



Interim 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 six months ended 30 June 2006, unaudited turnover of the Company was approximately RMB19.0 million, representing an increase of approximately 24.4% over the corresponding period in the previous year.
- Profits attributable to equity holders increased by approximately 5.3% compared to the corresponding period in the previous year to approximately RMB3.4 million for the six months ended 30 June 2006.
- The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006.

INTERIM RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) is pleased to announce the unaudited results of the Company for the three months and six months ended 30 June 2006, together with the comparative unaudited figures for the corresponding periods in 2005, as set out below:

UNAUDITED PROFIT AND LOSS ACCOUNT

For the three months and the six months ended 30 June 2006 and 30 June 2005

		Three months ended 30 June 2006 (Unaudited) RMB'000	Restated Three months ended 30 June 2005 (Unaudited) RMB'000	Six months ended 30 June 2006 (Unaudited) RMB'000	Restated Six months ended 30 June 2005 (Unaudited) RMB'000
	<i>Notes</i>				
REVENUE	2	10,257	6,606	19,013	15,279
Cost of sales		(5,212)	(3,007)	(9,815)	(6,809)
Gross profit		5,045	3,599	9,198	8,470
Others income and gains		122	34	147	77
Selling and distribution expenses		(78)	(122)	(176)	(216)
Administrative expenses		(2,490)	(2,182)	(4,675)	(4,145)
Other operating expenses		(31)	(4)	(33)	(8)
OPERATING PROFIT	4	2,568	1,325	4,461	4,178
Share of loss of an associate		(71)	(36)	(72)	(107)
PROFIT BEFORE INCOME TAX		2,497	1,289	4,389	4,071
Income tax expenses	5	(472)	(443)	(1,019)	(871)
PROFIT FOR THE PERIOD		2,025	846	3,370	3,200
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD					
Basic (in RMB)	6	0.007	0.003	0.011	0.010

BALANCE SHEET

ASSETS AND LIABILITIES	<i>Notes</i>	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Non-Current Assets			
Property, plant and equipment		27,102	18,156
Land use rights		17,070	17,126
Deposit for acquisition of property, plant and equipment		7,689	7,638
Interests in an associate		2,994	3,066
		<u>54,855</u>	<u>45,986</u>
Current Assets			
Due from a director		71	71
Due from shareholders		2,124	2,124
Inventories	9	4,118	4,999
Trade receivables	10	13,764	9,864
Prepayments, deposits and other receivables		6,244	1,104
Financial assets at fair value through profit or loss	11	93	102
Cash and cash equivalents		5,944	19,701
		<u>32,358</u>	<u>37,965</u>
Current Liabilities			
Due to directors		30	30
Trade payables	12	469	321
Tax payables		–	377
Accrued liabilities, deposits received and other payables		4,401	4,178
		<u>4,900</u>	<u>4,906</u>
Net Current Assets		<u>27,458</u>	<u>33,059</u>
Total Assets Less Current Liabilities		82,313	79,045
Non-Current Liabilities			
Deferred government grants	13	10,058	10,160
Net Assets		<u>72,255</u>	<u>68,885</u>
EQUITY			
Issued capital	14	30,886	30,886
Reserves	7	41,369	37,999
Total Equity		<u>72,255</u>	<u>68,885</u>

UNAUDITED CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2006 and 30 June 2005

	(Unaudited)	
	For the six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Net cash inflow from operating activities	103	212
Net cash outflow from investing activities	(13,860)	(4,738)
Decrease in cash and cash equivalents	(13,757)	(4,526)
Cash and cash equivalents at 1 January	19,701	30,900
Cash and cash equivalents at 30 June	<u>5,944</u>	<u>26,374</u>

UNAUDITED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 and 30 June 2005

	Issued share capital (unaudited) RMB'000	Capital surplus (unaudited) RMB'000	Retained earnings (unaudited) RMB'000	Statutory surplus reserve (unaudited) RMB'000	Statutory public welfare fund (unaudited) RMB'000	Total (unaudited) RMB'000
At 1 January 2005	30,886	18,561	10,177	3,976	1,988	65,588
Net profit for the period	-	-	3,200	-	-	3,200
At 30 June 2005	<u>30,886</u>	<u>18,561</u>	<u>13,377</u>	<u>3,976</u>	<u>1,988</u>	<u>68,788</u>
At 1 January 2006	30,886	18,561	12,322	4,744	2,372	68,885
Net profit for the period	-	-	3,370	-	-	3,370
At 30 June 2006	<u>30,886</u>	<u>18,561</u>	<u>15,692</u>	<u>4,744</u>	<u>2,372</u>	<u>72,255</u>

NOTES

1. Company reorganization and basis of preparation

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

The interim results have been prepared in accordance with the Hong Kong Accounting Standards “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements set out in Chapter 18 of the Rules of Governing the Listing of the Securities on GEM of the Stock Exchange. The principal accounting policies used in the preparation of the unaudited results are consistent with those used in the preparation of the Company’s annual financial statements for the year ended 31 December 2005.

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

The accounts have been prepared under the historical cost convention, in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

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

3. Segment information

As the turnover and the profit from operating activities of the Company for the three months and six months ended 30 June 2005 and 2006 are wholly generated from the manufacture and sale of optical fibre products, no further segment information by business activity has been presented.

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

The following table presents revenue and profit information for each of the Company's geographical segments for the three months and six months ended 30 June 2005 and 2006.

	People's Republic of China				Europe				Hong Kong				Total															
	Three months ended		Six months ended		Three months ended		Six months ended		Three months ended		Six months ended		Three months ended		Six months ended													
	30 June		30 June		30 June		30 June		30 June		30 June		30 June		30 June													
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005												
														Restated		Restated												
														RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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	653	220	987	743	4,923	5,173	11,878	11,726	4,681	1,213	6,148	2,810	10,257	6,606	19,013	15,279												
Segment results	470	117	516	401	2,218	2,720	5,382	6,335	2,279	640	3,124	1,518	4,967	3,477	9,022	8,254												
Other income and gains													122	34	147	77												
Administrative expenses													(2,490)	(2,182)	(4,675)	(4,145)												
Other operating expenses													(31)	(4)	(33)	(8)												
Operating profit													2,568	1,325	4,461	4,178												
Share of loss of an associate													(71)	(36)	(72)	(107)												
Profit before income tax													2,497	1,289	4,389	4,071												
Income tax expense													(472)	(443)	(1,019)	(871)												
Profit for the period													2,025	846	3,370	3,200												

4. Operating profit

Operating profit is arrived at after charging:

	Three months ended 30 June 2006 (Unaudited) RMB'000	Three months ended 30 June 2005 (Unaudited) RMB'000	Six months ended 30 June 2006 (Unaudited) RMB'000	Six months ended 30 June 2005 (Unaudited) RMB'000
Cost of inventories sold	5,212	3,007	9,815	6,809
Staff costs (including directors' and supervisors' emoluments):				
Wages, salaries and other benefits	2,937	1,798	3,710	3,747
Pension scheme contributions	531	333	660	665
	<u>3,468</u>	<u>2,131</u>	<u>4,370</u>	<u>4,412</u>
Depreciation	456	485	925	974
Amortisation of land use right	28	88	56	176
Research and development costs	59	65	204	166
Minimum lease payments under operating lease rentals in respect of:				
Land and buildings	<u>168</u>	<u>168</u>	<u>336</u>	<u>336</u>

5. Income tax expenses

	Three months ended 30 June 2006 (Unaudited) RMB'000	Three months ended 30 June 2005 (Unaudited) RMB'000	Six months ended 30 June 2006 (Unaudited) RMB'000	Six months ended 30 June 2005 (Unaudited) RMB'000
Current tax charge for the period – PRC	<u>472</u>	<u>443</u>	<u>1,019</u>	<u>871</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 and six months ended 30 June 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 30 June 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:

	Three months ended 30 June 2006 (Unaudited) RMB'000	Restated Three months ended 30 June 2005 (Unaudited) RMB'000	Six months ended 30 June 2006 (Unaudited) RMB'000	Restated Six months ended 30 June 2005 (Unaudited) RMB'000
Profit before income tax	2,497	1,289	4,389	4,071
Tax at applicable tax rate of 33% (2005: 33%)	824	425	1,448	1,343
Effect of concessionary rate granted by local authority	(375)	6	(453)	(507)
Effect of share of after tax loss of an associate	23	12	24	35
Tax charge at effective rate	472	443	1,019	871

6. Earnings per share

Earnings per share has been computed by dividing the profit for the three months and six months ended 30 June 2006, of approximately RMB2,025,000 and RMB3,370,000, respectively (three months and six months ended 30 June 2005: approximately RMB846,000 (restated) and RMB3,200,000 (restated), respectively) by the 198,860,000 Domestic Shares and 110,000,000 H Shares of the Company in issue throughout the period.

Diluted earnings per share amounts for the three months and six months ended 30 June 2005 and 2006 have not been calculated as there were no dilutive potential ordinary shares in existence during those periods.

7. Reserves

There were no movements in the reserves other than profit attributable to equity holders of approximately RMB3,200,000 (restated) and RMB3,370,000 for the six months ended 30 June 2005 and 2006 respectively.

8. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

9. Inventories

Inventories consist of:

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Raw materials	597	410
Work in progress	2,340	2,271
Finished goods	1,181	2,318
	<u>4,118</u>	<u>4,999</u>

10. Trade receivables

An aged analysis of trade receivables is as follows:

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
0 – 90 days	10,579	7,655
91 – 180 days	2,361	1,848
181 – 365 days	824	361
	<u>13,764</u>	<u>9,864</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 minimize its credit risk. Overdue balances are regularly reviewed by management.

11. Financial assets at fair value through profit or loss

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Fair value of interest in unlisted investment fund	<u>93</u>	<u>102</u>

The financial assets at fair value through profit or loss of the Company, which are stated at their fair value, represent interest in an unlisted investment fund registered in the PRC.

12. Trade payables

An aged analysis of trade payables is as follows:

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
0 – 90 days	431	284
91 – 180 days	–	–
181 – 365 days	38	6
Over 365 days	<u>–</u>	<u>31</u>
	<u>469</u>	<u>321</u>

13. Deferred government grants

The deferred government grants of the Company was approximately RMB10,058,000 (31 December 2005: 10,160,000) which represented the government grants obtained from the PRC government.

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

14. Share capital

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
<i>Authorised, issued and fully paid:</i>		
198,860,000 domestic shares of RMB0.1 each	19,886	19,886
110,000,000 H shares of RMB0.1 each	11,000	11,000
	<u>30,886</u>	<u>30,886</u>

15. Commitments

As at 30 June 2006 and 31 December 2005, the Company had the following outstanding commitments:

- (i) Capital commitments:

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Contracted, but not provided for		
– Buildings	9,192	9,192
– Plant and machinery	5,593	5,593
	<u>14,785</u>	<u>14,785</u>
Authorised, but not contracted for		
– Establishment of a joint venture	15,000	15,000

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

(ii) Operating lease 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. The Company also leases plant and equipment from Shanxi Huayuan Transport Optical Technology and Engineering Company Limited (“Shanxi Transport”) for the production of optic fibres on an annual renewal basis.

The total future minimum lease payments under non-cancellable operating leases payable by the Company are as follows:

	As at 30 June 2006 (Unaudited) RMB'000	As at 31 December 2005 (Audited) RMB'000
Within one year	672	672
In the second to fifth years, inclusive	2,513	2,538
After five years	12,302	12,613
	<u>15,487</u>	<u>15,823</u>

16. Contingent liabilities

As at 30 June 2006, the Company did not have any significant contingent liabilities.

17. Related party transactions

Particulars of material transactions between the Company and related parties during the three months and six months ended 30 June 2005 and 2006 are summarized below:

		Three months ended 30 June 2006 (Unaudited) RMB'000	Three months ended 30 June 2005 (Unaudited) RMB'000	Six months ended 30 June 2006 (Unaudited) RMB'000	Six months ended 30 June 2005 (Unaudited) RMB'000
	Notes				
Rental expenses paid to a shareholder	(i)	168	348	336	395
Purchase of fixed assets from a shareholder	(ii)	–	–	840	–
Advance to a shareholder	(iii)	–	–	–	300
		<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes:

- (i) The rental expenses were paid to Taiyuan Changcheng Optics and Electronics Industrial Corporation (“Taiyuan Changcheng”) for the leases of the office premises and a land use right. The rental expenses paid to Taiyuan Changcheng were based on mutually agreed terms.
- (ii) The payment has been made to Taiyuan Tanghai Automatic Control Company Limited (“Taiyuan Tanghai”) mainly for the purchase of production equipments. The directors of the Company consider that the prices and terms of the purchase approximated to those with independent third parties.
- (iii) The advance made to Taiyuan Changcheng were unsecured, interest-free and had a credit term of 90 days.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATION

Business review

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

For the six months ended 30 June 2006, the Company reported an unaudited turnover of approximately RMB19.0 million (for the six months ended 30 June 2005: approximately RMB15.3 million), representing an increase of approximately 24.4% as compared to the previous period. This was mainly attributable to the fact that a major customer of the Company entered into a joint venture with another company last year. The newly formed joint venture adjusted their sales strategy in April and May in 2005 and have a temporary impact on the sales of the Company in that year. However, the sales increased back to the normal level afterwards. The Directors expect that the sales will be steadily increased in the second half year of 2006.

The unaudited gross profit margin ratio for the six months ended 30 June 2006 is approximately 48%, represented a decrease of 7% from the corresponding period. The decrease is mainly attributable to fluctuation of exchange rate.

The unaudited profit before tax for the six months ended 30 June 2006 increased by approximately 5.3% from approximately RMB3.2 million (restated) to approximately RMB3.4 million. The increase in profit was mainly due to the increase in the sales of fibre optic inverters. Notwithstanding the increment mentioned above, the Company maintained a stable and effective overhead structure.

Prospects

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

Liquidity and financial resources

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

As at 30 June 2006, the Company had total assets of approximately RMB87.2 million (31 December 2005: approximately RMB84.0 million), of which approximately RMB5.9 million (31 December 2005: approximately RMB19.7 million) were cash and bank balances.

Gearing ratio

The gearing ratio of the Company, based on total liabilities to total assets, was approximately 17.2% as at 30 June 2006 (31 December 2005: approximately 17.9%). The lower gearing ratio was mainly due to the increase in property, plant and equipment as at 30 June 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 six months ended 30 June 2006 and the same period of last year.

Employees and remuneration policy

For the six months ended 30 June 2006, the staff remuneration of the Company was approximately RMB4.4 million (2005: approximately RMB4.4 million) and the Company had a total of approximately 460 employees (2005: approximately 430 employees).

There is no significant change in the Company's employees and remuneration policy.

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 "Statement of Business Objectives" 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 30 June 2006.

Commitments


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

Foreign exchange exposure

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

Pledge of assets and banking facilities

As at 30 June 2006, the Company did not have any pledge of assets and banking facilities obtained from bank.



Contingent liabilities

As at 30 June 2006 and 30 June 2005, the Company did not have any significant contingent liabilities.

Disclosure under GEM Listing Rule 17.15 to 17.21

Under Chapter 17.15 of 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 exceeds 8% under the asset ratio as defined under Rule 19.07(1) of the GEM Listing Rule:

Advance to an entity

The unaudited total asset value of the Company as at 30 June 2006 was approximately RMB87.2 million.

There is a trade receivable of an amount of approximately RMB7,770,000 from an independent party, Sunsan Im-Export, as at 30 June 2006. Such receivable represented approximately 8.9% of the unaudited total asset value. Accordingly, a disclosure obligation under paragraph 17.15 of Chapter 17 for the Company arises.

As confirmed by the Directors, the trade receivable 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 receivable was unsecured, interest free and had a credit terms of between 30 to 90 days.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

18 May 2004 to 30 June 2004

	Business objectives stated in the Prospectus	Actual progress as at 30 June 2004
Increase production capacity and capability	Set up the New Development Zone Joint Venture	The application process of setting up the New Development Zone Joint Venture is in progress. The Land 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 in commence and machinery will be purchased for production.
<ul style="list-style-type: none"> 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責任公司) (“New Development Zone Joint Venture”) purchase of machinery 		

The Company has not utilized the proceeds from the placing from the date of listing on 18 May 2004 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 utilize the proceeds from the Placing to invest in the New Development Zone Joint Venture.

	As stated in the Prospectus	Actual business progress
	<i>HK\$ million</i>	<i>HK\$ million</i>
Increase production capacity and capability		
<ul style="list-style-type: none"> capital investment in New Development Zone Joint Venture purchase of machinery 	14	–

1 July 2004 to 31 December 2004

	Business objectives stated in the Prospectus	Actual progress as at 31 December 2004
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.
<ul style="list-style-type: none"> capital investment in New Development Zone Joint Venture 		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"> purchase of machinery 	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, Φ 200 cutter, etc.	

The Company has not utilized the proceeds from the placing from 1 July 2004 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 utilize the proceeds from the Placing to invest in the New Development Zone Joint Venture.

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

1 January 2005 to 30 June 2005

	Business objectives stated in the Prospectus	Actual progress as at 30 June 2005
Increase production capacity and capability	Complete renovation works of the new production plant	<ul style="list-style-type: none"> • The Land Use Right Certificate was issued.
<ul style="list-style-type: none"> • capital investment in New Development Zone Joint Venture 	Install new production facilities in the production plant	<ul style="list-style-type: none"> • The renovation of the new production plant has not yet been completed.
<ul style="list-style-type: none"> • purchase of machinery 	Recruit more production staff and provide training for these new staff	<ul style="list-style-type: none"> • The construction of the new production plant is in progress and the Company has purchased some machinery.

The Company has utilized the proceeds from 1 January 2005 in the following areas.

	As stated in the Prospectus <i>HK\$ million</i>	Actual business progress <i>HK\$ million</i>
Increase production capacity and capability		
<ul style="list-style-type: none"> • capital investment in New Development Zone Joint Venture 	2	11.7
<ul style="list-style-type: none"> • purchase of machinery 		

Note: As at the date of this interim report, the Directors confirmed that HK\$13.8 million (approximately RMB14.6 million) has been invested for the acquisition of a piece of land in which HK\$6.2 million (approximately RMB6.6 million) was funded by the proceeds from the Placing and HK\$7.6 million (approximately RMB8.0 million) was funded by its internal resources. The Directors further confirmed that HK\$3.6 million (approximately RMB3.8 million) has been invested into the design and construction of the new production plant and HK\$1.9 million (approximately RMB2.0 million) has been invested for the acquisition of machinery.

1 July 2005 to 31 December 2005

	Business objectives stated in the Prospectus	Actual progress as at 31 December 2005
Increase production capacity and capability	Trial production of the new production plant	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 was issued on 2 June 2005. The construction of the production plant is commenced and machineries, like imported wiredrawing machine, wiredrawing block machine have been purchased for production.
• capital investment in New Development Zone Joint Venture	Fine-tuning of the production lines	
• purchase of machinery	Employ more production staff and provide training for these new staff	

The establishment of the New Development Zone Joint Venture was still pending.

The Company has utilized the proceeds from 1 July 2005 in the following areas:

	As stated in the Prospectus <i>HK\$ million</i>	Actual business progress <i>HK\$ million</i>
Increase production capacity and capability		
• capital investment in New Development Zone Joint Venture	1.0	15.9
• purchase of machinery		

Note : For the period from 1 July 2005 to 31 December 2005, approximately HK\$2.1 million (approximately RMB2.2 million) has been invested for the acquisition of a piece of land which was funded by the proceeds from the Placing. Approximately HK\$6.5 million (approximately RMB7.0 million) has been invested into the design and construction of the new production plant and approximately HK\$7.3 million (approximately RMB7.8 million) has been invested for the acquisition of machinery.

1 January 2006 to 30 June 2006

	Business objectives stated in the Prospectus	Actual progress as at 30 June 2006
Increase production capacity and capability	Commence commercial production in the new production facilities	The application process of setting up the New Development Zone Joint Venture is still in progress. The construction of production plant is still in progress and the Company had purchased some machinery.
	<ul style="list-style-type: none">capital investment in New Development Zone Joint Venturepurchase of machinery	

The Company has utilized the proceeds from 1 January 2006 in the following areas:

	As stated in the Prospectus	Actual business progress
	<i>HK\$ million</i>	<i>HK\$ million</i>
Increase production capacity and capability		
<ul style="list-style-type: none">capital investment in New Development Zone Joint Venturepurchase of machinery	1	9.6

Note : For the period from 1 January 2006 to 30 June 2006, approximately HK\$6.5 million (approximately RMB6.8 million) has been invested into the design and construction of the new production plant and approximately HK\$3.1 million (approximately RMB3.2 million) has been invested for the acquisition of machinery which was funded by the proceeds from the Placing.

OTHER INFORMATION

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

As at 30 June 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 six months ended 30 June 2006, none of the directors or supervisors of the Company (“Supervisors”) are granted options to subscribe for H shares of the Company. As at 30 June 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 30 June 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 (Note 1)	12.52%	–	8.06%
Lin Yin Ping	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	–	26.61%

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*
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%
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:

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 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. 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 30 June 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 Quam Capital Limited ("QCL"), as at 30 June 2006, none of QCL, 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 compliance adviser agreement dated 1 June 2006 entered into between QCL and the Company, QCL will receive fees for acting as the Company's compliance adviser for the period from 1 June 2006 up to 31 December 2006 or until the compliance adviser agreement is terminated upon the terms and conditions set out therein.

Audit committee

In compliance with Rules 5.28 and 5.33 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 interim report for the six months ended 30 June 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 and the following deviation, the Company complied 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 has not yet been set up by the Company.

The Company has complied with the requirement to appoint a sufficient number of independent non-executive directors as set out in Rule 5.05(1) of the GEM Listing Rules. Throughout the six months ended 30 June 2006, the Company has appointed Mr. Ni Guo Qiang, Mr. Shen Ming Hong, Mr. Li Li Cai and Ms. Chen Yue Jie as independent non-executive directors.

Code of conduct regarding securities transactions by Directors

During the six months ended 30 June 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 six months ended 30 June 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, 9 August 2006