Economic and Trade Limited Liability Company (山西經貿資產經營有限公司) (“New Development Zone Joint Venture”)</li><li>purchase of machinery</li></ul>		

Use of proceeds from the placing from the date of listing on 18 May 2004, the Company has not been utilized in the following areas. It is mainly due to the procedure for examination by and obtaining approval in respect of the New Development Zone Joint Venture and the related land from the government has not yet been completed and hence cannot utilise the proceeds from the placing to invest in the New Development Zone Joint Venture.

**From 18 May 2004 (Date of Listing) to 30 June 2004**

	<b>As stated in the Prospectus</b>	<b>Actual business progress</b>
	<i>HK\$' million</i>	<i>HK\$' million</i>

Increase production capacity and capability	14	–
<ul style="list-style-type: none"> <li>• capital investment in New Development Zone Joint Venture</li> <li>• purchase of machinery</li> </ul>		

*Note:* The Land Use Right Certificate is still pending. A deposit of approximately RMB14.0 million was paid by the Company to the Management Committee of Taiyuan Economic and Technology Development Zone (太原經濟技術開發區管理委員會).

## BUSINESS OBJECTIVES REVIEW

### 1 July 2004 to 31 December 2004

	<b>Business objectives stated in the Prospectus</b>	<b>Actual progress as at 30 June 2004</b>
Increase production capacity and capability	Commence the construction of the new production plant in the New Development Zone in Taiyuan, Shanxi Province, the PRC	The application process of setting up the New Development Zone Joint Venture is still in progress and the Land Use Right Certificate is still pending. Upon obtaining the approval in respect of the New Development Zone Joint Venture and the Land Use Right Certificate, the construction of the production plant will commence and machinery will be purchased for production.
<ul style="list-style-type: none"> <li>capital investment in New Development Zone Joint Venture</li> <li>purchase of machinery</li> </ul>	Purchase of imported drawing machine, drawing machine, imported drawing pattern machine, type A heating oven, type B heating oven, type A heater, type B heater, vacuum pump, bridge crane, horizontal cutter, $\Phi$ 200 cutter, etc.	

Use of proceeds from 1 July 2004, the Company has not been utilised in the following areas. It is mainly due to the procedure for examination by and obtaining approval in respect of the New Development Zone Joint Venture and the related land from the government has not yet been completed and hence cannot utilise the proceeds from the Placing to invest in the New Development Zone Joint Venture.

### From 1 July 2004 to 31 December 2004

	<b>As stated in the Prospectus</b> <i>HK\$ million</i>	<b>Actual business progress</b> <i>HK\$ million</i>
Increase production capacity and capability	7.2	–
<ul style="list-style-type: none"> <li>capital investment in New Development Zone Joint Venture</li> <li>purchase of machinery</li> </ul>		

### BOARD OF DIRECTORS

#### Executive Directors

**Mr. Wang Gen Hai (王根海)**, aged 57, is the chairman of the Company, and is mainly responsible for the Company's overall strategic planning, management, business development and new product strategy. Mr. Wang graduated from Shanxi Mining College (山西礦業學院) in 1976 after studying 3 years of mechanical engineering. He has been a senior engineer in the PRC since 1994. He has over 20 years of experience in research and general management in the fibre optic industry. Prior to joining the Company, he was with Taiyuan Changcheng Optics and Electronics Industrial Corporation (太原長城光電子工業公司) ("Taiyuan Changcheng") from 1983 to 2000 as General Manger. He joined the Company in November 2000. Mr. Wang Gen Hai is also the compliance officer of the Company.

**Mr. Li Kang Sheng (李抗勝)**, aged 59, is a Director. Mr. Li has over 30 years of experience in research and general management in the fibre optic industry. Mr. Li graduated from Tianjin University (天津大學) in 1968 with a degree in radio engineering. He has been a senior engineer in the PRC since 1994 and is mainly responsible for overseeing the production and the technical department of the Company. Prior to joining the Company, he had been with Taiyuan Changcheng for 30 years. Mr. Li joined the Company in November 2000.

**Mr. Tian Qun Xu (田群戌)**, aged 66, is a Director. Mr. Tian has over 30 years of experience in research and general management in the optical glass industry. Mr. Tian graduated from Taiyuan Industrial Professional School (太原工業專科學校) in 1961. He has been a senior engineer in the PRC since 1988 and is mainly responsible for the research and development department of the Company. Prior to joining the Company, he had been with Taiyuan Changcheng for almost 40 years. Mr. Tian joined the Company in November 2000.

#### Non-executive Director

**Mr. Lin Yin Ping (林殷平)**, formerly known as Lin Peng, aged 40, is the vice chairman of the Company. Mr. Lin graduated from Guangdong Provincial Social Science College (廣東省社會科學院) with a master degree in politics and economics. Prior to joining the Company, Mr. Lin was with Shenzhen International Investment Securities Company Limited (深圳國投證券有限公司) as an investment banker. Since 2000, Mr. Lin has been the chairman and general manager of Beijing Gensir Venture Capital Management Limited (北京中澤創業投資管理有限公司) ("Beijing Gensir"), a substantial shareholder of the Company. Mr. Lin has over 10 years of experience in the investment and finance field. He joined the Company in November 2000. The daily management and operation of the Company is carried out by Mr. Wang Gen Hai, Mr. Tian Qun Xu and Mr. Li Kang Sheng and Mr. Lin does not take part in the daily management and operation of the Company. Mr. Lin attends the Board of Directors meeting of the Company in the capacity of a director.

### Independent non-executive Directors

**Mr. Ni Guo Qiang (倪國強)**, aged 59, is an independent non-executive Director. Mr. Ni graduated from Beijing Institute of Technology (北京理工大學) in 1989 with a doctorate degree in optical and electrical engineering. He has worked with Beijing Institute of Technology since 1989 and currently is the chief professor of the optic technology doctorate programme in Beijing Institute of Technology. Mr. Ni has been engaged in the research and development of optical technology for more than 20 years. Mr. Ni was appointed by the Company in November 2000.

**Mr. Shen Ming Hong (沈明宏)**, aged 37, is an independent non-executive Director. Mr. Shen is the chief executive of International New Economy Investment Company Limited (國科新經濟投資有限公司). Mr. Shen graduated from Hefei Industrial University (合肥工業大學) with a master degree. Mr. Shen was appointed by the Company in November 2000.

**Mr. Li Li Cai (黎禮才)**, aged 64, is an independent non-executive Director. Mr. Li graduated from Wuhan Iron & Steel Institute (武漢鋼鐵學院). He joined Taiyuan Iron & Steel Factory (太原鋼鐵廠) in 1964. Since 1985, Mr. Li has been the Deputy General Manager of Taiyuan Iron & Steel Company (太原鋼鐵(集團)公司). Before his retirement, Mr. Li was the Vice Chairman of Shanxi Taiyuan Stainless Steel Company Limited (山西太鋼不銹鋼股份有限公司), a company listed on the Shenzhen Exchange in the PRC. He has over 30 years of experience in corporate management and investment. Mr. Li was appointed by the Company in June 2002.

**Ms. Chen Yue Jie (陳月潔)**, aged 32, is an independent non-executive Director. Ms. Chen graduated from Shanxi University of Finance and Economics (山西省財經大學) in 1997. Ms. Chen is a qualified accountant registered in the PRC and has been involved in the audits of a number of major companies. Ms. Chen was appointed by the Company in April 2004.

### Supervisors

**Mr. Zhang Fu Sheng (張府生)**, aged 53, is a supervisor of the Company. Mr. Zhang completed high school courses and has been working with Taiyuan Wireless Number Six Factory (太原無線電六廠), and since 1994, he has been an assistant manager of Taiyuan Changcheng. He is also the supervisor (監事) of the labour union (聯工代表監事) of Taiyuan Changcheng since 1996. He joined the Company in 2000.

**Mr. Meng Yan (孟焰)**, aged 49, is a supervisor of the Company. Mr. Meng graduated from China Financial Science Research Institute (中國財政科學研究所) with a doctorate degree in accountancy. Mr. Meng is currently the dean of the faculty of accountancy in the Chinese Central Finance University (中國中央財經大學). Mr. Meng joined the Company in June 2002.

**Mr. Wang Guang Hua (王光華)**, aged 44, is a supervisor of the Company. Mr. Wang is currently the head of one of the workshop of the Company. Prior to joining the Company in March 2002, he has been with Taiyuan Changcheng since 1988.

**Mr. Bai Yin Quan** (白銀泉), aged 39, is a supervisor of the Company. Mr. Bai graduated from Northeastern Finance University (東北財經大學) in 1988 with a bachelor degree in Finance. He became a registered accountant in the PRC in 1993. He is currently a supervisor of Shanxi Certified Public Accountants (山西會計師事務所). Mr. Bai has over 10 years of experience in the accounting and finance. Mr. Bai joined the Company in June 2002.

### Senior Management

**Mr. Zhu Au Ying** (朱歐英), aged 52, is the Production Manager of the Company. Prior to joining the Company in 2000, he was responsible for production management in Taiyuan Changcheng from 1969 to 2000. He is mainly responsible for the overall production management of the Company.

**Ms. He Ling Xian** (和玲仙), aged 54, is the Financial Controller of the Company. She graduated from Chinese Communist Central College (中共中央學校) in 1995 after studying 3 years of economics. She has been a qualified accountant in the PRC since 1992 and a registered accountant since 2000. Prior to joining the Company in 2000, she was with an accounting firm in Shanxi.

**Mr. Fan Ji Min** (范繼民), aged 43, is the Technical Improvement Manager of the Company. He graduated from Shanxi Provincial Electronics School (山西省電子工業學校) in 1981 after studying 2 years of radio technology. Prior to joining the Company in February 2001, he had been working in Taiyuan Changcheng since 1981. He became an engineer in the PRC in 1999. He is mainly responsible for overall improvement programmes of the Company. Mr. Fan is an engineer in PRC.

**Mr. Guo Zhi Hong** (郭志宏), aged 38, is the Administration Manager of the Company. He graduated from Shanxi University (山西大學) in 1989 with a degree in physics. Prior to joining the Company, he has been working in Taiyuan Changcheng from 1989 to 2000. He is mainly responsible for administration and management of the Company.

**Ms. Zhang Shu Qin** (張淑琴), aged 41, is the Chief Engineer of the Company. She graduated from Shanxi University (山西大學) in 1986 with a degree in chemistry. Prior to joining the Company, she was working in Taiyuan Changcheng from 1986 to 2000. She is mainly responsible for the overall management of the technical department. Ms. Zhang is an engineer in the PRC.

**Mr. Xie An Ye** (解安業), aged 37, is the Secretary of the Board of the Company. He graduated from Technological Management University (中國科技經營管理大學) in 1989 with a professional qualification in applied electronic technology. Prior to joining the Company in 2000, he was with Taiyuan Changcheng from 1990 to 2000. He is mainly responsible for the management and administration of the Company. Mr. Xie is an engineer in the PRC.

**Mr. Ma Ving Lung** (馬詠龍), aged 35, is the Company Secretary and Qualified Accountant of the Company. Mr. Ma graduated from York University, Ontario, Canada in 1995 with a bachelor degree (honours) in business administration. He became a Certified Public Accountant in the US and became an Associate of the Hong Kong Society of Accountants in 2000. Prior to joining the Company, he was the financial controller and company secretary of a company listed on the GEM. He joined the Company in June 2002.



The Directors have the pleasure to present the first annual report together with the audited financial statements of the Company for the year ended 31 December 2004.

### **PRINCIPAL ACTIVITIES**

The Company is principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC.

### **MAJOR CUSTOMERS AND SUPPLIERS**

For the year ended 31 December 2004, the five largest customers and the largest customer of the Company accounted for approximately 99.9% and 78.0% respectively of the Company's total turnover.

For the year ended 31 December 2004, the five largest suppliers and the largest supplier of the company accounted for approximately 79.7% and 24.2% respectively of the Company's total purchases.

None of the Directors, or any of their associates, or any shareholder (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Company's five largest customers or suppliers.

### **RESULTS AND APPROPRIATIONS**

Details of the Company's results for the year ended 31 December 2004 are set out in the income statements on page 27.

The Directors proposed a distribution of an interim dividend of RMB0.015 per share on 5 November 2004, which has been approved by an extraordinary general meeting on 24 December 2004.

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2004.

### **FINANCIAL SUMMARY**

A summary of the results and of the assets and liabilities of the Company for the past four financial years is set out on page 6 of the annual report.

### **SHARE CAPITAL**

Details of movements in the Company's share capital during the year are set out in note 25 to the financial statements.

### **RESERVES**

Details of movements in the reserves of the Company during the year are set out in the statement of changes in equity on page 29.

### **DISTRIBUTABLE RESERVES**

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with the relevant rules and regulations, amounted to approximately RMB10,177,000.

### **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights under the Companies Law (Revised) of the PRC.

### **PROPERTY, PLANT AND EQUIPMENT**

Details of movements in property, plant and equipment of the Company during the year are set out in note 13 to the financial statements.

### **RETIREMENT PLANS**

All members of staff are entitled to participate in the public welfare fund, which was set up for the purpose of ensuring that the participating employees will have sufficient means to support their living after retirement. Upon participation, the Company and its employees are required to contribute to such fund. The contributions made by the Company are on the basis of not more than 23% of the employees' salaries while the employees are required to contribute at least 8% of their salaries each month.

Once the contribution has been made by the Company for its employees, the Company cannot withdraw the contribution on the basis that the employee has left the Company. For the two years ended 31 December 2003 and 2004, the amount paid by the Company for the pension scheme was approximately RMB967,000 and RMB1,123,000 respectively.

### **CONNECTED TRANSACTIONS**

For the year ended 31 December 2004, the Company had several continuing connected transactions in relation to the lease of land and property from Taiyuan Changcheng to the Company which were exempt from all the reporting, announcement and independent shareholders' approval requirement under Chapter 20 of the Rules Governing the Listing of Securities on GEM ("the GEM Listing Rules").

### **DIRECTORS AND SUPERVISORS**

The Directors who held office during the year and up to the date of this report are:

#### **Executive Directors**

Mr. Wang Gen Hai  
Mr. Li Kang Sheng  
Mr. Tian Qun Xu

#### **Non-executive Directors**

Mr. Lin Yin Ping

#### **Independent non-executive Directors**

Mr. Ni Guo Qiang  
Mr. Shen Ming Hong  
Mr. Li Li Cai  
Ms. Chen Yue Jie (appointed on 20 April 2004)

The Supervisors who held office during the year and up to the date of this report are:

Zhang Fu Sheng  
Meng Yan  
Wang Guang Hua  
Bai Yin Quan

### **DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS**

Except for Ms. Chen Yue Jie, each of the Executive Directors, Non-executive Directors and Independent non-executive Directors has entered into a service contract with the Company for an initial term of three years commencing from 10 November 2003. For Ms. Chen Yue Jie, the service contract with the Company for an initial term of three years commencing from 20 April 2004. The service contracts shall continue thereafter until terminated by either party after the expiration of the said initial fixed term.

Each of the supervisors of the Company (the "Supervisors") has entered into an appointment contract with the Company with effect from 10 November 2003 to 9 November 2006 whereby each of the Supervisors was appointed subject to termination on certain circumstances as stipulated in the relevant appointment contract.

Save as disclosed above, none of the Directors or the Supervisors had entered into service contracts with the Company which were not terminable by the Company within one year without compensation (other than statutory compensation).

### **DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES**

Biographical details of the Directors, Supervisors and the senior management of the Company are set out on pages 13 to 15.

**DIRECTORS' AND SUPERVISORS' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES**

As at 31 December 2004, so far as the Directors are aware, the Directors who have any interest and short position in shares, underlying shares or debentures 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 were 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 were required pursuant to section 352 of the SFO to be entered in the register referred to in that section, or (c) which were 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 are as follows:

Name	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*
Lin Yin Ping	Interest in a controlled corporation	82,200,000	41.34%	26.61%

*Note:*

- Lin Yin Ping holds approximately 78.52% of the equity interest in Beijing Gensir and Beijing Gensir holds approximately 36.37% of the equity interest in Taiyuan Tanghai. As Lin Yin Ping is entitled to exercise or control the 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.

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

**DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES**

Saved as disclosed above, during the year ended 31 December 2004, none of the Directors or Supervisors of the Company are granted options to subscribe for H shares of the Company. As at 31 December 2004, none of the Directors or the Supervisors 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 year.

**DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS**

Save as disclosed, the Directors and Supervisors did not have contracts of significance in relation to the Company's business to which the Company was a party and in which a Director or Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or any time during the year.

## SHARE OPTION SCHEME

The Company does not have any share option scheme.

## SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, so far as the Directors are aware, 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 5% or more of the nominal value of any class of issued share capital carrying rights to vote in all circumstances of general meetings are as follows:

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Taiyuan Changcheng Optics and Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	–	25.95%
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Note 1)	41.34%	–	26.61%
Dandong Shuguang Industrial Group Company Limited	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	17.10%	–	11.01%
Taiyuan Tanghai Automatic Control Company Limited	Registered and beneficial owner of the domestic shares	24,900,000 domestic shares	12.52%	–	8.06%
Lin Yin Ping	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	–	26.61%
Shen Gang	Interest in a controlled corporation	24,900,000 domestic shares (Note 3)	12.52%	–	8.06%
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares (Note 4)	17.10%	–	11.01%

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of the holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Zhang Wen Qin	Family interest	82,200,000 domestic shares (Note 2)	41.34%	–	26.61%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 4)	17.10%	–	11.01%
Ma Fong Ping	Family interest	24,900,000 domestic shares (Note 3)	12.52%	–	8.06%
Liu Li, Luis	Beneficial owner of H shares and interest in a controlled corporation	35,055,000 H shares (Note 5)	–	31.87%	11.35%
Lu Jun	Family interest	35,055,000 H shares (Note 6)	–	31.87%	11.35%
Kwong Tat Finance Limited	Beneficial owner of H shares	34,155,000 H shares (Note 5)	–	31.05%	11.06%

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

Notes:

- 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 or 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.
- 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 Lin Yin Ping by virtue of Part XV of the SFO.

3. These 24,900,000 domestic shares are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 47.28% by Shen Gang. As Shen Geng 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 Geng is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai. Ma Fong Ping (馬鳳萍), as the wife of Shen Gang, is taken to be interested in the shares held by Shen Gang by virtue of Part XV of the SFO.
4. These 34,000,000 domestic 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. Liu Gui Ying (劉桂英), as the wife of Li Jin Dian, is taken to be interested in the shares held by Li Jin Dian by virtue of Part XV of the SFO.
5. Part of these H shares (34,155,000 H shares) are registered in the name of Kwong Tat Finance Limited. Kwong Tat Finance Limited is wholly owned by Liu Li, Luis. The rest of these H shares (900,000 H shares) are registered in the name of Liu Li, Luis. For the purpose of SFO, Liu Li, Luis is deemed to be interested in all the H shares held by Kwong Tat Finance Limited.
6. Lu Jun is the spouse of Liu Li, Luis and is deemed to be interested in all 35,055,000 H shares held by Liu Li, Luis by virtue of Part XV of the SFO.

### COMPETING INTEREST

Up to 31 December 2004, none of the Directors, Supervisors and management shareholders of the Company (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

### COMPLIANCE ADVISER'S INTEREST

As notified and updated by the Company's compliance adviser, Deloitte & Touche Corporate Finance Limited ("DTCFL"), as at 31 December 2004, none of DTCFL, its directors, employees and their associates (as defined under the GEM Listing Rules) had any 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 compliance adviser for the period from 18 May 2004 up to 31 December 2006 or until such agreement is terminated upon the terms and conditions set out therein.

### AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.29 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 Board. The audit committee is also responsible for reviewing and supervising the financial reporting procedures and internal control system 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 annual report of the Company for the year ended 31 December 2004, with the Directors.

**CORPORATE GOVERNANCE**

The Company has complied throughout the period under review with the provisions on board practice and procedures in the GEM Listing Rules, which was substantially revised with effect from 1 January 2005. Subject to the transitional arrangements, the Company will comply with the revised GEM Listing Rules, in particular, the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules, from the financial year commencing on 1 January 2005.

**CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

During the year ended 31 December 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 had also 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.

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year ended 31 December 2004, there was no purchase, sales or redemption of the Company's listed securities by the Company.

**AUDITORS**

Ernst & Young were auditors of the Company for the years ended 31 December 2001, 2002 and 2003. The financial statements of the Company for those years were audited by Ernst & Young.

Grant Thornton was appointed as auditors of the Company by the Board on 14 January 2005 to fill the casual vacancy arising from the resignation of Ernst & Young on 5 January 2005. The financial statements of the Company for the year ended 31 December 2004 have been audited by Grant Thornton, who will retire and a resolution to re-appoint Grant Thornton as auditors of the Company will be proposed at the forthcoming annual general meeting.

**DIRECTORS**

Executive Directors: Mr. Wang Gen Hai, Mr. Li Kang Sheng and Mr. Tian Qun Xu. Non-executive Director: Mr. Lin Yin Ping. Independent non-executive Directors: Mr. Ni Guo Qiang, Mr. Shen Ming Hong, Mr. Li Li Cai and Ms. Chen Yue Jie.

The Company confirmed that it has received from each of its independent non-executive Directors an annual confirmation of his/her independence pursuant to Rule 5.09 of the GEM Listing Rules and the Company consider each of the independent non-executive Directors to be independent.



### **DISCLOSURE UNDER GEM LISTING RULES 17.15 TO 17.21**

Under the Rule 17.15 of the GEM Listing Rules, a disclosure obligation arises, among other situations, where any of the percentage ratios of the relevant advance to an entity from the issuer or any of its subsidiaries exceeds 8.0%.

Loans advance, and guarantees given for facilities granted to entities by the Company which individually exceeded 8.0% of the relevant percentage ratios under Rule 17.15 of the GEM Listing Rules as at 31 December 2004 is as follow:

#### **Advance to Sunsan Im-Export**

The audited total asset value of the Company as at 31 December 2004 was approximately RMB82,128,000.

Trade receivables in the amount of approximately RMB6,742,000 were owed from an independent party, Sunsan Im-Export as at 31 December 2004. Such receivables exceeded 8.0% of the relevant percentage ratio(s). The Company has disclosed such advance to an entity in the Prospectus and the amount involved has not increased for 3% or more since the date of the Prospectus. Accordingly, no further disclosure obligation under Rule 17.16 of the GEM Listing Rules for the Company has arisen.

As confirmed by the Directors, the trade receivables referred to above was resulted from the sale of the Company's products to such customer in the ordinary course of business of the Company. The trade receivables were unsecured, interest free and had credit terms of between 30 to 90 days.

On behalf of the Board of Directors

**WANG GEN HAI**

*Chairman*

Shanxi, the People's Republic of China, 22 March 2005

To shareholders of Shanxi Changcheng Microlight Equipment Co. Ltd.:

The supervisory committee (“the Supervisory Committee”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) has performed its duties conscientiously in compliance with the Company Law of the PRC, relevant laws and regulations of Hong Kong and the articles of association of the Company. By adhering to the principle of good faith, it has discharged its duties diligently and carried out its work in an honest, reasonable, prudent and proactive manner to safeguard the interests of the Company and the shareholders.

During the year under review, the Supervisory Committee has carefully reviewed the use of proceeds from the placing in accordance with the plan disclosed in the Prospectus of the Company and put forward reasonable recommendations and opinions to the Board in respect of the operation and development plans of the Company. It has monitored strictly and effectively various important decisions made by the Board of directors to ensure that such decisions are in compliance with the laws and regulations of the PRC and the articles of association of the company, and in the best interest of the shareholders.

The Supervisory Committee has reviewed diligently and was satisfied with the report of the Directors, the audited financial statements to be tabled at the forthcoming annual general meeting of the Company. In the opinion of the Supervisory Committee, the members of the Board, the Chairman and other senior management of the Company have strictly followed the principle of good faith, discharged their duties diligently, honestly worked for the best interests of the Company, performed their duties in accordance with the articles of association, standardised the operation and enhanced the internal control system. No abuse of rights, acts detrimental to the interests of the Company, shareholders and staff, infringement of laws, regulations or the articles of association of the Company by the Directors, chairman and senior management was found.

The Supervisory Committee considered that the performance and economic results of the Company for 2004 were satisfactory and was confident of the development prospect of the Company.

By order of the Supervisory Committee

**Zhang Fu Sheng**

*Chairman of the Supervisory Committee*

Shanxi, the People’s Republic of China, 22 March 2005

Certified Public Accountants  
Member of  
Grant Thornton International

Grant Thornton   
均富會計師行

**To the shareholders of Shanxi Changcheng Microlight Equipment Co. Ltd.**

*(incorporated in the People's Republic of China with limited liability)*

We have audited the financial statements on pages 27 to 54 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Grant Thornton**

*Certified Public Accountants*

Hong Kong

22 March 2005

## INCOME STATEMENT

for the year ended 31 December 2004

		2004	2003
	Notes	RMB'000	RMB'000
<b>Turnover</b>	5	<b>34,968</b>	30,766
Cost of sales		<u>(13,711)</u>	<u>(12,368)</u>
<b>Gross profit</b>		<b>21,257</b>	18,398
Other revenue and gains	5	<b>247</b>	79
Selling and distribution expenses		<b>(905)</b>	(335)
Administrative expenses		<b>(8,050)</b>	(6,420)
Other operating expenses		<u>(275)</u>	<u>(517)</u>
<b>Profit from operating activities</b>	6	<b>12,274</b>	11,205
Finance costs	7	<u>(815)</u>	<u>(555)</u>
<b>Profit before tax</b>		<b>11,459</b>	10,650
Tax	10	<u>(2,099)</u>	<u>(1,801)</u>
<b>Net profit from ordinary activities attributable to shareholders</b>		<u><b>9,360</b></u>	<u>8,849</u>
<b>Dividend – Interim</b>	11	<u><b>4,633</b></u>	<u>–</u>
<b>Earnings per share</b>	12		
Basic		<u><b>RMB0.035</b></u>	<u>RMB0.042</u>
Diluted		<u><b>N/A</b></u>	<u>N/A</u>

# BALANCE SHEET

as at 31 December 2004

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Fixed assets	13	<b>16,450</b>	18,397
Deposit for acquisition of a land use right	14	<b>14,054</b>	4,000
Deposit for acquisition of fixed assets		<b>150</b>	150
Interest in an associate	15	<b>3,205</b>	3,325
Deferred tax assets	16	<b>434</b>	434
		<b>34,293</b>	26,306
<b>Current assets</b>			
Due from shareholders	17	<b>226</b>	5
Due from a director	18	–	20
Inventories	19	<b>6,010</b>	7,951
Trade receivables	20	<b>10,092</b>	10,675
Prepayments, deposits and other receivables		<b>507</b>	5,783
Short term investment	21	<b>100</b>	100
Cash and bank balances		<b>30,900</b>	3,535
		<b>47,835</b>	28,069
<b>Current liabilities</b>			
Due to a shareholder	17	–	707
Due to directors	18	<b>30</b>	–
Trade payables	22	<b>133</b>	340
Tax payable		<b>499</b>	640
Accrued liabilities, deposits received and other payables		<b>2,858</b>	5,935
Dividend payable		<b>3,020</b>	–
Interest-bearing bank borrowings	23	–	3,000
		<b>6,540</b>	10,622
<b>Net current assets</b>		<b>41,295</b>	17,447
<b>Total assets less current liabilities</b>		<b>75,588</b>	43,753
<b>Non-current liabilities</b>			
Interest-bearing bank borrowings	23	–	4,000
Deferred income	24	<b>10,000</b>	–
		<b>10,000</b>	4,000
		<b>65,588</b>	39,753
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>	25	<b>30,886</b>	20,886
<b>Reserves</b>	26	<b>34,702</b>	18,867
<b>Shareholders' equity</b>		<b>65,588</b>	39,753

Wang Gen Hai  
Director

Li Kang Sheng  
Director

## STATEMENT OF CHANGES IN EQUITY

*for the year ended 31 December 2004*

	Issued share capital <i>RMB'000</i> <i>(Note 25)</i>	Capital surplus* <i>RMB'000</i> <i>(Note 25)</i>	Retained profits/ (accumulated losses)* <i>RMB'000</i>	Statutory surplus reserve* <i>RMB'000</i> <i>(Note 26)</i>	Statutory public welfare fund* <i>RMB'000</i> <i>(Note 26)</i>	Proposed dividend* <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2003	20,886	1,187	(83)	1,766	882	6,266	30,904
Net profit for the year	-	-	8,849	-	-	-	8,849
Transfer from retained profits to statutory reserves	-	-	(1,531)	1,020	511	-	-
At 31 December 2003 and 1 January 2004	20,886	1,187	7,235	2,786	1,393	6,266	39,753
Net profit for the year	-	-	9,360	-	-	-	9,360
Proposed 2002 dividend approved by shareholders	-	-	-	-	-	(6,266)	(6,266)
Issue of H shares - note 25	10,000	32,424	-	-	-	-	42,424
Share issue expenses	-	(15,050)	-	-	-	-	(15,050)
Transfer from retained profits to statutory reserves	-	-	(1,785)	1,190	595	-	-
Interim 2004 dividend - note 11	-	-	(4,633)	-	-	-	(4,633)
<b>At 31 December 2004</b>	<b>30,886</b>	<b>18,561</b>	<b>10,177</b>	<b>3,976</b>	<b>1,988</b>	<b>-</b>	<b>65,588</b>

\* These reserve accounts comprise the reserves of RMB34,702,000 (2003: RMB18,867,000) in the balance sheet.

## CASH FLOW STATEMENT

for the year ended 31 December 2004

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 <i>RMB'000</i>
<b>Cash flows from operating activities</b>			
Profit before tax		<b>11,459</b>	10,650
Adjustments for:			
Interest income	5	<b>(85)</b>	(12)
Finance costs	7	<b>815</b>	555
Loss on disposal of fixed assets	6	<b>8</b>	–
Depreciation	6	<b>2,705</b>	2,434
Provision for doubtful debts	6	<b>535</b>	13
		<hr/>	<hr/>
Operating profit before working capital changes		<b>15,437</b>	13,640
Net movement in balance with an associate		<b>120</b>	100
Net movement in balances with the shareholders		<b>(928)</b>	(3,937)
Net movement in balances with the directors		<b>50</b>	(20)
Decrease in inventories		<b>1,941</b>	700
Decrease/(increase) in trade receivables		<b>48</b>	(1,293)
Decrease/(increase) in prepayments, deposits and other receivables		<b>5,276</b>	(150)
Decrease in trade payables		<b>(207)</b>	(184)
(Decrease)/increase in accrued liabilities, deposits received and other payables		<b>(3,077)</b>	2,046
		<hr/>	<hr/>
Cash generated from operations		<b>18,660</b>	10,902
Interest paid		<b>(815)</b>	(555)
Income tax paid		<b>(2,240)</b>	(1,161)
		<hr/>	<hr/>
<i>Net cash inflow from operating activities</i>		<b>15,605</b>	9,186
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Purchase of a land use right		<b>(10,054)</b>	–
Purchases of fixed assets		<b>(767)</b>	(5,112)
Increase in deferred income	24	<b>10,000</b>	–
Proceeds from disposal of fixed assets		<b>1</b>	–
Deposit paid for acquisition of fixed assets		–	(150)
Purchase of a short term investment		–	(100)
Interest received		<b>85</b>	12
		<hr/>	<hr/>
<i>Net cash outflow from investing activities</i>		<b>(735)</b>	(5,350)
		<hr/>	<hr/>

## CASH FLOW STATEMENT

for the year ended 31 December 2004

		<b>2004</b>	2003
	<i>Notes</i>	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Cash flows from financing activities</b>			
Proceeds from issue of H shares	25	<b>42,424</b>	–
Share issue expenses	25	<b>(15,050)</b>	–
Repayments of bank loans	23	<b>(15,000)</b>	(3,000)
New bank loan	23	<b>8,000</b>	–
Dividends paid		<b>(7,879)</b>	–
		<hr/>	<hr/>
<i>Net cash inflow/(outflow) from financing activities</i>		<b>12,495</b>	(3,000)
		<hr/>	<hr/>
<b>Net increase in cash and cash equivalents</b>		<b>27,365</b>	836
		<hr/>	<hr/>
<b>Cash and cash equivalents at beginning of year</b>		<b>3,535</b>	2,699
		<hr/>	<hr/>
<b>Cash and cash equivalents at end of year</b>		<b>30,900</b>	3,535
		<hr/> <hr/>	<hr/> <hr/>
<b>Analysis of balances of cash and cash equivalents</b>			
Cash and bank balances		<b>30,900</b>	3,535
		<hr/> <hr/>	<hr/> <hr/>

*Notes:*

### **Major non-cash transactions**

During the year ended 31 December 2004, 10,000,000 domestic shares of the Company of RMB0.10 each held by Taiyuan Changcheng Optics and Electronics Industrial Corporation (“Taiyuan Changcheng”), a shareholder of the Company, was converted into 10,000,000 H shares of RMB0.10 each.

During the year ended 31 December 2003, the Company had the following major non-cash transactions:

- (i) A deposit of RMB4 million was paid by Taiyuan Changcheng on behalf of the Company for the acquisition of a land use right. The amount was settled through the current account with Taiyuan Changcheng.
- (ii) The Company’s balance due to Taiyuan Changcheng amounting to RMB935,000 had been set-off against the Company’s trade receivable from a major customer pursuant to a set-off arrangement entered into amongst the three parties.



# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 1. GENERAL INFORMATION

Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) was incorporated in the Mainland of the People’s Republic of China (the “PRC”) on 10 November 2000 as a joint stock limited company. The Company was established by Taiyuan Changcheng Optics and Electronics Industrial Corporation (“Taiyuan Changcheng”), transferring all of its operational net assets to the Company for 9,016,000 domestic shares as capital contribution by Taiyuan Changcheng to the Company, and Beijing Gensir Venture Capital Management Limited, Dandong Shuguang Industrial Group Company Limited, Taiyuan Tanghai Automatic Control Company Limited (“Taiyuan Tanghai”) and Shanxi Shenhua Material Company Limited subscribing for 5,730,000, 3,400,000, 2,490,000 and 250,000 domestic shares respectively of the Company of nominal value of RMB1.00 each, in cash. Since then, the principal activities of the Company were the manufacture and sale of optical fibre products.

On 28 April 2002, the shareholders of the Company authorised the Company to sub-divide the Company’s 20,886,000 issued domestic shares of nominal value of RMB1.00 each into 208,860,000 issued domestic shares of RMB0.10 each.

In connection with the listing of the Company’s H shares on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), 10,000,000 domestic shares of the Company of RMB0.10 each held by Taiyuan Changcheng was converted into 10,000,000 H shares of RMB0.10 each (the “Sale H Shares”).

The Company was listed on the GEM of the Stock Exchange on 18 May 2004 and 110,000,000 H shares, consisting of 100,000,000 new shares and 10,000,000 Sale H Shares (note 25) with a par value of RMB0.10 each were issued to the public by way of placement at HK\$0.40 each.

The registered office of the Company is located at No.212 Nanneihuan Street, Taiyuan City, Shanxi Province, PRC.

## 2. RECENTLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“New HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Company has not early adopted these New HKFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

## 3. PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of preparation

These financial statements have been prepared in accordance with and comply with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. They are prepared under the historical cost convention, as modified by the revaluation of short term investments.

### (b) Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The results of an associate are included in the Company's income statement to the extent of dividends received and receivable. The Company's interest in an associate is treated as a long term asset and is stated at cost less any impairment losses.

### (c) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

### (d) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of an asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

# NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

### (e) Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Medium term leasehold building	10 years or over the lease terms, whichever is shorter
Leasehold improvements	10 years or over the lease terms, whichever is shorter
Plant and machinery	10%
Furniture and fixtures	20%
Motor vehicles	20%

A land use right held for development is stated at cost less any impairment losses. Construction in progress represents plant and machinery under construction and is stated at cost less any impairment losses. Cost comprises the direct costs incurred for the acquisition, construction and development, installation and testing. No depreciation is provided until the construction or development is completed and put into use. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

### (f) Short term investments

Short term investments in unlisted equity securities are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of such unlisted securities are estimated by the directors having regard to, inter alia, the prices of the most recently reported sales or purchases of the securities, or comparison of price/earnings ratios and dividend yields of the securities with those of similar listed securities, with allowance made for the lower liquidity of the unlisted securities. The gains or losses arising from changes in the fair values of such securities are credited or charged to the income statement in the period in which they arise.

**3. PRINCIPAL ACCOUNTING POLICIES (Continued)**

**(g) Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- from the rendering of services, when the relevant services have been rendered;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- dividend income, when the Company's right as a shareholder to receive payment is established.

**(h) Government grants**

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised 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 asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

**(i) Research and development costs**

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

**(j) Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate portion of direct overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### (l) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of balance sheet classification, cash and bank balances comprise cash on hand and at banks, which are not restricted as to use.

Renminbi ("RMB") is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

#### (m) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

#### (n) Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

#### (o) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (o) Income tax (Continued)

Deferred tax is provided, using the balance sheet 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 recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. A deferred tax asset is also recognised for the carry forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the carry forward of the unused tax losses can be utilised.

#### (p) Foreign currency transactions

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 dates 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 income statement.

#### (q) Retirement benefits

The Company participates in a central pension fund (the "CPS"), operated by the PRC government, for its entire staff. The Company is required to contribute a certain percentage of its payroll to the CPS to fund the benefits. The only obligation to the Company with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the income statement as they become payable in accordance with the rules of the CPS.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 4. SEGMENT INFORMATION

As over 90% of the turnover and the profit from operating activities of the Company for the years are 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 segment based on the locations of sales is its primary segment reporting format. The Company's operating businesses are organised and managed separately, according to the locations of the customers. In determining the Company's geographical segment, revenues and results are attributed based on the locations of the customers. Over 90% of the Company's assets are located in the PRC.

The following table presents revenue and profit information for each of the Company's geographical segments:

	Hong Kong		PRC		Europe		North America		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:										
Sales to external customers	<u>5,956</u>	<u>-</u>	<u>1,672</u>	<u>6,786</u>	<u>27,340</u>	<u>19,028</u>	<u>-</u>	<u>4,952</u>	<u>34,968</u>	<u>30,766</u>
Segment results	<u>3,494</u>	<u>-</u>	<u>981</u>	<u>3,999</u>	<u>16,039</u>	<u>11,213</u>	<u>-</u>	<u>2,918</u>	<u>20,514</u>	<u>18,130</u>
Interest income									85	12
Administrative expenses									(8,050)	(6,420)
Other operating expenses									(275)	(517)
Profit from operating activities									12,274	11,205
Finance costs									(815)	(555)
Profit before tax									11,459	10,650
Tax									(2,099)	(1,801)
Net profit from ordinary activities attributable to shareholders									<u>9,360</u>	<u>8,849</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns, trade discounts, value added tax and other taxes related to sales where applicable, and services rendered.

An analysis of the Company's turnover, other revenue and gains is as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Turnover:		
Sale of goods	<b>34,394</b>	30,766
Rendering of services	<b>574</b>	–
	<hr/> <b>34,968</b> <hr/>	<hr/> 30,766 <hr/>
Other revenue and gains:		
Government grants	<b>71</b>	53
Bank interest income	<b>85</b>	12
Exchange gains, net	–	14
Dividend income from unlisted investment	<b>4</b>	–
Others	<b>87</b>	–
	<hr/> <b>247</b> <hr/>	<hr/> 79 <hr/>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 6. PROFIT FROM OPERATING ACTIVITIES

The Company's profit from operating activities is arrived at after charging:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Auditors' remuneration	<b>300</b>	160
Cost of inventories sold	<b>13,550</b>	12,368
Cost of services provided	<b>161</b>	–
Staff costs (including directors' and supervisors' emoluments – note 8):		
Wages, salaries and other benefits	<b>5,979</b>	5,041
Pension scheme contributions	<b>1,123</b>	967
	<b>7,102</b>	6,008
Depreciation	<b>2,705</b>	2,434
Research and development costs	<b>181</b>	613
Minimum lease payments under operating lease in respect of:		
Land and buildings	<b>672</b>	672
Machineries	<b>120</b>	120
	<b>792</b>	792
Loss on disposal of fixed assets	<b>8</b>	–
Provision for doubtful debts	<b>535</b>	13

### 7. FINANCE COSTS

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	<b>815</b>	555

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2004*

### 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year disclosed pursuant to The Rules Governing the Listing of Securities on the Growth Enterprise Market ("GEM Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Directors</b>		
Fees	—	—
Other emoluments		
Salaries, allowances and benefits in kind	579	575
Pension scheme contributions	14	13
	<u>593</u>	<u>588</u>
	<u><b>593</b></u>	<u><b>588</b></u>

The remuneration of each of the directors is as follows:

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Non-executive directors:		
A	48	12
B #	12	12
C #	12	12
D #	12	12
E # *	8	—
	<u>92</u>	<u>48</u>
	<u><b>92</b></u>	<u><b>48</b></u>
Executive directors:		
F	203	213
G	148	165
H	150	162
	<u>501</u>	<u>540</u>
	<u><b>501</b></u>	<u><b>540</b></u>

# Independent non-executive directors

\* appointed during the year ended 31 December 2004.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
<b>Supervisors</b>		
Fees	—	—
Other emoluments		
Salaries, allowances and benefits in kind	14	14
	<b>14</b>	14

The remuneration of each of the supervisors is as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
W	5	5
X	5	5
Y	2	2
Z	2	2
	<b>14</b>	14

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Company to a director or supervisor as an inducement to join, or upon joining the Company, or as compensation for loss of office.

### 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2003: two) non-director, highest paid employees for the year are as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Salaries, allowances and benefits in kind	192	126
Pension scheme contributions	10	7
	<b>202</b>	133

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 9. FIVE HIGHEST PAID EMPLOYEES (Continued)

The remuneration of each of the non-director, highest paid employees is as follows:

	<b>2004</b> <b>RMB'000</b>	2003 <b>RMB'000</b>
I	<b>130</b>	61
II	<b>72</b>	72
	<b>202</b>	133

During the year, no emoluments were paid by the Company to the two non-director, highest paid employees as an inducement to join or upon joining the Company, or as compensation for loss of office.

### 10. TAX

	<b>2004</b> <b>RMB'000</b>	2003 <b>RMB'000</b>
PRC	<b>2,099</b>	1,801
Hong Kong	—	—
Tax charge for the year	<b>2,099</b>	1,801

Hong Kong profits tax has not been provided as the Company had no assessable profits arising in Hong Kong during the year (2003: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Company operates, based on existing legislation, interpretations and practices in respect thereof during the year.

According to the applicable corporate income tax law of the PRC, the Company, which operates in the high technology industrial development zone in Taiyuan (太原高新技術產業開發區), the PRC, and which is registered as a high technology development enterprise, is entitled to a concessionary corporate income tax rate of 15%, which has been applied for the two years ended 31 December 2004 and 2003.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the applicable rate in the PRC to the tax expense at the effective tax rate is as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Profit before tax	<u><b>11,459</b></u>	<u>10,650</u>
Tax at applicable tax rate of 33% (2003: 33%)	<b>3,781</b>	3,515
Concessionary rate granted by local authority	<u>(1,682)</u>	<u>(1,714)</u>
Tax charge at effective rate	<u><b>2,099</b></u>	<u>1,801</u>

### 11. DIVIDEND

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
Interim: RMB0.015 per share (2003: Nil)	<u><b>4,633</b></u>	<u>–</u>

At an extraordinary general meeting held on 24 December 2004, the Company declared an interim dividend of RMB0.015 per share for the nine months ended 30 September 2004 amounting to approximately RMB4,633,000.

The directors did not recommend the payment of a final dividend in respect of the year.

### 12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 of RMB9,360,000 (2003: RMB8,849,000) and the weighted average of 271,155,082 (2003: 208,860,000) shares in issue during the year.

No diluted earnings per share amounts have been presented for the two years ended 31 December 2004 and 2003 as no diluting events existed during those years.

# NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2004*

## 13. FIXED ASSETS

	Medium term leasehold building <i>RMB'000</i>	Leasehold improve- ments <i>RMB'000</i>	Land use right held for develop- ment <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture and fixtures <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Construct- ion in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost:</b>								
At 31 December 2003 and 1 January 2004	2,539	781	3,000	13,225	2,810	1,316	4,563	28,234
Additions	-	-	-	432	37	298	-	767
Transfer	-	-	-	4,563	-	-	(4,563)	-
Disposals	-	-	-	-	-	(178)	-	(178)
<b>At 31 December 2004</b>	<b>2,539</b>	<b>781</b>	<b>3,000</b>	<b>18,220</b>	<b>2,847</b>	<b>1,436</b>	<b>-</b>	<b>28,823</b>
<b>Accumulated depreciation:</b>								
At 31 December 2003 and 1 January 2004	783	190	-	6,324	1,461	1,079	-	9,837
Provided during the year	254	78	-	1,532	566	275	-	2,705
Disposals	-	-	-	-	-	(169)	-	(169)
<b>At 31 December 2004</b>	<b>1,037</b>	<b>268</b>	<b>-</b>	<b>7,856</b>	<b>2,027</b>	<b>1,185</b>	<b>-</b>	<b>12,373</b>
<b>Net book value:</b>								
<b>At 31 December 2004</b>	<b>1,502</b>	<b>513</b>	<b>3,000</b>	<b>10,364</b>	<b>820</b>	<b>251</b>	<b>-</b>	<b>16,450</b>
At 31 December 2003	1,756	591	3,000	6,901	1,349	237	4,563	18,397

The leasehold building of the Company is located at No.212 Nanneihuan Street, Taiyuan City, Shanxi Province in the PRC. The land use right to which this leasehold building is attached is held by Taiyuan Changcheng and is leased to the Company for use under an operating lease (note 28(i)).

The land use right held for development is the cost paid to acquire the right to the use of a piece of leasehold land for industrial use for a term of 50 years expiring on 9 June 2052.

Both land use rights are situated in the PRC.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 14. DEPOSIT FOR ACQUISITION OF A LAND USE RIGHT

On 26 September 2004, the Company entered into an agreement (the “Agreement”) with Taiyuan Economic and Technology Development Zone Management Committee (the “Taiyuan ETD Committee”) (太原經濟技術開發區管理委員會) for constructing and establishing new production facilities on a piece of land with an approximate area of 59,000 square metres (the “Land”) in Taiyuan Economic and Technology Development Zone (the “Taiyuan ETD Zone”) (太原經濟技術開發區), the PRC.

The Agreement was supplemented by a supplemental agreement dated on the same date entered into between the Company and Taiyuan ETD Committee, whereby the Company agreed to the aggregate consideration for the acquisition of the land use right over 50 years in respect of the Land (the “Land Consideration”) at approximately RMB14,054,000. At the balance sheet date, the Land Consideration has been fully paid by the Company.

As confirmed by the Company’s legal advisors, the Company has obtained the right to use the land. Once the Company has obtained the land use right certificate, the Company has the right to assign, lease or mortgage the land.

### 15. INTEREST IN AN ASSOCIATE

	<b>2004</b>	2003
	<b>RMB’000</b>	RMB’000
Unlisted shares, at cost	<b>3,318</b>	3,318
Due from/(to) an associate	<b>(113)</b>	7
	<b>3,205</b>	3,325

Particulars of the associate are as follows:

Name	Business structure	Place of registration and operation	Percentage of equity interests attributable to the Company	Principal activities
Shanxi Huayuan Transport Optical Technology and Engineering Company Limited (“Shanxi Transport”)*#	Corporate	PRC	36.36	Development of fibre optic intelligent transport system business in the PRC

\* Not audited by Grant Thornton Hong Kong or other Grant Thornton International member firms

# Registered as a limited liability company under the PRC law

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2004*

### 15. INTEREST IN AN ASSOCIATE *(Continued)*

The balance with an associate is unsecured, interest-free and is not repayable within one year.

Had the associate been accounted for under the equity method, the aggregate amount of the Company's share of net assets as at 31 December 2004 and 2003 would have been approximately RMB3,169,000 and RMB3,162,000, respectively. The share of profit for the year ended 31 December 2004 and the share of loss for the year ended 31 December 2003 would have been approximately RMB7,000 and RMB30,000, respectively.

### 16. DEFERRED TAX ASSETS

	<b>Decelerated tax depreciation</b>	<b>Others</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2003	113	321	434
Deferred tax credited/(charged) to the income statement during the year	—	—	—
Deferred tax assets at 31 December 2003 and 1 January 2004	113	321	434
Deferred tax credited/(charged) to the income statement during the year	—	—	—
Deferred tax assets at 31 December 2004	<b>113</b>	<b>321</b>	<b>434</b>

### 17. BALANCES WITH SHAREHOLDERS

Details of the amounts due from shareholders are set out below:

<b>Name</b>	<b>2004</b>	<b>2003</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Taiyuan Changcheng	226	—
Taiyuan Tanghai	—	5
	<b>226</b>	<b>5</b>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 17. BALANCES WITH SHAREHOLDERS (Continued)

The maximum amounts outstanding during the years are as follows:

Name	2004 RMB'000	2003 RMB'000
Taiyuan Changcheng	226	–
Taiyuan Tanghai	5	58

Detail of the amount due to a shareholder is set out below:

Name	2004 RMB'000	2003 RMB'000
Taiyuan Changcheng	–	707

The balances with shareholders are unsecured, interest-free and have no fixed terms of repayment.

### 18. BALANCES WITH DIRECTORS

Particulars of the amount due from a director, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	2004 RMB'000	Maximum amount outstanding during the year RMB'000	2003 RMB'000
Wang Gen Hai	–	20	20

Amount due from a director was unsecured, interest-free and was settled in full during the year.

Amounts due to directors are unsecured, interest-free and have no fixed terms of repayment.

### 19. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	355	471
Work in progress	4,130	5,336
Finished goods	1,525	2,144

At the balance sheet date, no inventories were stated at their net realisable values (2003: Nil).

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 20. TRADE RECEIVABLES

An aged analysis of the Company's trade receivables as at the balance sheet date is as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
0 – 90 days	<b>9,556</b>	9,159
91 – 180 days	<b>82</b>	1,390
181 – 365 days	<b>454</b>	126
	<u><b>10,092</b></u>	<u>10,675</u>

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 minimise its credit risk. Overdue balances are regularly reviewed by management.

### 21. SHORT TERM INVESTMENT

The short term investment of the Company as at the balance sheet date, which is stated at its fair value, represents an investment in an unlisted investment fund registered in the PRC.

### 22. TRADE PAYABLES

An aged analysis of the Company's trade payables as at the balance sheet date is as follows:

	<b>2004</b> <i>RMB'000</i>	2003 <i>RMB'000</i>
0 – 90 days	<b>99</b>	295
91 – 180 days	<b>3</b>	7
181 – 365 days	<b>13</b>	–
Over 365 days	<b>18</b>	38
	<u><b>133</b></u>	<u>340</u>

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 23. INTEREST-BEARING BANK BORROWINGS

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Bank loan repayable by instalments:		
Within one year	–	3,000
In the second year	–	4,000
	–	7,000
Portion classified as current liabilities	–	(3,000)
	–	4,000
Non-current portion	–	4,000

The bank loan as at 31 December 2003 was secured by the pledge of certain properties of Taiyuan Changcheng with an aggregate book value of approximately RMB11,790,000. The loan bore interest at the rate of 6.0% per annum and was fully repaid during the year ended 31 December 2004.

During the year ended 31 December 2004, the Company had obtained a new bank loan of RMB8 million, which bore interest at the rate of 0.58% per month and was fully repaid during that year. This bank loan was guaranteed by 太原自來水公司, which was counter-guaranteed by a charge over certain land use rights held by Taiyuan Changcheng.

### 24. DEFERRED INCOME

The balance as at 31 December 2004 represented a subsidy (the “Subsidy”) of RMB10,000,000 (2003: Nil) granted by the Taiyuan Ministry of Finance and the Taiyuan City Development and Planning Bureau (太原市發展計劃委員會) for the Company’s business expansion project (the “Project”) in the Taiyuan ETD Zone (note 14).

### 25. SHARE CAPITAL

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Authorised, issued and fully paid:		
198,860,000 domestic shares of RMB0.10 each (2003: 208,860,000 domestic shares of RMB0.10 each)	(a) <b>19,886</b>	20,886
110,000,000 H shares of RMB0.10 each (2003: Nil)	(b) <b>11,000</b>	–
	<b>30,886</b>	20,886

**25. SHARE CAPITAL (Continued)**

*Notes:*

- (a) In connection with the listing of the Company's H shares on the GEM of the Stock Exchange, 10,000,000 domestic shares of the Company of RMB0.10 each held by Taiyuan Changcheng was converted into 10,000,000 H shares of RMB0.10 each.

A summary of movement of the Company's issued domestic shares is as follows:

	<b>Carrying amount</b> <i>RMB'000</i>	<b>Number of shares issued</b>
At 1 January 2003, 31 December 2003 and 1 January 2004	20,886	208,860,000
Reduction of domestic shares and conversion into H shares <i>(note (b))</i>	(1,000)	(10,000,000)
<b>At 31 December 2004</b>	<b>19,886</b>	<b>198,860,000</b>

- (b) The Company was listed on the GEM of the Stock Exchange on 18 May 2004 and 110,000,000 H shares, consisting of 100,000,000 new shares (the "New H Shares") and 10,000,000 Sale H shares (note a) with a par value of RMB0.10 each were issued to the public by way of placement at HK\$0.40 each. The net proceeds from placing of 100,000,000 New H Shares, after deducting share issue expenses, was approximately RMB27,374,000.

**26. RESERVES**

The amounts of the Company's reserves and the movements therein for the current and prior years are presented in the statement of changes in equity on page 29.

The statutory reserves consist of the statutory surplus reserve and the statutory public welfare fund. The transfers to the statutory reserves are based on the net profit in the financial statements prepared under PRC accounting standards as detailed below.

**(a) Statutory surplus reserve**

The Company's articles of association require the appropriation of 10% of the Company's profit after tax each year to the statutory surplus reserve until the balance reaches 50% of the Company's registered capital. According to the provisions of the Company's articles of association, in normal circumstances, the statutory surplus reserve shall only be used for making up losses, capitalisation into share capital and expansion of the Company's production and operations. For the capitalisation of the statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered capital.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 26. RESERVES (Continued)

#### (b) Statutory public welfare fund

Pursuant to the PRC Company Laws, the Company shall make an allocation from its profit after tax at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund may only be utilised for capital items for the collective welfare of the employees. Individual employees only have the right to the use of the facilities purchased with the statutory public welfare fund and the titles to such facilities will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in the event of liquidation.

In accordance with the article of association of the Company, the Company's profit available for distribution is determined based on the lower of the amounts reported in accordance with the PRC accounting standards and regulations and those reported in accordance with accounting principles generally accepted in Hong Kong.

### 27. COMMITMENTS

At the balance sheet date, the Company had the following outstanding commitments:

#### (i) Capital commitment

	<i>Notes</i>	<b>2004</b> <b>RMB'000</b>	2003 RMB'000
Contracted, but not provided for			
– Acquisition of a land use right	(a)	–	2,600
Authorised, but not contracted for			
– Establishment of a joint venture	(b)	<b>15,000</b>	15,000
– Development of Project	(b)	<b>16,000</b>	–
		<b>31,000</b>	<b>15,000</b>

*Notes:*

- (a) During the year ended 31 December 2002, the Company made a proposal to the Taiyuan ETD Committee for the Company's business expansion. On 16 October 2002, the Company entered into an agreement with the Taiyuan ETD Committee pursuant to which the Taiyuan ETD 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 Taiyuan ETD 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. During the year ended 31 December 2004, the consideration for such land use right, which was revised and agreed to RMB14,054,000, has been fully paid by the Company (note 14).
- (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 Project (note 24). The Company's contribution to the joint venture will amount to approximately RMB15,000,000. Up to the date of these financial statements, the joint venture has not yet been established.

## NOTES TO THE FINANCIAL STATEMENTS

*for the year ended 31 December 2004*

### 27. COMMITMENTS *(Continued)*

#### (ii) Commitments under operating leases

The Company leases its office properties and land use right from Taiyuan Changcheng under operating lease arrangements for terms ranging from five to thirty years. The Company also leases plant and equipment from 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:

	<b>2004</b>	2003
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within one year	<b>672</b>	768
In the second to fifth years, inclusive	<b>2,588</b>	2,638
After five years	<b>13,235</b>	13,857
	<b>16,495</b>	17,263
	<b>16,495</b>	17,263

### 28. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, the Company had the following material related party transactions:

	<i>Notes</i>	<b>2004</b>	2003
		<b><i>RMB'000</i></b>	<i>RMB'000</i>
Rental expenses incurred to a shareholder	<i>(i)</i>	<b>672</b>	448
Rental expense incurred to an associate	<i>(ii)</i>	<b>120</b>	80
Medical service fee incurred to a shareholder	<i>(iii)</i>	–	202
Advances to a shareholder	<i>(iv)</i>	<b>226</b>	3,615
		<b>226</b>	3,615
		<b>226</b>	3,615

*Notes:*

- (i) The rental expenses incurred to Taiyuan Changcheng are for the leases of the office premises and a land use right. The rental expenses incurred to Taiyuan Changcheng were based on mutually agreed terms with reference to the corresponding market values. The rental expenses for the land use right and the office premises were approximate to their corresponding market values.
- (ii) The rental expenses were incurred to Shanxi Transport for the lease of production equipment to the Company. The rental expense incurred to Shanxi Transport were based on mutually agreed terms with reference to the corresponding market values and the rental expense of the equipment.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

### 28. RELATED PARTY TRANSACTIONS (Continued)

Notes: (Continued)

- (iii) The medical service fee was incurred to Taiyuan Changcheng for the provision of medical services through its clinic to the Company's employees. The medical service fee incurred to Taiyuan Changcheng was based on 6.5% of the local standard basic salaries of the Company's employees.
- (iv) The advances made to Taiyuan Changcheng were unsecured, interest-free and had no fixed terms of repayment.
- (v) The Company's bank loan as at 31 December 2003 was secured by the pledge of certain properties of Taiyuan Changcheng at net book value of approximately RMB11,790,000.
- (vi) During the year ended 31 December 2003, a deposit of RMB4 million was paid by Taiyuan Changcheng on behalf of the Company for the acquisition of a land use right (note 27a).

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.

### 29. CONTINGENT LIABILITIES

The Company did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

### 30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 27 to 54 were approved and authorised for issue by the board of directors on 22 March 2005.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an annual general meeting (“AGM”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “**Company**”) will be held at No. 212 Nanneihuan Street, Taiyuan City, Shanxi Province, the People’s Republic of China (the “**PRC**”) on Wednesday, 18 May 2005 at 4:00 p.m. for the following purposes:

I. As ordinary resolutions:

1. to consider and approve the Report of the Directors for the year ended 31 December 2004;
2. to consider and approve the Report of the Supervisory Committee for the year ended 31 December 2004;
3. to consider and approve the audited financial statements of the Company for the year ended 31 December 2004;
4. to consider and approve the Financial Report for the year ended 31 December 2004;
5. to consider and approve the re-appointment of Grant Thornton as the auditors of the Company for the year 2005 with a term of office until the conclusion of the next AGM and to authorize the board of directors to fix their remunerations; and
6. to review and approve the remuneration of directors and supervisors for the year ended 31 December 2005.

By order of the Board  
**Wang Gen Hai**  
*Chairman*

Taiyuan City, Shanxi Province, the PRC, 22 March 2005

*Notes:*

1. Any shareholder of the Company entitled to attend and vote at the AGM mentioned above is entitled to appoint one or more proxies to attend and vote at the AGM on his or her behalf in accordance with the articles of association of the Company. A proxy need not be a shareholder of the Company.
2. In order to be valid, a proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Standard Registrars Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong (“the Company’s Share Registrar”) not less than 24 hours before the time for holding the AGM or 24 hours before the time appointed for taking the poll.
3. In order to be valid, a proxy form of holder of domestic shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the registered address of the Company not less than 24 hours before the time for holding the AGM or 24 hours before the time appointed for taking the poll.
4. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the AGM.



## NOTICE OF ANNUAL GENERAL MEETING

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5. A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote by poll.
6. The register of shareholders of the Company will be closed from 18 April 2005 to 18 May 2005 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the AGM, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Share Registrar not later than 17 April 2005 at 4:00 p.m. for registration.
7. Shareholders of the Company who intend to attend the AGM have to notify in writing of their attendance by sending such notice to the Company by hand, post or fax (fax number: 86 351 706 5996) not later than 27 April 2005.
8. Registered Address of the Company and the contact details of the Company are as follows:  
  
No. 212 Nanneihuan Street  
Taiyuan City  
Shanxi Province  
The PRC  
Fax number: 86 351 706 5996
9. The AGM is expected to last for about half a day. Shareholders or proxies are reminded that any expenses in transportation, accommodation and meals will be incurred at their own cost.