



First Quarterly Report 2006

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) (Stock code: 8286)

*For identification only

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

HIGHLIGHTS

- For the three months ended 31 March 2006, revenue of the Company was approximately RMB8.76 million, representing an increase of approximately 1.0% over the corresponding period in the previous year.
- Profit decreased by approximately 42.9% as compared to the corresponding period in the previous year to approximately RMB1.35 million for the three months ended 31 March 2006.
- The Directors do not recommend the payment of any dividend for the three months ended 31 March 2006.

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2006

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company for the three months ended 31 March 2006, together with the comparative unaudited figures for the corresponding period in 2005.

UNAUDITED PROFIT AND LOSS ACCOUNT

For the three months ended 31 March 2006 and 2005

		Three months ended 31 March 2006 (Unaudited) RMB'000	Restated Three months ended 31 March 2005 (Unaudited) RMB'000
	<i>Notes</i>		
Revenue	2	8,756	8,673
Cost of sales		<u>(4,603)</u>	<u>(3,802)</u>
Gross profit		4,153	4,871
Other income and gains	2	25	43
Selling and distribution expenses		(98)	(94)
Administrative expenses		(2,153)	(1,963)
Other operating expenses		<u>(2)</u>	<u>(4)</u>
Operating profit		1,925	2,853
Finance costs		(32)	–
Share of profit of an associate		<u>(1)</u>	<u>(71)</u>
Profit before income tax		1,892	2,782
Income tax expense	4	<u>(547)</u>	<u>(428)</u>
Profit for the period		<u>1,345</u>	<u>2,354</u>
Earnings per share for profit attributable to the equity holders of the Company during the period			
Basic (in RMB)	5	<u>0.004</u>	<u>0.008</u>

NOTES:

1. General information and basis of preparation

The financial statements have been prepared on the historical cost basis except for certain financial liabilities and financial assets held for trading or are designated by the Company to be carried at fair value through profit or loss upon initial recognition. These financial assets have been measured at fair value.

The accounting policies adopted in preparing the unaudited results for the three months ended 31 March 2006 are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2005.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The Company was incorporated as a joint stock company with limited liabilities in the People's Republic of China on 10 November 2000 and its H Shares were listed on GEM (the "Listing") on 18 May 2004.

2. Revenue, other income and gains

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"). Revenue which is also the Company's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, valued added tax and other taxes related to sales where applicable, and services rendered.

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

	Unaudited	
	Three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue:		
Sales of goods	8,756	8,673
Other income and gains:		
Bank interest income	25	34
Others	—	9
	<u>25</u>	<u>43</u>

3. Segment Information

As over 90% of the turnover and the profit from operating activities of the Company for the periods ended 31 March 2005 and 2006 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 location of customers is its primary segment reporting format. The Company's operating businesses are organised and managed separately, according to the location of the customers. In determining the Company's geographical segments, revenues and results are attributed based on the location of the customers. 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		Total	
	For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March		For the three months ended 31 March	
	2006	2005	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:								
Sales to external customers	1,467	1,597	334	523	6,955	6,553	8,756	8,673
Segment results	845	859	46	383	3,164	3,524	4,055	4,766
Interest income							25	54
Administrative expenses							(2,153)	(1,963)
Other operating expenses							(2)	(4)
Operating profit							1,925	2,853
Finance costs							(32)	-
Share of profit of an associate							(1)	(71)
Profit before income tax							1,892	2,782
Income tax expense							(547)	(428)
Profit for the period							1,345	2,354

4. Tax

	Unaudited	
	Three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax charge for the period -PRC	<u>547</u>	<u>428</u>

No provision for Hong Kong profits tax has been made as the Company had no assessable profit in Hong Kong during the period. (2005: Nil)

The provision for corporate income tax ("CIT") of the Company has been calculated at the applicable rate of tax prevailing in the area in which the Company is registered and operated, based on the existing legislation, interpretations and practices in respect thereof. According to the Income Tax Law of the PRC, as the Company operates in the high technology industrial development zone in Taiyuan, the PRC and is registered as a high technology development enterprise, it is entitled to a concessionary CIT rate of 15%, which has been applied for each of the three months ended 31 March 2006 and in the corresponding period in 2005.

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

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

The Company had no significant unprovided deferred tax as at 31 March 2006 and 2005.

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:

	Unaudited	
	Three months ended 31 March	
	2006	Restated
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>1,892</u>	<u>2,782</u>
Tax at applicable tax rate of 33% (2005: 33%)	624	918
Concessionary rate granted by local authority	<u>(77)</u>	<u>(490)</u>
Tax charge at effective rate	<u>547</u>	<u>428</u>

5. Earnings per share

Earnings per share have been computed by dividing the net profit from ordinary activities attributable to shareholders for the three months ended 31 March 2006, of approximately RMB1,345,000 and the net profit from ordinary activities attributable to shareholders for the three months ended 31 March 2005, of approximately RMB2,354,000 by the 308,860,000 shares of the Company in issue throughout the period respectively.

The amounts of diluted earnings per share for the three months ended 31 March 2006 and 31 March 2005 have not been calculated as there were no dilutive potential ordinary shares in existence during those periods.

6. Reserves

There were no movements in the reserves other than profit from ordinary activities attributable to shareholders of approximately RMB1,345,000 for the three months ended 31 March 2006. The movements for the profit from ordinary activities attributable to shareholders was approximately RMB2,354,000 for the three months ended 31 March 2005.

7. Profit from operating activities

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

	Unaudited	
	Three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of inventories sold	4,603	3,802
Staff costs (including directors' and supervisors' emoluments)		
Wages, salaries and other benefits	773	871
Pension scheme contributions	129	82
	<u>902</u>	<u>953</u>
Depreciation	469	486
Amortisation on intangible assets	28	15
Research and development costs	145	100
Minimum lease payment under operating lease in respect of:		
Land and buildings	<u>168</u>	<u>168</u>

8. Dividend

The directors did not recommend the payment of an interim dividend in respect of the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Business review

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

For the three months ended 31 March 2006, the Company reported an unaudited turnover of approximately RMB8.76 million (for the three months ended 31 March 2005: approximately RMB8.67 million), representing an increase of approximately 1.0% from the turnover of the previous corresponding period.

The unaudited net profit from ordinary activities attributable to shareholders for the three months ended 31 March 2006 decreased by approximately 42.9% from approximately RMB2.35 million to approximately RMB1.35 million. The decrease in profit was mainly due to the decrease in the sales of fibre optic inverters and the increase in the administrative expenses.

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. As at 31 March 2006, the Company had unaudited total assets of approximately RMB95.8 million (31 March 2005: approximately RMB87.8 million), of which approximately RMB18.6 million (31 March 2005: approximately RMB28.9 million) were cash and bank balances.

Gearing ratio

The gearing ratio of the Company, based on total liabilities to total assets, was approximately 15.2% as at 31 March 2006 (31 March 2005: approximately 14.4%). The higher gearing ratio was due to the substantial increase in other payables as at 31 March 2006.

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 three months ended 31 March 2006 and the same period of last year.

Employees and remuneration policy

For the three months ended 31 March 2006, the staff remuneration of the Company was approximately RMB1.7 million (for the three months ended 31 March 2005: approximately RMB1.5 million) and the Company had a total of approximately 433 employees (31 March 2005: approximately 423 employees).

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

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 March 2006.

Commitments

At 31 March 2006 and 2005, the Company had the following outstanding commitments:

(i) Capital commitment

		Unaudited	
		Three months ended 31 March	
		2006	2005
	Notes	RMB'000	RMB'000
Contracted, but not provided for			
– Buildings		9,192	–
– Plant and machinery		5,593	–
		<u>14,785</u>	<u>–</u>
Authorised, but not contracted for			
– Establishment of a joint venture	(a)	15,000	15,000
– Development of Project	(a)	–	16,000
		<u>15,000</u>	<u>31,000</u>

Notes:

- (a) 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 as to 60% of its equity interest. 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.

(ii) *Operating leases commitments*

The Company leases its office properties and land use right from Taiyuan Changcheng Optics and Electronics Industrial Corporation ("Taiyuan Changcheng") under operating lease arrangements for terms ranging from five to thirty years with an option to renew the lease and negotiate the terms at the expiry dates or at dates mutually agreed between the Company and Taiyuan Changcheng. None of the leases include contingent rentals.

At the 31 March 2006, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited	
	Three months ended 31 March	
	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	672	672
In the second to fifth years, inclusive	2,526	2,688
After five years	12,457	12,967
	<u>15,655</u>	<u>16,327</u>

Pledge of assets and banking facilities

As at 31 March 2006, the Company did not have any pledge of assets and banking facilities obtained from bank.

Contingent liabilities

The Company did not have any significant contingent liabilities at 31 March 2006 and 31 March 2005.

OTHER INFORMATION

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

As at 31 March 2006, so far as the Directors are aware, the Directors who have an 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:

1. Lin Yin Ping holds approximately 78.52% of the equity interest in Beijing Gensir Venture Capital Management Limited (“Beijing Gensir”) and Beijing Gensir holds approximately 36.37% of the equity interest in Taiyuan Tanghai Automatic Control Company Limited (“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

Save as disclosed above, during the three months ended 31 March 2006, none of the Directors or Supervisors of the Company are granted options to subscribe for H shares of the Company. As at 31 March 2006, 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 period.

Share option scheme

The Company does not have share option scheme.

Substantial shareholders

As at 31 March 2006, 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 holding 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 (Note 4)	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%

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*
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares <i>(Note 4)</i>	17.10%	–	11.01%
Zhang Wen Qin	Family interest	82,200,000 domestic shares <i>(Note 2)</i>	41.34%	–	26.61%
Liu Gui Ying	Family interest	34,000,000 domestic shares <i>(Note 4)</i>	17.10%	–	11.01%
Ma Fong Ping	Family interest	24,900,000 domestic shares <i>(Note 3)</i>	12.52%	–	8.06%
Liu Li, Luis	Beneficial owner of H shares and interest in a controlled corporation	35,055,000 H shares <i>(Note 5)</i>	–	31.87%	11.35%
Lu Jun	Family interest	35,055,000 H shares <i>(Note 6)</i>	–	31.87%	11.35%
Kwong Tat Finance Limited	Beneficial owner of H shares	34,155,000 H shares <i>(Note 5)</i>	–	31.05%	11.06%

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

Notes:

1. 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.
2. 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 Industrial Group Company Limited (“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 March 2006, none of the Directors, Supervisors and management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company.

Compliance adviser's interest

As notified and updated by the Company's compliance adviser, Deloitte & Touche Corporate Finance Limited ("DTCFL"), as at 31 March 2006, none of DTCFL, its directors, employees and their associates (as defined under the GEM Listing Rules) had an interest in the share capital of the Company, or any right to subscribe for or to nominate persons to subscribe for the shares of the Company.

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

Audit committee

In compliance with Rules 5.28 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 has been appointed as the chairman of the audit committee.

The audit committee has, in accordance with the relevant provisions contained in the Code on Corporate Governance Practices as set out in Appendix 15, 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 quarterly report for the three months ended 31 March 2006 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 except that:

The remuneration committee and the nomination committee have not yet been set up by the Company.

Code of conduct regarding securities transactions by Directors

During the three months ended 31 March 2006, 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 regarding securities transactions by Directors.

Repurchase, sale or redemption of listed securities of the Company

During the three months ended 31 March 2006, there was no purchase, sales or redemption of the Company's listed securities by the Company.

Directors

Executive directors: Mr. Wang Gen Hai, Mr. Li Kang Sheng and 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 and Ms. Chen Yue Jie.

On behalf of the Board of Directors

Wang Gen Hai

Chairman

Shanxi, the People's Republic of China, 12 May 2006