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)

ANNUAL REPORT 2007

*For identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

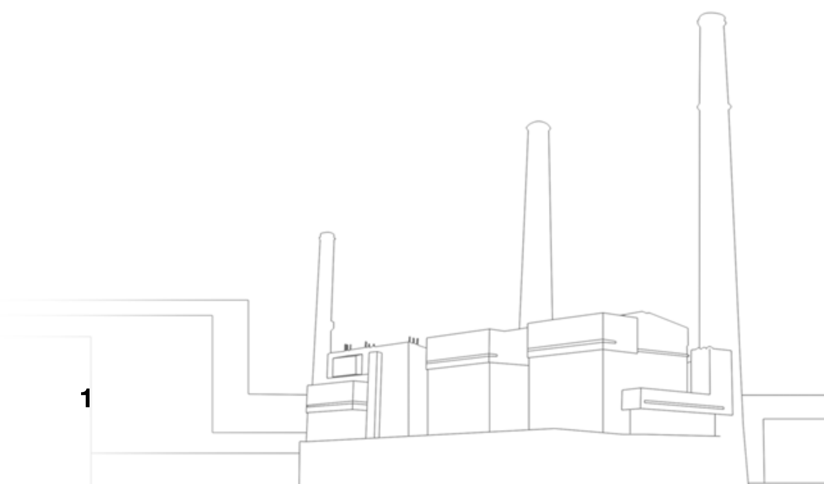
GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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.



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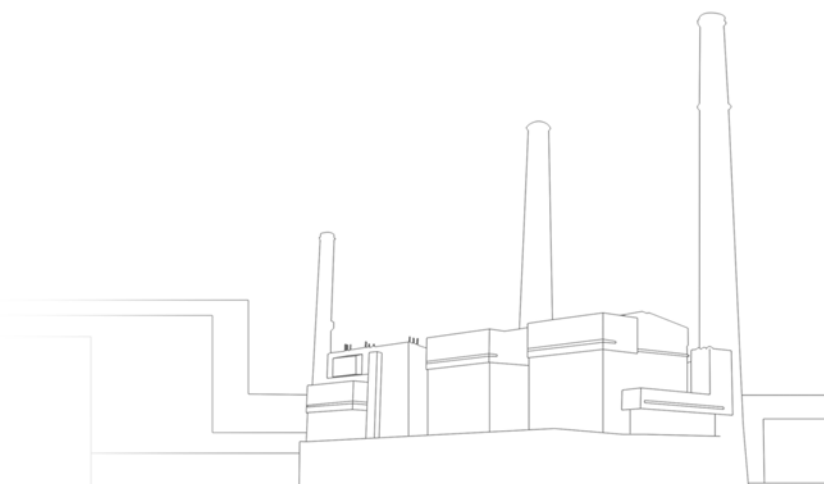

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Wang Gen Hai *(Chairman)*
Mr. Li Kang Sheng
Mr. Tian Qun Xu

Non-executive Directors
Mr. Lin Yin Ping

Independent Non-executive Directors
Mr. Ni Guo Qiang
Mr. Shen Ming Hong
Mr. Li Li Cai
Ms. Chen Yue Jie

SUPERVISORS

Mr. Zhang Fu Sheng
Mr. Meng Yan
Mr. Wang Guang Hua
Mr. Bai Yin Quan

COMPLIANCE OFFICER

Mr. Wang Gen Hai

AUHTORISED REPRESENTATIVES

Mr. Wang Gen Hai
Mr. Tsang Kwok Wai

QUALIFIED ACCOUNTANT

Mr. Lau Tak Yuen, Lewis *CPA*

COMPANY SECRETARY

Mr. Tsang Kwok Wai *FCPA*

AUDIT COMMITTEE

Mr. Ni Guo Qiang *(Chairman)*
Mr. Shen Ming Hong
Mr. Li Li Cai
Ms. Chen Yue Jie

AUDITORS

Grant Thornton

HONG KONG SHARE REGISTRAR AND TRANSFR OFFICE

Tircor Standard Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Taiyuan City Commercial Bank
Hua Xia Bank
Industrial and Commercial Bank of China

REGISTERED OFFICE

No. 212 Nanneihuan Street
Taiyuan City
Shanxi Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor, Tesbury Centre,
28 Queen's Road East
Hong Kong

STOCK CODE

8286

CHAIRMAN'S STATEMENT

The Company continued to be principally engaged in the design, research, development, manufacture, and sale of image transmission fibre optic products in the PRC. The geographical segments for sales of the Company are the PRC, Hong Kong and Europe. During the year, we achieved a strong growth in the revenue which was up by approximately 20% from approximately RMB41,956,000 in 2006 to approximately RMB50,318,000 in 2007.

To improve competitiveness and maintain our position as a leading image transmission fibre optic products manufacturer in the PRC, we invested in developing a new manufacturing plant in Taiyuan. The new manufacturing plant is expected to commence production at the late of 2008. After that, the production capacity of image transmission fibre optic products will be substantially increased. We expect to see the benefits from the investment reflected in the financial performance in the next few years.

In closing, I would like to express my gratitude to our shareholders and board members for their continue support.

Sincerely yours,

Wang Gen Hai
Chairman

Shanxi, the People's Republic of China
28 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company continued to be principally engaged in the design, research, development, manufacture, and sale of image transmission fibre optic products in the PRC. To improve competitiveness and maintain our position as a leading image transmission fibre optic products manufacturer in the PRC, we invested in developing a new manufacturing plant in Taiyuan. The new manufacturing plant is expected to commence production at the late of 2008. After that, the production capacity of image transmission fibre optic products will be substantially increased. We expect to see the benefits from the investment reflected in the financial performance in the next few years.

Financial Review

Turnover of the Company for the year ended 31 December 2007 was approximately RMB50,318,000 (2006: RMB41,956,000), representing an increase of approximately 20% as compared to the previous financial year. Turnover of the Company continued to experience steady growth during the year.

Cost of sales of the Company for the year ended 31 December 2007 was approximately RMB20,793,000 (2006: RMB19,475,000), representing an increase of approximately 7% as compared to the previous financial year. The increase in the cost of sales was mainly resulted from the increase in the sales.

Administrative expenses of the Company for the year ended 31 December 2007 was approximately RMB10,910,000 (2006: RMB9,981,000), representing an increase of approximately 9% as compared to the previous financial year.

The profit after tax for the year ended 31 December 2007 was approximately RMB13,178,000 (2006: RMB9,780,000), representing an increase of approximately 35% as compared to the previous financial year.

Liquidity and Financial Resources

As at 31 December 2007, the total assets of the Company increased by approximately RMB14,651,000 to approximately RMB108,778,000 as compared to approximately RMB94,127,000 as at the end of the previous financial year, representing an increase of approximately 16%.

As at 31 December 2007, the total liabilities of the Company increased by approximately RMB1,473,000 to approximately RMB16,935,000 as compared to approximately RMB15,462,000 as at the end of the previous financial year, representing an increase of approximately 10%.

As at 31 December 2007, the total equity of the Company increased by approximately RMB13,178,000 to approximately RMB91,843,000 as compared to approximately RMB78,665,000 as at the end of the previous financial year, representing an increase of approximately 17%.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing Ratio

As at 31 December 2007, the gearing ratio (defined as total liabilities over total assets) was approximately 16% (2006: 16%).

Significant Investment Held

As at 31 December 2007, the Company held interest in an associate of approximately RMB615,000 (2006: RMB3,073,000).

Acquisitions and Disposal of Subsidiaries

The Company had no acquisitions and disposals of subsidiaries during the year ended 31 December 2007 (2006: Nil).

Charges of Assets

As at 31 December 2007, the Company did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (2006: Nil).

Contingent Liabilities

As at 31 December 2007, the Company had contingent liabilities arising from a pending litigation (2006: Nil). As at 31 December 2007, the Company was one of the defendants in a pending litigation and dispute arising from a subcontracting agreement with a subcontractor. The subcontractor claims against the defendants including the Company for (i) enforcement of the subcontracting agreement and (ii) losses and damages suffered by the subcontractor in the sum of RMB1.5 million. After taking into account of legal advices from the Company's legal advisors, the directors consider that the Company has a good defence against such claim and no provision has been made in the financial statements.

Exposure to Fluctuation in Exchange Rates

A majority of the Company's sales was denominated in US Dollars while a majority of the Company's cost of sales and capital and operating expenses were denominated in RMB. Accordingly, the Directors are of the view that, the Company is mainly exposed to foreign exchange risk arising from the exposure of RMB against US Dollars and Hong Kong Dollars, respectively. The Directors of the Company believe that such exposure does not have significant adverse effects on the Company, and accordingly, the Company does not intend to hedge its exposure to foreign exchange movements.

Employee Information

As at 31 December 2007, the Company had approximately 542 (2006: 461) full-time employees. For the year ended 31 December 2007, the Company reported staff costs of approximately RMB10,001,000 (2006: RMB8,182,000). The Company remunerates its employees based on their experience, performance and value, which they contribute to the Company.

PROFILE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors' Profile

Mr. WANG Gen Hai (王根海), aged 61, serves as the chairman and compliance officer of the Company and is responsible for leading the Company's overall strategic planning and development. Prior to joining the Company, Mr. Wang was the general manager of Taiyuan Changcheng Optics and Electronics Industrial Corporation (太原長城光電子工業公司) ("Taiyuan Changcheng") for about 17 years. Mr. Wang has about 20 years of experience in research and general management in the fibre optic industry. Mr. Wang graduated from the Shanxi Mining College (山西礦業學院) in 1976.

Mr. LI Kang Sheng (李抗勝), aged 63, is responsible for overseeing the production and the technical function of the Company. Mr. Li has over 30 years of experience in research and general management in the fibre optic industry. Prior to joining the Company in 2000, Mr. Li was with Taiyuan Changcheng for about 30 years. Mr. Li graduated with a degree in radio engineering from the Tianjin University (天津大學) in 1968.

Mr. TIAN Qun Xu (田群戌), aged 70, is responsible for overseeing the research and development function of the Company. Mr. Tian has over 30 years of experience in research and general management in the optical glass industry. Prior to joining the Company, he was with Taiyuan Changcheng for almost 40 years. Mr. Tian graduated from the Taiyuan Industrial Professional School (太原工業專科學校) in 1961.

Non-executive Director's Profile

Mr. LIN Yin Ping (林殷平), aged 43, serves as the vice chairman of the Company. Mr. Lin does not take part in the daily management and operation of the Company. Mr. Lin has over 10 years of experience in corporate investment and finance. Prior to joining the Company, Mr. Lin was with Shenzhen International Investment Securities Company Limited (深圳國投證券有限公司) as an investment banker. Mr. Lin graduated with a master degree in politics and economics from the Guangdong Provincial Social Science College (廣東省社會科學院).

Independent Non-executive Directors' Profile

Mr. NI Guo Qiang (倪國強), aged 62, is the chief professor of the optic technology doctorate programme in Beijing Institute of Technology (北京理工大學). Mr. Ni graduated with a doctorate degree in optical and electrical engineering from the Beijing Institute of Technology (北京理工大學) in 1989.

Mr. SHEN Ming Hong (沈明宏), aged 40, is the chief executive of International New Economy Investment Company Limited (國科新經濟投資有限公司). Mr. Shen graduated with a master degree from the Hefei Industrial University (合肥工業大學).

Mr. LI Li Cai (黎禮才), aged 68, has over 30 years of experience in corporate management and investment. Mr. Li graduated from the Wuhan Iron & Steel Institute (武漢鋼鐵學院).

Ms. CHEN Yue Jie (陳月潔), aged 35, is a qualified accountant registered in the PRC. Ms. Chen graduated from the Shanxi University of Finance and Economics (山西省財經大學).

PROFILE DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Supervisors' Profile

Mr. ZHANG Fu Sheng (張府生), aged 57, is the assistant manager of Taiyuan Changcheng. Mr. Zhang is also the supervisor (監事) of the labour union (聯工代表監事) of Taiyuan Changcheng since 1996.

Mr. MENG Yan (孟焰), aged 53, is the dean of the faculty of accountancy in the Chinese Central Finance University (中國中央財經大學). Mr. Meng graduated with a doctorate degree in accountancy from the China Financial Science Research Institute (中國財政科學研究所).

Mr. WANG Guang Hua (王光華), aged 48, is the head of a workshop of the Company. Prior to joining the Company, he has been with Taiyuan Changcheng since 1988.

Mr. BAI Yin Quan (白銀泉), aged 43, is a supervisor of Shanxi Certified Public Accountants (山西會計師事務所). Mr. Bai is a registered accountant in the PRC and has over 10 years of experience in accounting and finance. Mr. Bai graduated with a degree in Finance from the Northeastern Finance University (東北財經大學) in 1988.

Senior Management's Profile

Ms. HE Ling Xian (和玲仙), aged 57, is the financial controller of the Company. Ms. He is a qualified accountant and a registered accountant in the PRC. Prior to joining the Company, she was with an accounting firm in Shanxi. She graduated from the Chinese Communist Central College (中共中央學校) in 1995.

Mr. ZHU Au Ying (朱歐英), aged 56, is the production manager of the Company. Prior to joining the Company, Mr. Zhu was responsible for production management in Taiyuan Changcheng for almost 30 years.

Mr. FAN Ji Min (范繼民), aged 47, is the technical improvement manager of the Company. Prior to joining the Company, Mr. Fan was with Taiyuan Changcheng since 1981. Mr. Fan graduated from the Shanxi Provincial Electronics School (山西省電子工業學校) in 1981.

Mr. XIE An Ye (解安業), aged 41, is the secretary of the Board of the Company and is responsible for the management and administration of the Company. Prior to joining the Company, he was with Taiyuan Changcheng from 1990 to 2000. Mr. Xie graduated with a professional qualification in applied electronic technology from the Technological Management University (中國科技經營管理大學) in 1989.

Mr. GUO Zhi Hong (郭志宏), aged 42, is the administration manager of the Company. Prior to joining the Company, Mr. Guo was with Taiyuan Changcheng from 1989 to 2000. Mr. Guo graduated with a degree in physics from the Shanxi University (山西大學) in 1989.

Mr. LAU Tak Yuen, Lewis (劉德元), aged 39, is the qualified accountant of the Company. Mr. Lau has over 13 years experience in accounting and auditing and is a member of The Hong Kong Institute of Certified Public Accountants.

REPORT OF THE DIRECTORS

The Directors have the pleasure to present the annual report together with the audited financial statements of the Company for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

Details of the Company's segmental information for the year ended 31 December 2007 are set out in note 6 to the accompanying financial statements.

RESULTS AND APPROPRIATIONS

Details of the Company's results for the year ended 31 December 2007 are set out in the accompanying financial statements.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2007 (2006: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of results and the assets and liabilities of the Company for the past five financial years is set out in the section headed "Financial Summary" on page 65 of this annual report.

RESERVES

Movements in the reserves of the Company during the year are set out in the Statement of Changes in Equity on page 27 of this annual report.

The Company had reserves of approximately RMB32,986,000 (2006: RMB21,126,000) available for dividend distribution to shareholders as at 31 December 2007.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year ended 31 December 2007.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not purchased, sold or redeemed any of its listed securities during the year ended 31 December 2007.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company are set out in note 12 to the accompanying financial statements.

STAFF RETIREMENT PLANS

All members of staff are entitled to participate in the public welfare fund, which was set up for the purpose of ensuring that the participating employees will have sufficient means to support their living after retirement. For the year ended 31 December 2007, the Company reported employer's staff retirement cost charged to the income statement of approximately RMB1,678,000 (2006: RMB1,503,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2007, the five largest customers accounted for approximately 98% (2006: 98%) of the Company's total turnover and the five largest suppliers of the Company accounted for approximately 79% (2006: 76%) of the Company's total purchase. The largest customer of the Company accounted for approximately 51% (2006: 52%) of the Company's total turnover while the largest supplier of the Company accounted for approximately 26% (2006: 16%) of the Company's total purchase.

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

CONNECTED TRANSACTIONS

For the years ended 31 December 2006 and 2007, the Company had several continuing connected transactions in relation to the lease of lands and properties and provision of building management services from Taiyuan Changcheng Optics and Electronics Industrial Corporation, a substantial shareholder, to the Company which were exempt from all the reporting, announcement and independent shareholders' approval requirement under Chapter 20 of the Rules Governing the Listing of Securities on GEM ('the GEM Listing Rules"). The Company also had connected transactions in relation to the deposits paid to Taiyuan Tanghai Automatic Control Company Limited for acquisition of property, plant and equipment.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The Directors who held office during the year ended 31 December 2007 and up to the date of this annual report were:

Executive Directors
Mr. Wang Gen Hai
Mr. Li Kang Sheng
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
Ms. Chen Yue Jie

The Supervisors who held office during the year ended 31 December 2007 and up to the date of this annual report were:

Supervisors
Mr. Zhang Fu Sheng
Mr. Meng Yan
Mr. Wang Guang Hua
Mr. Bai Yin Quan

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, supervisors and senior management are set out on pages 7 to 8 of this annual report.

EMOLUMENTS OF THE DIRECTORS AND SUPERVISORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the Directors' and Supervisors' emoluments and of the five highest paid individuals in the Company are set out in notes 8 and 9 to the accompanying financial statements.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS

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

Each of the supervisors of the Company has entered into an appointment contract with the Company with effect from 10 November 2003 to 9 November 2006 whereby each of the supervisors was appointed subject to termination on certain circumstance as stipulated in the relevant appointment contract. The said appointment contracts shall continue until terminated by either party.

Save as disclosed above, none of the Directors and supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND SUPERVISORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2007, none of the Directors or supervisors of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, so far as the Directors are aware, persons other than Directors or supervisors of the Company who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, 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*
Domestic Shares:					
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 & 2)*	41.34%	–	26.61%
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares *(Notes 2)*	41.34%	–	26.61%
Taiyuan Changcheng Optics and Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	–	25.95%
Dandong Shuguang Industrial Group Company Limited	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	17.10%	–	11.01%

REPORT OF THE DIRECTORS

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*
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares *(Notes 3)*	17.10%	–	11.01%
Lui Gui Ying	Family interest	34,000,000 domestic shares *(Notes 3)*	17.10%	–	11.01%
Taiyuan Tanghai Automatic Control Company Limited	Registered and beneficial owner of the domestic shares	24,900,000 domestic shares	12.52%	–	8.06%
Shen Gang	Interest in a controlled corporation	24,900,000 domestic shares *(Notes 4)*	12.52%	–	8.06%
Ma Fong Ping	Family interest	24,900,000 domestic shares *(Notes 4)*	12.52%	–	8.06%
H Shares:					
Kwong Tat Finance Limited	Beneficial owner of H shares	34,155,000 H shares *(Notes 5)*	–	31.05%	11.06%
Liu Li, Luis	Beneficial owner of H shares and interest in a controlled corporation	35,055,000 H shares *(Notes 5)*	–	31.87%	11.35%
Lu Jun	Family interest	35,055,000 H shares *(Notes 5)*	–	31.87%	11.35%

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

REPORT OF THE DIRECTORS

Notes:

1. Part of these domestic shares (24,900,000 domestic shares) is registered in the name of Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai"). Taiyuan Tanghai is owned as to approximately 36.37% by Beijing Gensir Venture Capital Management Limited ("Beijing Gensir"). As Beijing Gensir is entitled to exercise of control the exercise of one-third or more of the voting power at the general meeting or 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.

2. Part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir. Beijing Gensir is owned as to 100% by Zhang Shao Hui. The rest of these shares are registered in the name of Taiyuan Tanghai in which Zhang Shao Hui has an indirect interest through his shareholdings in Beijing Gensir. As Zhang Shao Hui 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, Zhang Shao Hui 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.

3. 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 spouse 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.

4. 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 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 spouse of Shen Gang, is taken to be interested in the shares held by Shen Gang 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. Lu Jun, as the spouse of Liu Li, Luis, is taken to be interested in all 35,055,000 H shares held by Liu Li, Luis and Kwong Tat Finance Limited by virtue of Part XV of the SFO.

Save as disclosed above, the Directors are not aware of other person who, as at 31 December 2007, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

SHARE OPTION SCHEME

The Company does not have share option scheme.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

During the year ended 31 December 2007, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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 year.

REPORT OF THE DIRECTORS

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed, 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 year ended 31 December 2007 or at any time during the year.

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 annual results of the Company for the year ended 31 December 2007.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

CONFIRMATION OF INDEPENDENCE BY INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company confirms that it has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rules 5.09 of the GEM Listing Rules and considers, based on the confirmations received, the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE

The Company has published its Corporate Governance Report, details of which are set out on pages 18 to 21 of this annual report.

COMPETING INTERESTS

None of the Directors, supervisors and the management 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 year ended 31 December 2007.

REPORT OF THE DIRECTORS

AUDITORS

The Company's auditors, Grant Thornton retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors
Shanxi Changcheng Microlight Equipment Co. Limited
Mr. Wang Gen Hai
Chairman

Shanxi, the People's Republic of China, 28 March 2008

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company is committed to maintaining a high standard of corporate governance. The corporate governance principles of the Company emphasise a quality board, sound internal control, transparency and accountability to all shareholders.

The Board has reviewed the Company's corporate governance practices and is of the opinion that the Company has met the code provisions set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules except that (1) a remuneration committee was not established by the Company; and (2) directors are not subject to retirement by rotation at least once every three years.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board consider appropriate.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has 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 year ended 31 December 2007. Having 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 of the Company.

BOARD OF DIRECTORS

The composition of the Board and the biographical details of the Directors are set out in the Report of the Directors on pages 9 to 17 and the section headed "Profile of Directors, Supervisors and Senior Management" on pages 7 to 8 of this annual report.

During the year ended 31 December 2007, the Board held four physical meetings and the attendance of the Directors is as follows:

Name of director	**Number of attendance in person**	**% of attendance**
Mr. Wang Gen Hai	4/4	100%
Mr. Li Kang Sheng	4/4	100%
Mr. Tian Qun Xu	4/4	100%
Mr. Lin Yin Ping	0/4	0%
Mr. Ni Guo Qiang	4/4	100%
Mr. Shen Ming Hong	4/4	100%
Mr. Li Li Cai	4/4	100%
Ms. Chen Yue Jie	4/4	100%

CORPORATE GOVERNANCE REPORT

The Board is responsible for the overall management of the Company in accordance with the Articles and is entitled to delegate its powers to any executive Director, committees of the Board and the management team. The Board is primarily responsible for approving and monitoring the Company's major corporate matters, the evaluation of the performance of the Company and oversight of the management.

All existing Directors (including executive, non-executive, and independent non-executive Directors) are appointed for a term of three years, and are subject to election for appointment by shareholders at the general meeting by the end of the three-year period. All Directors of the Company are not retired by rotation at least once every three years due to the Board is reviewing the corporate governance structure and shall make necessary arrangement in due course.

The Company has received the annual confirmation of independence from all the independent non-executive Directors pursuant to Rule 5.09 of the GEM Listing Rules and considered them to be independent.

To the knowledge of the Directors, the Board members have no financial, business, family or other material/relevant relationships with each other.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and the chief executive officer of the Company are segregated and are not exercised by the same individual. Mr. Wang Gen Hai, an executive Director, is the chairman of the board of Director and Mr. Li Kang Sheng, an executive Director, is the chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

Except for Ms. Chen Yue Jie, each of the non-executive Director and the independent non-executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from 10 November 2003. For Ms. Chen Yue Jie, the service contract with the Company is for a fixed term of three years commencing from 20 April 2004. The said service contracts shall continue thereafter until terminated by either party after the expiration of the fixed term of three-year 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 principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures 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.

CORPORATE GOVERNANCE REPORT

The audit committee met four times during the year ended 31 December 2007 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Ni Guo Qiang	4/4	100%
Mr. Shen Ming Hong	4/4	100%
Mr. Li Li Cai	4/4	100%
Ms. Chen Yue Jie	4/4	100%

During the year ended 31 December 2007, the audit committee discharged its duties by reviewing the financial matters, quarterly, interim and annual financial reports and financial statements as well as audit matters of the Company, discussing with executive Directors, management and the auditors of the Company, and making recommendations to the Board.

The audited financial statements for the year ended 31 December 2007 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

The remuneration committee has not yet been established by the Company due to the restricted availability of time for most of the independent non-executive Directors.

NOMINATION OF DIRECTORS

The Company currently does not have any plan to set up the nomination committee considering the small size of the Board. The Board is responsible for considering the suitability of an individual to act as a Director, and approving and terminating the appointment of a Director.

AUDITORS' REMUNERATION

The external auditors provide audit service to the Company during the year ended 31 December 2007. The remuneration of the external auditors for the provision of audit service during the year under review is RMB375,000. No non-audit service has been provided by the external auditors to the Company during the year ended 31 December 2007.

PREPARATION OF FINANCIAL STATEMENTS

The respective responsibilities of the Directors and the auditors for preparing financial statements of the Company are set out in the Independent Auditor's Report on page 23 of this annual report.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROLS

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal control system to safeguard the interests of shareholders and the Company's assets.

REPORT OF THE SUPERVISORY COMMITTEE

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

The supervisory committee of the Company, in compliance with the provision of the Companies Law of the People's Republic of China, the relevant laws and regulations of Hong Kong and the Articles of Association of the Company, under their fiduciary duty, took up an active role to work reasonably and cautiously with diligence to protect the interests of the Company and its shareholders.

During the year, the supervisory committee had monitored and supervised the Company's management in making significant policies and decisions and reviewed the financials of the Company and provided reasonable suggestions and opinions to the Board of Directors.

The supervisory committee is satisfied with the achievement of the Company in 2007 and has great confidence in the future of the Company.

By order of the Supervisory Committee
Shanxi Changcheng Mircolight Equipment Co. Ltd.

Zhang Fu Sheng
Chairman

Shanxi, the People's Republic of China
28 March 2008

INDEPENDENT AUDITORS' REPORT

Grant Thornton
均富

Certified Public Accountants
Member of Grant Thornton International

To the shareholders of Shanxi Changcheng Microlight Equipment Co. Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the financial statements of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") set out on pages 25 to 64, which comprise the balance sheet as at 31 December 2007, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

28 March 2008

INCOME STATEMENT

for the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Revenue	5	**50,318**	41,956
Cost of sales		**(20,793)**	(19,475)
Gross profit		**29,525**	22,481
Other income	5	**501**	655
Selling and distribution expenses		**(375)**	(870)
Administrative expenses		**(10,910)**	(9,981)
Impairment loss on interest in an associate		**(2,465)**	–
Other operating expenses		**(345)**	(710)
Operating profit		**15,931**	11,575
Share of profit of an associate		**7**	7
Profit before income tax	7	**15,938**	11,582
Income tax expense	10	**(2,760)**	(1,802)
Profit for the year		**13,178**	9,780
Earnings per share for profit attributable to the equity holders of the Company during the year	11		
– Basic		**RMB0.043**	RMB0.032
– Diluted		**N/A**	N/A

BALANCE SHEET

as at 31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*12*	**37,041**	29,196
Land use rights	*13*	**16,420**	16,773
Deposits for acquisition of property, plant and equipment		**19,525**	14,186
Interest in an associate	*14*	**615**	3,073
		73,601	63,228
Current assets			
Due from shareholders	*15*	**8,027**	5,214
Due from a related company	*16*	**18**	–
Due from a director	*17*	**41**	133
Inventories	*18*	**3,797**	3,096
Trade receivables	*19*	**11,739**	13,416
Prepayments, deposits and other receivables		**199**	5,850
Tax recoverable		**–**	191
Financial assets at fair value through profit or loss	*20*	**271**	171
Cash and cash equivalents	*21*	**11,085**	2,828
		35,177	30,899
Current liabilities			
Due to directors	*17*	**94**	71
Trade payables	*22*	**343**	266
Tax payable		**84**	–
Accrued liabilities, deposits received and other payables		**5,054**	4,765
		5,575	5,102
Net current assets		**29,602**	25,797
Total assets less current liabilities		**103,203**	89,025
Non-current liability			
Deferred government grants	*23*	**11,360**	10,360
Net assets		**91,843**	78,665
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	*24*	**30,886**	30,886
Reserves	*25*	**60,957**	47,779
Total equity		**91,843**	78,665

Wang Gen Hai
Director

Tian Qun Xu
Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2007

	Equity attributable to equity holders of the Company					
	Share capital RMB'000 *(Note 24)*	**Capital surplus*** RMB'000 *(Note 25)*	**Statutory surplus reserve*** RMB'000 *(Note 25)*	**Statutory public welfare fund*** RMB'000 *(Note 25)*	**Retained earnings*** RMB'000	**Total equity** RMB'000
At 31 December 2005	30,886	18,561	4,744	2,372	12,322	68,885
Profit for the year	–	–	–	–	9,780	9,780
Total recognised income and expense for the year	–	–	–	–	9,780	9,780
Transfer from retained earnings to statutory surplus reserve	–	–	976	–	(976)	–
Transfer from statutory public welfare fund to statutory surplus reserve	–	–	2,372	(2,372)	–	–
At 31 December 2006 and 1 January 2007	30,886	18,561	8,092	–	21,126	78,665
Profit for the year	–	–	–	–	13,178	13,178
Total recognised income and expense for the year	–	–	–	–	13,178	13,178
Transfer from retained earnings to statutory surplus reserve	–	–	1,318	–	(1,318)	–
At 31 December 2007	**30,886**	**18,561**	**9,410**	**–**	**32,986**	**91,843**

* *These reserve accounts comprise the reserve of RMB60,957,000 (2006: RMB47,779,000) in the balance sheet.*

CASH FLOW STATEMENT

for the year ended 31 December 2007

	Notes	**2007 RMB'000**	2006 RMB'000
Cash flows from operating activities			
Profit before income tax		**15,938**	11,582
Adjustments for :			
Depreciation	*7*	**1,580**	2,701
Amortisation of land use rights	*7*	**353**	353
Amortisation of deferred government grants	*5*	**(300)**	(300)
Fair value gain on financial assets at fair value through profit or loss	*5*	**(100)**	(69)
Interest income	*5*	**(23)**	(245)
Dividend income from financial assets at fair value through profit or loss		**(25)**	(17)
Loss on disposal of property, plant and equipment	*7*	**–**	376
Share of profit of an associate		**(7)**	(7)
Impairment loss on interest in an associate		**2,465**	–
Written off of other receivables	*7*	**180**	–
Write back of allowance for doubtful trade receivables	*5*	**–**	(4)
Operating profit before working capital changes		**20,061**	14,370
Increase in amount due from shareholders		**(2,813)**	(3,399)
Increase in amount due from a related company		**(18)**	–
Net movement in balances with the directors		**115**	(21)
(Increase)/decrease in inventories		**(701)**	1,903
Decrease/(Increase) in trade receivables		**1,677**	(3,548)
Decrease/(increase) in prepayments, deposits and other receivables		**5,471**	(4,746)
Increase/(decrease) in trade payables		**77**	(55)
Increase in accrued liabilities, deposits received and other payables		**289**	587
Cash generated from operations		**24,158**	5,091
Income taxes paid		**(2,485)**	(2,370)
Net cash from operating activities		**21,673**	2,721

CASH FLOW STATEMENT

for the year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
Cash flows from investing activities			
Purchases of property, plant and equipment		**(8,393)**	(13,657)
Government grants received	*23*	**1,300**	500
Proceeds from disposal of property, plant and equipment		**–**	5
Deposit paid for acquisition of property, plant and equipment		**(6,371)**	(6,704)
Interest received		**23**	245
Dividend income from financial assets at fair value through profit or loss		**25**	17
Net cash used in investing activities		**(13,416)**	(19,594)
Net increase/(decrease) in cash and cash equivalents		**8,257**	(16,873)
Cash and cash equivalents at 1 January		**2,828**	19,701
Cash and cash equivalents at 31 December		**11,085**	2,828

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

1. GENERAL INFORMATION

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

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

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

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

The financial statements of the Company on pages 25 to 64 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by The Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

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

The financial statements for the year ended 31 December 2007 were approved for issue by the board of directors on 28 March 2008.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

2. ADOPTION OF NEW OR AMENDED HKFRSs

(a) Adoption of new or amended HKFRSs

From 1 January 2007, the Company has adopted all the new and amended HKFRSs that are first effective on 1 January 2007 and relevant to its operations. The adoption of these new and amended HKFRSs did not result in significant changes to the Company's accounting policies, but gave rise to additional disclosures. In particular, the impact of the adoption of HKFRS 7 Financial Instruments: Disclosures and HKAS 1 (Amendment): Capital Disclosures has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital.

(b) New or amended HKFRSs that have been issued but are not yet effective

The Company has not early adopted the following standards and intepretations that have been issued but are not yet effective for the year ended 31 December 2007.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[5]
Amendment to HKFRS 2	Share-based Payment – Vesting conditions and cancellations[1]
HKFRS 3 (Revised)	Business Combinations – Comprehensive revision on applying the acquisition method[5]
HKFRS 8	Operating Segments[1]
HK(IFRIC)-Int 11	HKFRS 2 – Company and Treasury Share Transactions[2]
HK(IFRIC)-Int 12	Service Concession Arrangements[3]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

Notes:

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 January 2008

4 Effective for annual periods beginning on or after 1 July 2008

5 Effective for annual periods beginning on or after 1 July 2009

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Company's financial statements.

Amendment to IAS 1 Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. Preparers will have the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). This amendment does not affect the financial position or results of the Company but will give rise to additional disclosures. Management is currently assessing the detailed impact of this amendment on the Company's financial statements.

The directors of the Company are currently assessing the impact of the other new standards and interpretations but are not yet in a position to state whether they would have material impact on the Company's financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

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 and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

(b) Associates

Associates are those entities over which the Company is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture.

Investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Company's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Company's share of the associate's net assets less any identified impairment loss.

Unrealised gains on transactions between the Company and its associates are eliminated to the extent of the Company's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

(c) Foreign currencies

The financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In the financial statements of the Company, foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Revenue recognition

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

(i) Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;

(ii) Interest income is recognised on a time-proportion basis using the effective interest method and;

(iii) Dividend income is recognised when the right to receive the payment has been established.

(e) Property, plant and equipment

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

Depreciation is calculated on the straight-line method to write off the cost of property, plant and equipment, less any estimated residual values, over the following estimated useful lives:

Medium term leasehold building	10 years or over the lease terms, whichever is shorter
Leasehold improvements	10 years or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture and fixtures	5 years
Motor vehicles	5 years

The assets' estimated residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss arising on retirement or disposal of an item of property, plant and equipment recognised in the income statement is determined as the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Prepaid land lease payments

Prepaid land lease payments represents up-front payments to acquire the land use rights/ leasehold land. They are stated at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the lease term except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets.

(g) Impairment of assets

The Company's deposits, land use rights, property, plant and equipment and interest in an associate are subject to impairment testing. They are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

Operating lease charges as the lessee

Where the Company has the use of assets held under operating leases, payments made under the leases are charged to the income statement on a straight line basis over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Affiliated costs, such as maintenance and insurance, are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets

The Company's accounting policies for financial assets other than interest in an associate are set out below.

Financial assets other than hedging instruments are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss includes financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Financial assets *(Continued)*

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised.

A provision for impairment on loans and receivables carried at amortised cost is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the loans and receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the loans and receivables are impaired. If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the loans and receivables is reduced through the use of an allowance account, and the amount of the loss is recognised in income statement for the period in which the impairment occurs.

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement for the period in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis, and in the case of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any estimated cost to be incurred to completion and applicable selling expenses.

(k) Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

(l) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Retirement benefit costs and short term employee benefits

Pursuant to the relevant regulations of the PRC government, the employees of the Company are required to participate in a central pension scheme operated by the local municipal government (the "CPS"). The Company is required to contribute a certain percentage of its basic salaries to the CPS to fund the benefits. The only obligation to the Company with respect to the CPS is to pay the ongoing required contributions under the CPS. Contributions under the CPS are charged to the income statement as they become payable in accordance with the rules of the CPS.

Short-term employee benefits are recognised for the number of paid leave days (usually holiday entitlement) remaining at the balance sheet date. They are included in accrued liabilities and other payables at the undiscounted amount that the Company expects to pay as a result of the unused entitlement.

(n) Financial liabilities

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Trade and other payables

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(o) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate and are presented separately from the costs. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected useful lives of the related assets.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Research and development cost

Costs associated with research activities are expensed in the income statement as they occur. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements :

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the intangible asset will generate probable economic benefits through internal use or sale;

(iii) sufficient technical, financial and other resources are available for completion; and

(iv) the intangible asset can be reliably measured.

Direct costs include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated projects developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

All other development costs are expensed as incurred.

(q) Related parties

A party is considered to be related to the Company if:

(i) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company, or of any entity that is a related party of the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Provisions, contingent liabilities and contingent assets

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Company are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Probable inflows of economic benefits to the Company that do not yet meet the recognition criteria of an asset are disclosed as contingent assets.

(s) Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year are discussed below:

Net realisable value of inventories

These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management will reassess the estimations at the balance sheet date.

Impairment and written off of receivables and advances

The policy for the impairment of receivables and advances of the Company is based on, where appropriate, the evaluation of collectibility and ageing analysis of accounts and on the management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables and advances, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Company were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

When the Company's management determines the debtors are uncollectible, they are written off against the allowance account for the debtors.

Depreciation and amortisation

The Company depreciates the property, plant and equipment and amortise the prepaid land lease payments in accordance with the accounting policies stated in note 3(e) and note 3(f) respectively. The estimated useful lives reflect the directors' estimate of the periods that the Company intends to derive future economic benefits from the use of these assets.

Provision for taxes

The Company is mainly subject to various taxes in the PRC including corporate income tax. Significant judgement is required in determining the amount of the provision for taxes and the timing of payment of related taxes. The Company recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Impairment of assets (other than financial assets)

The Company assesses whether there are any indicators of impairment for assets at each reporting date. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and determines a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

5. REVENUE AND OTHER INCOME

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

An analysis of the Company's revenue and other income recognised during the year is as follows:

	2007	2006
	RMB'000	RMB'000
Revenue:		
Sale of goods	**50,318**	41,956
Other income:		
Amortisation of deferred government grants	**300**	300
Government grants	**50**	20
Bank interest income	**23**	65
Other interest income on financial assets stated at amortised cost	**–**	180
Write back of allowance for doubtful trade receivables	**–**	4
Fair value gain on held for trading financial assets at fair value through profit or loss	**100**	69
Dividend income from held for trading financial assets at fair value through profit or loss	**25**	17
Others	**3**	–
	501	655

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

6. SEGMENT INFORMATION

As over 90% of the turnover and the profit from operating activities of the Company for the years ended 31 December 2007 and 2006 are generated from the manufacture and sale of optical fibre products, no further segment information by business activity has been presented.

The Company has determined that geographical segment based on the location of customers is its primary segment reporting format. The Company's operating businesses are organised and managed separately, according to the location of the customers. In determining the Company's geographical segments, revenues and results are attributed based on the location of the customers. Over 90% of the Company's assets are located in the PRC. In Europe, the customers comprise those in Netherlands.

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

	Hong Kong		PRC		Europe		Total	
	2007 RMB'000	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000	**2007 RMB'000**	2006 RMB'000
Segment revenue :								
Sales to external customers	**19,469**	16,709	**5,191**	4,015	**25,658**	21,232	**50,318**	41,956
Segment results	**11,279**	8,672	**3,007**	2,046	**14,864**	10,893	**29,150**	21,611
Other income							**501**	655
Administrative expenses							**(10,910)**	(9,981)
Impairment loss on interest in an associate							**(2,465)**	–
Other operating expenses							**(345)**	(710)
Operating profit							**15,931**	11,575
Share of profit of an associate							**7**	7
Profit before income tax							**15,938**	11,582
Income tax expense							**(2,760)**	(1,802)
Profit for the year							**13,178**	9,780

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

7. PROFIT BEFORE INCOME TAX

	2007 RMB'000	2006 RMB'000
Profit before income tax is arrived at after charging:		
Auditors' remuneration	**375**	340
Cost of inventories sold	**20,793**	19,475
Staff costs (including directors' and supervisors' emoluments – Note 8) :		
Wages, salaries and other benefits	**8,323**	6,679
Pension scheme contributions	**1,678**	1,503
	10,001	8,182
Depreciation	**1,580**	2,701
Amortisation of land use rights	**353**	353
Net foreign exchange loss	**305**	138
Research and development costs	**232**	558
Minimum lease payments under operating lease rentals in respect of:		
Land and buildings	**720**	672
Loss on disposal of property, plant and equipment	**–**	376
Written off of other receivables *(Note 28(iv))*	**180**	–

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Directors' and supervisors' remuneration for the year disclosed pursuant to the GEM Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2007 RMB'000	2006 RMB'000
Directors		
Fees	**–**	–
Other emoluments		
Salaries, allowances and benefits in kind	**548**	599
Pension scheme contributions	**11**	9
	559	608

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

The emoluments of each director, on a named basis, are set out below:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2007				
Executive directors				
Wang Gen Hai	**–**	**220**	**11**	**231**
Tian Qun Xu	**–**	**148**	**–**	**148**
Li Kang Sheng	**–**	**60**	**–**	**60**
Non executive directors				
Lin Yin Ping	**–**	**48**	**–**	**48**
Ni Guo Qiang#	**–**	**24**	**–**	**24**
Shen Ming Hong#	**–**	**12**	**–**	**12**
Li Li Cai#	**–**	**24**	**–**	**24**
Chen Yue Jie#	**–**	**12**	**–**	**12**
	–	**548**	**11**	**559**
2006				
Executive directors				
Wang Gen Hai	–	265	9	274
Tian Qun Xu	–	163	–	163
Li Kang Sheng	–	75	–	75
Non executive directors				
Lin Yin Ping	–	48	–	48
Ni Guo Qiang#	–	12	–	12
Shen Ming Hong#	–	12	–	12
Li Li Cai#	–	12	–	12
Chen Yue Jie#	–	12	–	12
	–	599	9	608

Independent non-executive directors

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

	2007	2006
	RMB'000	RMB'000
Supervisors		
Fees	**–**	–
Other emoluments		
Salaries, allowances and benefits in kind	**14**	14
	14	14

The emoluments of each supervisor, on a named basis, are set out below:

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
2007				
Zhang Fu Sheng	**–**	**2**	**–**	**2**
Meng Yan	**–**	**5**	**–**	**5**
Wang Guang Hua	**–**	**2**	**–**	**2**
Bai Yin Quan	**–**	**5**	**–**	**5**
	–	**14**	**–**	**14**
2006				
Zhang Fu Sheng	–	2	–	2
Meng Yan	–	5	–	5
Wang Guang Hua	–	2	–	2
Bai Yin Quan	–	5	–	5
	–	14	–	14

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

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

Included in staff costs is key management personnel compensation which comprises the following categories:

	2007 RMB'000	2006 RMB'000
Short term employee benefits	**562**	613
Post-employment benefits	**11**	9
	573	622

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Company for the year included two (2006: three) directors, details of whose remuneration are reflected in the analysis presented in note 8 above. Details of the remuneration of the remaining three (2006: two) non-director, highest paid employees for the year are as follows:

	2007 RMB'000	2006 RMB'000
Salaries and allowances	**438**	388
Pension scheme contributions	**11**	9
	449	397

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

	2007 RMB'000	2006 RMB'000
I	**102**	113
II	**186**	–
III	**161**	284
	449	397

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

10. INCOME TAX EXPENSE

	2007	2006
	RMB'000	RMB'000
Current tax		
– PRC	**2,760**	1,802

No Hong Kong profits tax has been provided as the Company had no estimated assessable profits arising in Hong Kong for the year ended 31 December 2007 (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 year.

According to the applicable corporate income tax law of the PRC, the Company, which operates in the high technology industrial development zone in Taiyuan (太原高新技術產業開發區), the PRC, and which is registered as a high technology development enterprise, is entitled to a concessionary corporate income tax rate of 15%, which has been applied for the two years ended 31 December 2006 and 2007.

Reconciliation between tax expense applicable to profit before income tax using the applicable rate in the PRC to the tax expense at the applicable tax rate is as follows:

	2007	2006
	RMB'000	RMB'000
Profit before income tax	**15,938**	11,582
Tax at applicable tax rate of 33% (2006: 33%)	**5,260**	3,822
Effect of concessionary rate granted by local authority and others, net	**(2,498)**	(2,018)
Effect of share of after tax profit of an associate	**(2)**	(2)
Income tax expense	**2,760**	1,802

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of RMB13,178,000 (2006: RMB9,780,000) and 308,860,000 (2006: 308,860,000) shares in issue during the year.

No diluted earnings per share amounts have been presented for the two years ended 31 December 2007 and 2006 as there was no dilutive potential share during the years.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold building	Leasehold improvements	Plant and machinery	Furniture and fixtures	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RBM'000	RMB'000	RMB'000	RMB'000
At 31 December 2005							
Cost	2,539	781	18,782	2,911	1,436	7,010	33,459
Accumulated depreciation	(1,291)	(346)	(9,695)	(2,602)	(1,369)	–	(15,303)
Net book amount	1,248	435	9,087	309	67	7,010	18,156
Year ended 31 December 2006							
Opening net book amount	1,248	435	9,087	309	67	7,010	18,156
Additions	–	–	808	149	–	13,165	14,122
Disposals	–	(349)	(32)	–	–	–	(381)
Depreciation	(254)	(78)	(1,851)	(458)	(60)	–	(2,701)
Closing net book amount	994	8	8,012	–	7	20,175	29,196
At 31 December 2006							
Cost	2,539	432	19,502	3,060	1,436	20,175	47,144
Accumulated depreciation	(1,545)	(424)	(11,490)	(3,060)	(1,429)	–	(17,948)
Net book amount	994	8	8,012	–	7	20,175	29,196
Year ended 31 December 2007							
Opening net book amount	994	8	8,012	–	7	20,175	29,196
Additions	–	–	459	58	–	8,908	9,425
Depreciation	(254)	(8)	(1,307)	(4)	(7)	–	(1,580)
Closing net book amount	740	–	7,164	54	–	29,083	37,041
At 31 December 2007							
Cost	2,539	432	19,961	3,118	1,436	29,083	56,569
Accumulated depreciation	(1,799)	(432)	(12,797)	(3,064)	(1,436)	–	(19,528)
Net book amount	740	–	7,164	54	–	29,083	37,041

The leasehold building of the Company is located at No.212 Nanneihuan Street, Taiyuan City, Shanxi Province in the PRC. The land use right to which the medium term leasehold building attached is held by Taiyuan Changcheng and is leased to the Company for use under an operating lease (Note 27).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

13. LAND USE RIGHTS

The Company's interests in land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2007	2006
	RMB'000	RMB'000
At beginning of the year		
Cost	**17,634**	17,634
Accumulated amortisation	**(861)**	(508)
Net book value	**16,773**	17,126
For the year ended		
Opening net book value	**16,773**	17,126
Additions	**–**	–
Amortisation	**(353)**	(353)
Closing net book value	**16,420**	16,773
At end of the year		
Cost	**17,634**	17,634
Accumulated amortisation	**(1,214)**	(861)
Net book value	**16,420**	16,773

The Company's land use rights are situated in the PRC and are held under medium term leases.

14. INTEREST IN AN ASSOCIATE

	2007	2006
	RMB'000	RMB'000
Share of net assets	**3,193**	3,186
Due to an associate	**(113)**	(113)
	3,080	3,073
Less: Provision for impairment	**(2,465)**	–
	615	3,073

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

14. INTEREST IN AN ASSOCIATE *(Continued)*

Particulars of the associate at 31 December 2007 are as follows:

Name	Business structure	Place of registration and operation	Particulars of registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
Shanxi Huayuan Transport Optical Technology and Engineering Company Limited *#	Corporate	PRC	RMB11,000,000	36.36%	Development of fibre optic intelligent transport system business in the PRC

* *Not audited by Grant Thornton*

\# *Registered as a limited liability company under the PRC law*

The amount due to an associate is unsecured, interest-free and not repayable within one year.

During the year ended 31 December 2007, the Company recognised an impairment loss of RMB2,465,000 (2006: Nil) in respect of the interest in an associate as the management expected an uncertain industrial development in relation to the associate. The recoverable amount of the associate has been determined based on a value in use calculation, using a discount rate of 10%.

A summary of the results for the years ended 31 December 2007 and 2006, and of the assets and liabilities of the associate at the respective balance sheet date is set out below:

	2007 RMB'000	2006 RMB'000
Total revenue	**1,389**	2,744
Profit for the year	**20**	18
Total assets	**11,346**	11,179
Total liabilities	**690**	541

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

15. DUE FROM SHAREHOLDERS

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

Name	2007 RMB'000	2006 RMB'000
Taiyuan Changcheng	7,899	5,139
Taiyuan Tanghai	128	75
	8,027	5,214

The maximum amounts outstanding during the years are as follows :

Name	2007 RMB'000	2006 RMB'000
Taiyuan Changcheng	8,046	5,139
Taiyuan Tanghai	128	75

The increase in the balance with Taiyuan Changcheng in current year was mainly attributable to the fund advanced to Taiyuan Changcheng.

The amounts due from shareholders are unsecured, interest-free and repayable on demand.

16. DUE FROM A RELATED COMPANY

Details of the amount due from a related company are set out below:

Name	2007 RMB'000	2006 RMB'000
Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei")	18	–

The maximum amount outstanding during the years is as follows :

Name	2007 RMB'000	2006 RMB'000
Taiyuan Huamei	927	–

The amount due from a related company is unsecured, interest-free and repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

17. BALANCES WITH DIRECTORS

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

Name	2007 RMB'000	Maximum amount outstanding during the year RMB'000	2006 RMB'000
Wang Gen Hai	**41**	133	133

Balances with directors are unsecured, interest-free and repayable on demand.

18. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**830**	569
Work in progress	**1,773**	1,761
Finished goods	**1,194**	766
	3,797	3,096

19. TRADE RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**12,235**	13,912
Less: Allowance for impairment	**(496)**	(496)
	11,739	13,416

The directors of the Company are of the opinion that no further allowance for impairment of trade receivables is necessary as there was no recent history of default in respect of these trade debtors.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

19. TRADE RECEIVABLES *(Continued)*

The movements in allowance for impairment of trade receivables are as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**496**	500
Reversal of allowance	**–**	(4)
At 31 December	**496**	496

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

	2007	2006
	RMB'000	RMB'000
0 – 90 days	**11,184**	11,361
91 – 180 days	**436**	2,006
181 – 365 days	**119**	49
	11,739	13,416

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 credit control policy in place to minimise its credit risk. Overdue balances are regularly reviewed by management.

An ageing analysis of the Company's net trade receivables that are not considered to be impaired is as follows:

	2007	2006
	RMB'000	RMB'000
Neither past due nor impaired	**5,247**	7,841
Less than 6 months past due	**6,373**	5,526
6 to 12 months past due	**119**	49
	11,739	13,416

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2007	2006
	RMB'000	RMB'000
Held for trading :		
Fair value of interest in unlisted investment fund	**271**	171

The financial assets at fair value through profit or loss of the Company as at the balance sheet date, which are stated at their fair value, represent interest in an unlisted investment fund registered in the PRC. The fair value is determined with reference to the quoted price provided by the investment fund.

21. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2007	2006
	RMB'000	RMB'000
Cash at bank and in hand	**11,085**	2,828

Included in cash and cash equivalents of the Company is RMB11,020,000 (2006: RMB2,783,000) of cash balances denominated in RMB placed with banks in the PRC and held in hand.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange businesses.

Cash at bank earns interest at floating rates based on daily bank deposit rates.

22. TRADE PAYABLES

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

	2007	2006
	RMB'000	RMB'000
0 – 90 days	**298**	194
91 – 180 days	**7**	30
181 – 365 days	**1**	5
Over 365 days	**37**	37
	343	266

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

23. DEFERRED GOVERNMENT GRANTS

	Notes	RMB'000
At 1 January 2006		
Cost		10,360
Accumulated amortisation		(200)
Net carrying amount		10,160
Year ended 31 December 2006		
Opening net carrying amount		10,160
Additions	*(a)*	500
Amortisation		(300)
Closing net carrying amount		10,360
At 1 January 2007		
Cost		**10,860**
Accumulated amortisation		**(500)**
Net carrying amount		**10,360**
Year ended 31 December 2007		
Opening net carrying amount		**10,360**
Additions	*(b)*	**1,300**
Amortisation		**(300)**
Closing net carrying amount		**11,360**
At 31 December 2007		
Cost		**12,160**
Accumulated amortisation		**(800)**
Net carrying amount		**11,360**

Notes:

(a) The balance of RMB500,000 represented subsidies granted by the Taiyuan Ministry of Finance for the development of the Company's business expansion project in the Taiyuan Economic and Technology Development Zone, the PRC (the "Project").

(b) The balance of RMB1,300,000 comprised (i) subsidies of RMB400,000 granted by the Taiyuan Ministry of Finance and the Taiyuan Foreign Trade Bureau (太原市外經貿廳) for enhancing the Company's facilities for development of foreign trade and (ii) subsidies of RMB900,000 granted by the Taiyuan Ministry of Finance and the Taiyuan City Science and Technology Bureau (太原市科技局) for enhancing the Company's facilities for development of foreign trade and research and development.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

24. SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2006: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2006: 110,000,000) H shares of RMB0.10 each	**11,000**	11,000
	30,886	30,886

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.

25. RESERVES

The amounts of the Company's reserves and the movements therein for the current and prior years are presented in the statement of changes in equity on page 27.

The statutory reserves consist of the statutory surplus reserve and the statutory public welfare fund:

(a) Statutory surplus reserve

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

(b) Statutory public welfare fund

Starting from 1 January 2006, pursuant to certain amendments of the PRC Company Laws, the Company is not allowed to establish the statutory public welfare fund. Thus, the balance of statutory public welfare fund of the Company was transferred to statutory surplus reserve during the year ended 31 December 2006 and the balance of the statutory public welfare fund as at 31 December 2007 is Nil (2006: Nil).

The capital surplus of the Company represents the excess of the issue price over the nominal value of the Company's shares issued at a premium.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

26. NOTE TO THE CASH FLOW STATEMENT

Major non-cash transactions

During the year ended 31 December 2007, the Company had the following major non-cash transactions:

(i) A deposit of RMB1,032,000 (2006: RMB465,000) paid in the prior year for acquisition of property, plant and equipment was capitalised as property, plant and equipment.

(ii) Rental expenses and management fee incurred to Taiyuan Changcheng in an aggregate amount of RMB1,680,000 were settled by the current account with Taiyuan Changcheng (2006: RMB672,000).

27. COMMITMENTS

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

(i) Capital commitments

	Note	2007 RMB'000	2006 RMB'000
Contracted, but not provided for			
– Buildings		**28,794**	10,143
– Plant and machinery		**5,952**	8,860
		34,746	19,003
Authorised, but not contracted for			
– Establishment of a joint venture	*(a)*	**15,000**	15,000

Note:

(a) On 18 September 2002, the Company entered into a letter of intent with Shanxi Economic and Trade Limited Liability Company to establish a joint venture, which the Company will own a 60% interest, for the development of the Project (Note 23). 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 leased its office properties and land use right from Taiyuan Changcheng under operating lease arrangements (the "Taiyuan Changcheng Lease") for terms ranging from five to thirty years with an option to renew the lease and renegotiate the terms at the expiry dates or at dates mutually agreed between the Company and Taiyuan Changcheng. None of the leases include contingent rentals.

Pursuant to the first supplementary agreement entered into during the year ended 31 December 2007, the total rent per annum was increased from RMB672,000 to RMB720,000.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

27. COMMITMENTS *(Continued)*

(ii) Operating lease commitments *(Continued)*

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases payable for leasehold land and building by the Company are as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**666**	672
In the second to fifth years, inclusive	**2,664**	2,488
After five years	**12,519**	11,991
	15,849	15,151

Subsequent to the year ended 31 December 2007, the second supplementary agreement (the "Second Supplementary Agreement") is entered into which principally revises the Taiyuan Changcheng Lease to a term of period expiring on 31 December 2010.

(iii) Other commitments

During the year ended 31 December 2007, the Company entered into a management services agreement with Taiyuan Changcheng in connection with the Taiyuan Changcheng Lease (the "Taiyuan Changcheng Management Services Agreement"). Pursuant to the Taiyuan Changcheng Management Services Agreement, Taiyuan Changcheng is entitled to charge the Company a management fee of RMB960,000 per annum in respect of provision of management services in connection with the leased office properties and land use right under the Taiyuan Changcheng Lease.

At the balance sheet date, the total other commitments in respect of management fees payable by the Company are as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**960**	–
In the second to fifth years, inclusive	**3,840**	–
After five years	**19,200**	–
	24,000	–

Pursuant to the Second Supplementary Agreement, the Taiyuan Changcheng Management Services Agreement is revised to a term of period expiring on 31 December 2010.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

28. RELATED PARTY TRANSACTIONS

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

	Note	2007 RMB'000	2006 RMB'000
Rental expenses incurred to a shareholder	*(i)*	**720**	672
Management fee expenses incurred to a shareholder	*(ii)*	**960**	–

Notes:

(i) The rental expenses incurred to Taiyuan Changcheng are for the leases of the office premises and a land use right. The rental expenses incurred to Taiyuan Changcheng were based on mutually agreed terms.

(ii) The management fee expenses incurred to Taiyuan Changcheng are for the services provided regarding management services and maintenance of the leased office properties and land use right. The management fee expenses incurred to Taiyuan Changcheng were based on mutually agreed terms.

(iii) As at 31 December 2007, a deposit of RMB1,408,940 (2006: RMB1,109,000) was paid by the Company to Taiyuan Tanghai for acquisition of property, plant and equipment and was included in "Deposits for acquisition of property, plant and equipment" in the balance sheet.

(iv) There is an advance of RMB5 million to an investment company in the PRC which was unsecured, bore interest at 3.6% per annum and repayable within one year from the balance sheet date for the year ended 31 December 2006. This amount was included in "Prepayments, deposits and other receivables" in the balance sheet as at 31 December 2006. During the year ended 31 December 2007, the advance of RMB5 million is repaid by the investment company through Taiyuan Huamei, a related company. In the opinion of the directors, the interest receivable amounted to RMB180,000 due from the investment company is uncollectible and is written off during the year.

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.

The related party transactions in respect of the items (i), (ii) and (iii) above constitute connected transactions and/or continuing connected transactions as defined in GEM Listing Rules.

29. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for the shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristic of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2007 amounted to approximately RMB91,843,000 (2006: RMB78,665,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Company is exposed to market risk (including principally changes in interest rates and currency exchange rates), credit risk and liquidity risk. The Company currently does not have any written risk management policies and guidelines. However, the board of directors meets periodically and cooperates closely with key management to analyse and formulate strategies to manage and monitor market risk. Generally, the Company employs conservative strategies regarding its risk management. As the Company's exposure to market risk is not significant, the Company has not used any derivatives and other instruments for hedging purposes. The Company does not hold or issue derivative financial instruments for trading purposes.

(a) Foreign currency risk

The Company is exposed to foreign currency risk on transaction that is in a currency other than its functional currency. The currencies giving rise to this risk are primarily Hong Kong dollars ("HKD") and United States dollars ("USD").

The following table details the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the Company's functional currency.

	2007	2006
Trade receivables	**US$1,274,000**	US$1,459,000
Cash and cash equivalents	**HK$69,000**	HK$68,000
Other payables	**US$177,000**	US$55,000

Sensitivity analysis

The sensitivity analysis has been determined assuming that the reasonably possible change in foreign exchange rate had occurred at the balance sheet date and had been applied to the Company's exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant. The assumed changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date with reference to the historical trend of RMB against USD and HKD. A 5% (strengthening)/weakening of RMB against USD and HKD at the balance sheet date would (decrease)/increase in the Company's profit after tax and retained profits by the amount shown below. Changes in foreign exchange rates have no impact on the Company's other components of equity.

	2007 (Loss)/Profit RMB'000	2006 (Loss)/Profit RMB'000
5% (strengthening)/weakening of RMB against		
USD	**(340)/340**	(463)/463
HKD	**(3)/3**	(3)/3

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

(b) Interest rate risk

The Company's exposure to interest rate risk mainly arises on bank deposits but the exposure is not significant. The Company has not used any derivative contracts to hedge its exposure to interest rate risk or formulated a policy to manage the interest rate risk.

Sensitivity of the Company's profit after tax and retained earnings to a reasonably possible change in the interest rate until the next annual balance sheet date is assessed to be immaterial. Changes in interest rates have no impact on other components of equity.

(c) Credit risk

The maximum credit risk exposure of the financial assets is summarised in note(g) below. The credit risk on cash and cash equivalents is limited as the Company has deposited its cash principally with various banks in Hong Kong and the PRC.

The Company has significant concentration of credit risk arising from its ordinary course of business due to its relatively small customer bases and limited counterparties involved. This credit risk mainly arises from the Company's trade and other receivables and their respective carrying amount has been disclosed in note(g) below. The Company reviews the recoverable amount of each individual debtor at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. There is no requirement for collaterals by the Company.

(d) Liquidity risk

The Company's policy is to regularly monitor its liquidity requirements to ensure that the Company maintains sufficient level of cash and cash equivalents to meet its liquidity requirements and finance its operations.

The maturity profile of the Company's financial liabilities as at the balance sheet dates, based on the contractual undiscounted payments, was as follows:

2007

	On demand RMB'000	Within 6 months RMB'000	6 to 12 months RMB'000	Total RMB'000
Trade payables	–	305	38	343
Other payables	–	1,453	1,027	2,480
Due to directors	94	–	–	94
	94	**1,758**	**1,065**	**2,917**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

2006

	On demand RMB'000	Within 6 months RMB'000	6 to 12 months RMB'000	Total RMB'000
Trade payables	–	224	42	266
Other payables	–	982	1,021	2,003
Due to directors	71	–	–	71
	71	1,206	1,063	2,340

(e) Fair value

The fair values of current financial assets and financial liabilities are not materially different from their carrying amounts because of their immediate or short term maturity.

(f) Other pricing risk

The Company has interest in unlisted investment fund which is measured at fair value at each balance sheet date. Therefore, the Company is exposed to its price risk. The Company monitors the price movements and take appropriate actions when it is required. Sensitivity of the Company's profit after tax and retained earnings to a reasonably possible change in the unit price until the next annual balance sheet date is assessed to be immaterial. Changes in prices have no impact on other components of equity.

(g) Summary of financial assets and liabilities by category

The carrying amounts of the Company's financial assets and liabilities as recognised at balance sheet dates are also analysed into the following categories. See notes 3(i) and 3(n) for explanations about how the category of financial instruments affects their subsequent measurement.

	2007 RMB'000	2006 RMB'000
Financial assets		
Financial assets measured at amortised cost:		
Loans and receivables:		
– Trade receivables	**11,739**	13,416
– Other receivables	**129**	5,401
Cash and cash equivalents	**11,085**	2,828
Due from shareholders	**8,027**	5,214
Due from a related company	**18**	–
Due from directors	**41**	133
Financial assets measured at fair value:		
Financial assets at fair value through profit or loss	**271**	171
	31,310	27,163

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2007

30. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES *(Continued)*

(g) Summary of financial assets and liabilities by category *(Continued)*

	2007 RMB'000	2006 RMB'000
Financial liabilities		
Financial liabilities measured at amortised cost:		
Trade payables	**343**	266
Other payables	**2,480**	2,003
Due to directors	**94**	71
	2,917	2,340

31. PENDING LITIGATION

As at 31 December 2007, the Company was one of the defendants in a pending litigation and dispute arising from a subcontracting agreement with a subcontractor. The subcontractor claims against the defendants including the Company for (i) enforcement of the subcontracting agreement and (ii) losses and damages suffered by the subcontractor in the sum of RMB1.5 million. After taking into account of legal advices from the Company's legal advisors, the directors consider that the Company has a good defence against such claim and no provision has been made in the financial statements.

FINANCIAL SUMMARY

The following is a summary of results and the assets and liabilities of the Company for the five years ended 31 December 2007.

	Year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**50,318**	41,956	29,491	34,968	30,766
Profit from operations	**18,396**	11,575	5,125	12,214	11,145
Share of profit/(loss) of an associate	**7**	7	10	7	(30)
Impairment loss on interest in an associate	**(2,465)**	–	–	–	–
Profit before tax	**15,938**	11,582	5,135	11,406	10,560
Tax	**(2,760)**	(1,802)	(1,534)	(2,099)	(1,801)
Profit for the year	**13,178**	9,780	3,601	9,307	8,759
Net profit attributable to equity holder of the Company	**13,178**	9,780	3,601	9,307	8,759

	As at 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**108,778**	94,127	83,951	81,824	54,124
Total liabilities	**(16,935)**	(15,462)	(15,066)	(16,540)	(14,622)
Total equity	**91,843**	78,665	68,885	65,284	39,502

Notes: Certain comparative amounts have been restated due to the adoption of the new or revised standards and interpretations of Hong Kong Financial Reporting Standards effective from 1 January 2005.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an annual general meeting ("**AGM**") of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "**Company**") will be held at No. 212 Nanneihuan Street, Taiyuan City, Shanxi Province, the People's Republic of China (the "**PRC**") on 26 May 2008 at 4:00 p.m. for the following purposes:

I. As ordinary resolutions:

1. to consider and approve the report of the directors of the Company for the year ended 31 December 2007;
2. to consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2007;
3. to consider and approve the audited financial statements of the Company for the year ended 31 December 2007;
4. to consider and approve the re-appointment of Grant Thornton as the auditors of the Company for the year 2008 with a term of office until the conclusion of the next AGM and to authorise the board of directors to fix their remunerations; and
5. to discuss any other issues.

By order of the Board
Wang Gen Hai
Chairman

Taiyuan City, Shanxi Province, the PRC, 28 March 2008

Notes:

1. Any shareholder of the Company entitled to attend and vote at the AGM mentioned above is entitled to appoint one or more proxies to attend and vote at the AGM on his or her behalf in accordance with the articles of association of the Company. A proxy needs not be a shareholder of the Company.
2. In order to be valid, a proxy form of holder of H Shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the Tricor Standard Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong ("the Company's Share Registrar") not less than 24 hours before the time for holding the AGM or 24 hours before the time appointed for taking the poll.
3. In order to be valid, a proxy form of holder of domestic shares and, if such proxy form is signed by a person under a power of attorney or other authority on behalf of the appointer, a notarially certified copy of that power of attorney or authority shall be deposited at the registered address of the Company not less than 24 hours before the time for holding the AGM or 24 hours before the time appointed for taking the poll.
4. Shareholders of the Company or their proxies shall produce documents of their proof of identity when attending the AGM.
5. A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote by poll.
6. The register of shareholders of the Company will be closed from 25 April 2008 to 23 May 2008 (both days inclusive), during which no transfer of shares will be registered. As regards holders of H Shares and in order to ascertain the entitlement to attendance at the AGM, all properly completed transfer forms accompanied by the relevant share certificate must be lodged with the Company's Share Registrar not later than 24 April 2008 at 4:00 p.m. for registration.
7. Shareholders of the Company who intend to attend the AGM have to notify in writing of their attendance by sending such notice to the Company by hand, post or fax (fax number: 86 351 706 5996) not later than 5 May 2008.
8. Registered address of the Company and the contact details of the Company are as follows:

   No. 212 Nanneihuan Street
   Taiyuan City
   Shanxi Province
   The PRC
   Fax number: 86 351 706 5996
9. The AGM is expected to last for about half a day. Shareholders or proxies are reminded that any expenses in transportation, accommodation and meals will be incurred at their own cost.