



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

HIGHLIGHTS

- For the nine months ended 30 September 2006, unaudited revenue of the Company was approximately RMB29.3 million, representing an increase of approximately 34.0% over the corresponding period in the previous year.
- Profits attributable to equity holders of the Company increased by approximately 55.4% compared to the corresponding period in the previous year to approximately RMB6.6 million for the nine months ended 30 September 2006.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006.

UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2006

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Company Limited (the “Company”) is pleased to announce the unaudited results of the Company for the three months and nine months ended 30 September 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 nine months ended 30 September 2006 and 2005

			(Restated)		(Restated)
		Three months ended	Three months ended	Nine months ended	Nine months ended
		30 September 2006	30 September 2005	30 September 2006	30 September 2005
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE	2	10,247	6,557	29,260	21,836
Cost of sales		(3,960)	(3,309)	(13,775)	(10,118)
Gross profit		6,287	3,248	15,485	11,718
Other income and gains		62	210	209	287
Selling and distribution expenses		(211)	(108)	(387)	(324)
Administrative expenses		(2,163)	(1,835)	(6,838)	(5,980)
Other operating expenses		(164)	(221)	(197)	(229)
OPERATING PROFIT		3,811	1,294	8,272	5,472
Share of loss of an associate		(90)	(52)	(162)	(159)
PROFIT BEFORE INCOME TAX		3,721	1,242	8,110	5,313
Income tax expenses	3	(456)	(171)	(1,475)	(1,042)
PROFIT FOR THE PERIOD		3,265	1,071	6,635	4,271
EARNINGS PER SHARE FOR PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD					
Basic (in RMB)	4	0.011	0.003	0.021	0.014

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 and nine months ended 30 September 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 ("PRC") 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 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.

3. Tax

	Three months ended 30 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	(Restated)		(Restated)	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Current tax charge for the period	(456)	(171)	(1,475)	(1,042)

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 nine months ended 30 September 2006 and the corresponding periods 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 recognised 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 September 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 September (Unaudited)		Nine months ended 30 September (Unaudited)	
	(Restated)		(Restated)	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>3,721</u>	<u>1,242</u>	<u>8,110</u>	<u>5,313</u>
Tax at applicable tax rate of 33% (2005: 33%)	1,228	410	2,676	1,753
Concessionary rate granted by local authority	(802)	(256)	(1,254)	(763)
Effect of Share of after tax loss of an associate	<u>30</u>	<u>17</u>	<u>53</u>	<u>52</u>
Tax charge at effective rate	<u>456</u>	<u>171</u>	<u>1,475</u>	<u>1,042</u>

4. Earnings per share

Earnings per share have been computed by dividing the net profit from ordinary activities attributable to equity holders of the Company for the three months and nine months ended 30 September 2006, of approximately RMB3,265,000 and RMB6,635,000, respectively (three months and nine months ended 30 September 2005, of approximately RMB1,071,000 and RMB4,271,000, respectively) by the 198,860,000 domestic shares of the Company in issue and 110,000,000 H shares of the Company in issue throughout the period.

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

5. Reserves

The movements for the profit attributable to equity holders of the Company was approximately RMB4,271,000 for the nine months ended 30 September 2005 (Restated). There were no movements in the reserves other than profit attributable to equity holders of the Company of approximately RMB6,635,000 for the nine months ended 30 September 2006.

6. Interim dividend

The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2006 (nine months ended 30 September 2005: nil). No dividend was paid during 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 nine months ended 30 September 2006, the Company reported an unaudited revenue of approximately RMB29.3 million (nine months ended 30 September 2005: approximately RMB21.8 million), representing an increase of approximately 34.0% from previous period's turnover. This was mainly due to the sales of fibre optic tapers increased significantly and hence the overall sales amount increased during the period.

The unaudited gross profit margin for the nine months ended 30 September 2006 is approximately 52.9%, representing a decrease of approximately 0.8% from the corresponding period last year. The decrease was attributable to the fluctuation of the exchange rate of renminbi during the period.

The unaudited profit before tax for the nine months ended 30 September 2006 increased by approximately 52.6% from RMB5.3 million to approximately RMB8.1 million. The increase in profit was mainly due to the increase in sales during the period.

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.

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 September 2006, the Company had total assets of approximately RMB101.7 million (31 December 2005: approximately RMB84.0 million), of which approximately RMB5.7 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 15.0% as at 30 September 2006 (31 December 2005: approximately 17.9%). The lower gearing ratio was mainly due to the increase in profit for the nine months period ended 30 September 2006 and hence the increase in total assets as at 30 September 2006.

Significant investment and material acquisition and disposal of subsidiaries

The Company did not hold material investments or make any material acquisition and disposal of subsidiaries and associates during the nine months ended 30 September 2006 and the same period of last year.

Employees and remuneration policy

For the nine months ended 30 September 2006, the staff remuneration of the Company was approximately RMB6.3 million (30 September 2005: approximately RMB6.2 million) and the Company had a total of approximately 442 employees (30 September 2005: approximately 435 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 September 2006.

Commitments

Capital commitments:

As at 30 September 2006 and 31 December 2005, the Company had the following significant capital commitments:

		30 September 2006 (Unaudited) <i>Note</i> <i>RMB'000</i>	31 December 2005 (Audited) <i>RMB'000</i>
Authorised, but not contracted for			
– Establishment of a joint venture	(a)	15,600	15,000
– Development of Project		16,000	16,000
		<u>31,000</u>	<u>31,000</u>

Note:

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

Commitments under operating leases:

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

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

	30 September 2006 (Unaudited) RMB'000	31 December 2005 (Audited) RMB'000
Within one year	672	672
In the second to fifth years, inclusive	2,500	2,538
After five years	12,147	12,613
	<hr/>	<hr/>
	15,319	15,823
	<hr/>	<hr/>

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 September 2006, the Company did not have any banking facilities obtained from bank.

Contingent liabilities

As at 30 September 2006, the Company had no material 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%. As at 30 September 2006, the Company had no advance to an entity exceeding 8% (as at 30 September 2005: the Company had no advance to an entity exceeding 8%).

OTHER INFORMATION

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


As at 30 September 2006, so far as the Directors are aware, the Directors who have 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 they 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 nine months ended 30 September 2006, none of the Directors or supervisors (“Supervisors”) of the Company are granted options to subscribe for H shares of the Company. As at 30 September 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 September 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 of the Company 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 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 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 of Taiyuan Tanghai, for the purpose of the SFO, Beijing Gensir is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.
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 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. 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 September 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") that as at 30 September 2006, Well Foundation Co. Ltd., an associate of QCL was interested in 280,000 H Shares of the Company. Save as disclosed above, 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 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, 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 nine months ended 30 September 2006, with the Directors.

Board Practices and Procedures

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

Code of conduct regarding securities transactions by Directors

During the nine months ended 30 September 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 also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

Repurchase, sale or redemption of listed securities of the Company

During the nine months ended 30 September 2006, there was no purchase, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries.

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.

By order of the Board
Wang Gen Hai
Chairman

Shanxi, the People's Republic of China, 10 November 2006