



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)

Interim Report **2007**

\* For identification only

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

**RESULTS HIGHLIGHTS**

- The Company reported a turnover of approximately RMB23,750,000 for the six months ended 30 June 2007, representing an increase of 24.9% from approximately RMB19,013,000 for the same period in 2006.
- The Company's unaudited profits attributable to equity holders for the six months ended 30 June 2007 was approximately RMB5,266,000.
- The board of Directors does not recommend the payment of dividend for the six months ended 30 June 2007.

The board of Directors (the "Board") of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") is pleased to present the unaudited results of the Company for the three months and six months ended 30 June 2007, together with the comparative unaudited figures for the corresponding period in 2006 as follows:

### UNAUDITED CONDENSED INCOME STATEMENT

For the three months and six months ended 30 June 2007

|  | Notes | For the three months<br>ended 30 June |         | For the six months<br>ended 30 June |         |
|--|-------|---------------------------------------|---------|-------------------------------------|---------|
|  |       | 2007                                  | 2006    | 2007                                | 2006    |
|  |       | RMB'000                               | RMB'000 | RMB'000                             | RMB'000 |
| Revenue                                | 2     | <b>12,899</b>                         | 10,257  | <b>23,750</b>                       | 19,013  |
| Cost of sales                          |       | <b>(4,939)</b>                        | (5,212) | <b>(9,748)</b>                      | (9,815) |
| Gross profit                           |       | <b>7,960</b>                          | 5,045   | <b>14,002</b>                       | 9,198   |
| Other operating incomes                |       | <b>103</b>                            | 122     | <b>107</b>                          | 147     |
| Selling and distribution expenses      |       | <b>(81)</b>                           | (78)    | <b>(148)</b>                        | (176)   |
| General and administrative expenses    |       | <b>(3,910)</b>                        | (2,521) | <b>(7,640)</b>                      | (4,708) |
| Operating profit                       | 4     | <b>4,072</b>                          | 2,568   | <b>6,321</b>                        | 4,461   |
| Share of profit/(loss) of an associate |       | <b>69</b>                             | (71)    | <b>(61)</b>                         | (72)    |
| Profit before income tax               |       | <b>4,141</b>                          | 2,497   | <b>6,260</b>                        | 4,389   |
| Income tax expense                     | 5     | <b>(657)</b>                          | (472)   | <b>(994)</b>                        | (1,019) |
| Profit for the period                  |       | <b>3,484</b>                          | 2,025   | <b>5,266</b>                        | 3,370   |
| Earnings per share:                    |       |                                       |         |                                     |         |
| – Basic (in RMB)                       | 7     | <b>0.011</b>                          | 0.007   | <b>0.017</b>                        | 0.011   |
| – Diluted (in RMB)                     | 7     | <b>N/A</b>                            | N/A     | <b>N/A</b>                          | N/A     |

## UNAUDITED CONDENSED BALANCE SHEET

As at 30 June 2007

|   |              | 30 June<br>2007<br>RMB'000<br>(Unaudited) | 31 December<br>2006<br>RMB'000<br>(Audited) |
|---|--------------|---|---|
|   | <i>Notes</i> |   |   |
| <b>ASSETS AND LIABILITIES</b>                             |              |   |   |
| <b>Non-current assets</b>                                 |              |   |   |
| Property, plant and equipment                             |              | 33,126                                    | 29,196                                      |
| Land use rights   |              | 16,627                                    | 16,773                                      |
| Deposits for acquisition of property, plant and equipment |              | 16,622                                    | 14,186                                      |
| Interest in an associate                                  |              | 3,012                                     | 3,073                                       |
|   |              | <b>69,387</b>                             | <b>63,228</b>                               |
| <b>Current assets</b>                                     |              |   |   |
| Due from shareholders                                     |              | 5,481                                     | 5,214                                       |
| Due from director   |              | 65  | 133   |
| Inventories   | 8            | 3,526                                     | 3,096                                       |
| Trade receivables   | 9            | 11,329                                    | 13,416                                      |
| Prepayments, deposits and other receivables               |              | 6,141                                     | 5,850                                       |
| Tax recoverable   |              | -   | 191   |
| Financial assets at fair value through profit or loss     |              | 51  | 171   |
| Cash and cash equivalents                                 |              | 4,686                                     | 2,828                                       |
|   |              | <b>31,279</b>                             | <b>30,899</b>                               |
| <b>Current liabilities</b>                                |              |   |   |
| Due to directors  |              | 55  | 71  |
| Trade payable   | 10           | 781                                       | 266   |
| Tax payable   |              | 411                                       | -   |
| Accruals, deposits received and other payables            |              | 5,028                                     | 4,765                                       |
|   |              | <b>6,275</b>                              | <b>5,102</b>                                |
| <b>Net current assets</b>                                 |              | <b>25,004</b>                             | <b>25,797</b>                               |
| <b>Total assets less current liabilities</b>              |              | <b>94,391</b>                             | <b>89,025</b>                               |
| <b>Non-current liabilities</b>                            |              |   |   |
| Deferred government grants                                | 11           | 10,460                                    | 10,360                                      |
| <b>Net assets</b>   |              | <b>83,931</b>                             | <b>78,665</b>                               |
| <b>EQUITY</b>   |              |   |   |
| <b>Equity attributable to Company's equity holders</b>    |              |   |   |
| Share capital   | 12           | 30,886                                    | 30,886                                      |
| Reserves  |              | 53,045                                    | 47,779                                      |
| <b>Total equity</b>                                       |              | <b>83,931</b>                             | <b>78,665</b>                               |

## UNAUDITED CONDENSED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

|                           | Issued<br>share<br>capital | Capital<br>surplus | Statutory<br>public<br>welfare<br>fund | Statutory<br>surplus<br>reserve | Retained<br>earnings | Total         |
|---------------------------|----------------------------|--------------------|--|---------------------------------|----------------------|---------------|
|                           | RMB'000                    | RMB'000            | RMB'000                                | RMB'000                         | RMB'000              | RMB'000       |
| At 1 January 2006         | 30,886                     | 18,561             | 2,372                                  | 4,744                           | 12,322               | 68,885        |
| Net profit for the period | -                          | -                  | -                                      | -                               | 3,370                | 3,370         |
| <b>At 30 June 2006</b>    | <b>30,886</b>              | <b>18,561</b>      | <b>2,372</b>                           | <b>4,744</b>                    | <b>15,692</b>        | <b>72,255</b> |
| At 1 January 2007         | 30,886                     | 18,561             | -                                      | 8,092                           | 21,126               | 78,665        |
| Net profit for the period | -                          | -                  | -                                      | -                               | 5,266                | 5,266         |
| <b>At 30 June 2007</b>    | <b>30,886</b>              | <b>18,561</b>      | <b>-</b>                               | <b>8,092</b>                    | <b>26,392</b>        | <b>83,931</b> |

## UNAUDITED CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2007

|  | For the six months<br>ended 30 June |          |
|--|-------------------------------------|----------|
|  | 2007                                | 2006     |
|  | RMB'000                             | RMB'000  |
| Net cash inflow from operating activities        | 9,439                               | 103      |
| Net cash outflow from investing activities       | (7,581)                             | (13,860) |
| Increase/(Decrease) in cash and cash equivalents | 1,858                               | (13,757) |
| Cash and cash equivalents at 1 January           | 2,828                               | 19,701   |
| Cash and cash equivalents at 30 June             | 4,686                               | 5,944    |

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation of the accounts

The unaudited interim financial statements have been prepared in accordance with Hong Kong Accounting Standards 34 "Interim Financial Reporting" and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the "GEM Listing Rules").

The principal accounting policies and methods of computation used in the preparation of these accounts are consistent with those adopted in the preparation of the annual accounts for the year ended 31 December 2006.

The audit committee has reviewed the unaudited interim financial statements.

### 2. Revenue

Revenue, which is also the Company's turnover, represents total invoiced value of goods supplied, after allowances for returns, trade discounts, value added tax and other taxes related to sales where applicable.

### 3. Segment information

As over 90% of the turnover and the profit from operating activities of the Company for the six months ended 30 June 2006 and 2007 are generated from the manufacture and sale of optical fibre products, no 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 business 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 to the customers. Over 90% of the Company's assets are located in the PRC.

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

*For the three months ended 30 June 2007*

|  | Hong Kong |         | PRC     |         | Europe  |         | Total   |         |
|--|-----------|---------|---------|---------|---------|---------|---------|---------|
|  | 2007      | 2006    | 2007    | 2006    | 2007    | 2006    | 2007    | 2006    |
|  | RMB'000   | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment Revenue:                       |           |         |         |         |         |         |         |         |
| Sales                                  | 5,473     | 4,681   | 1,294   | 653     | 6,132   | 4,923   | 12,899  | 10,257  |
| Segment results                        | 3,313     | 2,279   | 805     | 470     | 3,761   | 2,218   | 7,879   | 4,967   |
| Other operating incomes                |           |         |         |         |         |         | 103     | 122     |
| General and administrative expenses    |           |         |         |         |         |         | (3,910) | (2,521) |
| Operating profit                       |           |         |         |         |         |         | 4,072   | 2,568   |
| Share of profit/(loss) of an associate |           |         |         |         |         |         | 69      | (71)    |
| Profit before income tax               |           |         |         |         |         |         | 4,141   | 2,497   |
| Income tax expense                     |           |         |         |         |         |         | (657)   | (472)   |
| Profit for the period                  |           |         |         |         |         |         | 3,484   | 2,025   |

For the six months ended 30 June 2007

|                                     | Hong Kong |         | PRC     |         | Europe  |         | Total   |         |
|-------------------------------------|-----------|---------|---------|---------|---------|---------|---------|---------|
|                                     | 2007      | 2006    | 2007    | 2006    | 2007    | 2006    | 2007    | 2006    |
|                                     | RMB'000   | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Segment Revenue:                    |           |         |         |         |         |         |         |         |
| Sales                               | 10,279    | 6,148   | 3,050   | 987     | 10,421  | 11,878  | 23,750  | 19,013  |
| Segment results                     | 5,976     | 3,124   | 1,798   | 516     | 6,080   | 5,382   | 13,854  | 9,022   |
| Other operating incomes             |           |         |         |         |         |         | 107     | 147     |
| General and administrative expenses |           |         |         |         |         |         | (7,640) | (4,708) |
| Operating profit                    |           |         |         |         |         |         | 6,321   | 4,461   |
| Share of loss of an associate       |           |         |         |         |         |         | (61)    | (72)    |
| Profit before income tax            |           |         |         |         |         |         | 6,260   | 4,389   |
| Income tax expense                  |           |         |         |         |         |         | (994)   | (1,019) |
| Profit for the period               |           |         |         |         |         |         | 5,266   | 3,370   |

#### 4. Operating profit

|   | For the three months ended 30 June |         | For the six months ended 30 June |         |
|---|------------------------------------|---------|----------------------------------|---------|
|   | 2007                               | 2006    | 2007                             | 2006    |
|   | RMB'000                            | RMB'000 | RMB'000                          | RMB'000 |
| Operating profit is arrived at after charging:                  |                                    |         |                                  |         |
| Amortization of land use rights                                 | 88                                 | 28      | 176                              | 56      |
| Cost of inventories sold  | 4,939                              | 5,212   | 9,748                            | 9,815   |
| Depreciation  | 967                                | 456     | 1,516                            | 925     |
| Operating lease charges – rental of office premises             | 1,081                              | 168     | 2,851                            | 336     |
| Research and development costs                                  | 30                                 | 59      | 111                              | 204     |
| Staff costs (including directors' and supervisor's emoluments): |                                    |         |                                  |         |
| – salaries and allowances                                       | 2,467                              | 2,937   | 5,261                            | 3,710   |
| – pension scheme contributions                                  | 240                                | 531     | 805                              | 660     |



#### 5. Income tax expenses

|                   | For the three months<br>ended 30 June |         | For the six months<br>ended 30 June |         |
|-------------------|---------------------------------------|---------|-------------------------------------|---------|
|                   | 2007                                  | 2006    | 2007                                | 2006    |
|                   | RMB'000                               | RMB'000 | RMB'000                             | RMB'000 |
| Current tax – PRC | 657                                   | 472     | 994                                 | 1,019   |

Hong Kong profits tax has not been provided as the Company had no assessable profits arising in Hong Kong during the period (2006: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Company operates, based on existing legislation, interpretations and practices in respect thereof during the period.

During the six months ended 30 June 2007, the Company continued to entitle to a concessionary corporate income tax rate of 15% (2006: 15%).

#### 6. Dividend

The Board does not recommend the payment of dividend for the six months ended 30 June 2007 (2006: Nil).

#### 7. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the three months and six months ended 30 June 2007 approximately of RMB3,484,000 and RMB5,266,000 respectively (2006: RMB2,025,000 and RMB3,370,000 respectively) and 308,860,000 shared in issue during the period.

No diluted earnings per share amounts have been presented for the three months and six months ended 30 June 2006 and 2007 as there was no dilutive potential share.

#### 8. Inventories

|                  | 30 June<br>2007<br>RMB'000<br>(Unaudited) | 31 December<br>2006<br>RMB'000<br>(Audited) |
|------------------|---|---|
| Raw materials    | 738                                       | 569   |
| Work in progress | 1,797                                     | 1,761                                       |
| Finished goods   | 991                                       | 766   |
|                  | <b>3,526</b>                              | <b>3,096</b>                                |

#### 9. Trade receivable

The credit terms granted by the Company to its customers are normally less than 90 days. An ageing analysis of trade receivable is as follows:

|                | 30 June<br>2007<br>RMB'000<br>(Unaudited) | 31 December<br>2006<br>RMB'000<br>(Audited) |
|----------------|---|---|
| 0 – 90 days    | 8,835                                     | 11,361                                      |
| 91 – 180 days  | 1,602                                     | 2,006                                       |
| 181 – 365 days | 892                                       | 49  |
|                | <b>11,329</b>                             | <b>13,416</b>                               |

**10. Trade payable**

An ageing analysis of trade payable is as follows:

|                | <b>30 June<br/>2007<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2006<br>RMB'000<br>(Audited) |
|----------------|---|---|
| 0 – 90 days    | 738   | 194   |
| 91 – 180 days  | 6   | 30  |
| 181 – 365 days | 37  | 5   |
| Over 365 days  | –   | 37  |
|                | <b>781</b>  | <b>266</b>                                  |

**11. Deferred government grants**

|                   | <b>30 June<br/>2007<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2006<br>RMB'000<br>(Audited) |
|-------------------|---|---|
| Government grants | <b>10,460</b>                                       | 10,360                                      |

The balance represented subsidies granted by the PRC government for the Company's business expansion project in the Taiyuan ETD Zone and for enhancing the Company's facilities for development of foreign trade and research and development.

**12. Share capital**

|   | <b>30 June<br/>2007<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2006<br>RMB'000<br>(Audited) |
|---|---|---|
| Authorized, issued and fully paid:          |   |   |
| 198,860,000 domestic shares of RMB0.10 each | <b>19,886</b>                                       | 19,886                                      |
| 110,000,000 H shares of RMB0.10 each        | <b>11,000</b>                                       | 11,000                                      |
|   | <b>30,886</b>                                       | <b>30,886</b>                               |

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be the PRC investors or foreign investors, domestic shares and H shares rank *pari passu* with each other.

### 13. Capital commitments

As at 30 June 2007, the Company had the following outstanding commitments:

|                                     | <b>30 June<br/>2007<br/>RMB'000<br/>(Unaudited)</b> | 31 December<br>2006<br>RMB'000<br>(Audited) |
|-------------------------------------|---|---|
| Contracted, but not provided for:   |   |   |
| – Buildings                         | 6,425   | 10,143                                      |
| – Plant and machinery               | 6,424   | 8,860                                       |
|                                     | <b>12,849</b>                                       | 19,003                                      |
| Authorized, 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. Up to the date of these financial statements, the joint venture has not yet been established.

### 14. Related party transactions

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

|  | <b>For the three months<br/>ended 30 June</b> |                 | <b>For the six months<br/>ended 30 June</b> |                 |
|--|---|-----------------|---|-----------------|
|  | <b>2007<br/>RMB'000</b>                       | 2006<br>RMB'000 | <b>2007<br/>RMB'000</b>                     | 2006<br>RMB'000 |
| Rental expenses paid to<br>a shareholder | 1,081   | 168             | 2,851                                       | 336             |

In addition, during the year ended 31 December 2005, the Company entered into an agreement amounted to RMB3,089,400 with Taiyuan Tanghai for acquisition of machineries. A deposit of RMB1,409,000 (31 December 2006: RMB1,109,000) was paid by the Company to Taiyuan Tanghai and was included in "Deposits for acquisition of property, plant and machinery" in the Balance Sheet.

The Directors of the Company considered that all of the above transactions were entered into in the ordinary course of the Company's business.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Company reported a turnover of approximately RMB23,750,000 for the six months ended 30 June 2007, representing an increase of increase of approximately 24.9% from approximately RMB19,013,000 for the same period in 2006.

During the six months ended 30 June 2007, the Company recorded cost of sales amounting to approximately RMB9,748,000, representing an decrease of 1% from the same period in 2006.

General and administrative expenses of the Company for the six months ended 30 June 2007 was approximately RMB7,640,000 (2006: RMB4,708,000), which represented an increase of approximately 62% as compared to the same period in 2006.

The Company's unaudited profits attributable to equity holders for the six months ended 30 June 2007 was approximately RMB5,266,000 (2006: RMB3,370,000). The Board was satisfied with the results for the six months ended 30 June 2007.

### Prospects

Looking forward, the Company anticipates more demand for its products. 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

As at 30 June 2007, the net current assets of the Company was approximately RMB25,004,000 (2006: RMB25,797,000); the total equity of the Company was approximately RMB83,931,000 (2006: RMB78,665,000); the cash and bank deposits of the Company was approximately RMB4,686,000 (2006: RMB2,828,000).

### Charge of assets

As at 30 June 2007, the Company did not have any pledge of assets.

### Gearing ratio

As at 30 June 2007, the Company had no gearing ratio.

### Significant investment held

As at 30 June 2007, the Company did not have significant investment held.

### Acquisition and disposal of subsidiaries

The Company had no acquisition and disposal of subsidiaries during the six months ended 30 June 2007.

### Exposure to fluctuation in exchange rates and any related hedges

Most of the Company's monetary assets and liabilities were denominated in RMB. The Company is exposed to foreign exchange risk arising from the exposure of RMB against United States Dollars and Hong Kong Dollars, respectively. The Directors of the Company believe that its exposure to exchange rate risk is not high, and accordingly, the Company does not intend to hedge its exposure to foreign exchange movements.

### Contingent liabilities

As at 30 June 2007, the Company had no contingent liabilities.

### Employee information

As at 30 June 2007, the Company had approximately 474 (2006: 460) full-time employees. For the six months ended 30 June 2007, the Company reported staff costs of approximately RMB6,067,000 (2006: RMB4,370,000).

## OTHER INFORMATION

### Directors' and Supervisors' interests and short positions in the shares, underlying shares and debentures

As at 30 June 2007, so far as the Directors are aware, the Directors who have an interest and short position in the 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 Rules 5.46 of the GEM Listing Rules), to be notified to the Company and the Stock Exchange were 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%   |

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

*Note:*

- 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.

### Substantial shareholders

As at 30 June 2007, so far as the Directors are aware, the persons other than Directors and Supervisors of the Company 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 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 were 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<br>(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<br>(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<br>(Note 1)      | 12.52%   | –   | 8.06%  |
| Shen Gang  | Interest in a controlled corporation  | 24,900,000 domestic shares<br>(Notes 3)     | 12.52%   | –   | 8.06%  |
| Li Jin Dian  | Interest in a controlled corporation  | 34,000,000 domestic shares<br>(Notes 4)     | 17.10%   | –   | 11.01%   |

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

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

Notes:

- Part of these domestic shares (24,900,000 domestic shares) is 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 propose of the SFO, Beijing Gensir is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.
- Part of these domestic shares (57,300,000 domestic shares) is 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 Gang is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the propose of the SFO, Shen Gang 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) is 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 the 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.

#### **Share option scheme**

The Company does not have share option scheme.

#### **Directors' and Supervisors' rights to acquire H shares**

During the six months ended 30 June 2007, none of the Directors or Supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2007, none of the Directors or 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.

#### **Directors' and Supervisors' interest in contracts**

No contracts of significance in relation to the Company's business to which the Company was a party and in which a Director and Supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2007 or at any time during such period.

#### **Audit committee**

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company.

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

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2007.



**Corporate governance**

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices, contained in Appendix 15 of the GEM Listing Rules throughout the six months ended 30 June 2007, except for the fact that the remuneration committee has not yet been established by the Company. Currently, the Board is now in the progress of forming the remuneration committee.

**Securities transactions by Directors**

The Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2007. The Company had also made specific enquiry of all Directors of the Company, 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.

**Competing interest**

None of the directors, supervisors, the management shareholders or substantial shareholders of the Company or any of their respective associates has engaged in any business that competes or may compete with the business of the Company or has any other conflict of interests with the Company during the six months ended 30 June 2007.

**Purchase, sale or redemption of listed securities of the Company**

The Company had no purchase, sale or redemption any of the Company's listed securities during the six months ended 30 June 2007.

By order of the Board

**Wang Gen Hai**

*Chairman*

Shanxi, the People's Republic of China, 14 August 2007

*As at the date of this report, the Board comprises 8 directors, of which 3 are executive directors, namely Mr. Wang Gen Hai, Mr. Li Kang Sheng, and Mr. Tian Qun Xu; 1 non-executive director, namely Mr. Lin Yin Ping; and 4 independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Shen Ming Hong, Mr. Li Li Cai, and Ms. Chen Yue Jie.*