



山西長城微光器材股份有限公司

Shanxi Changcheng Microlight Equipment Co. Ltd.*

(a joint stock limited company incorporated in the People's Republic of China) (Stock Code: 8286)

INTERIM REPORT 2008

*For identification only

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

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

The board of Directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) hereby announce the unaudited results of the Company for the three months and six months ended 30 June 2008, together with the comparative figures for the corresponding period in 2007 as follows:

INCOME STATEMENT

For the three months and six months ended 30 June 2008

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	2	10,590	12,899	21,208	23,750
Cost of sales		(5,769)	(4,939)	(11,324)	(9,748)
Gross profit		4,821	7,960	9,884	14,002
Other incomes		130	103	180	107
Reversal of impairment loss on interest in an associate		319	–	319	–
Selling and distribution expenses		(53)	(81)	(121)	(148)
General and administrative expenses		(2,934)	(3,910)	(6,237)	(7,640)
Operating profit	4	2,283	4,072	4,025	6,321
Share of (loss)/profit of an associate		(162)	69	(319)	(61)
Profit before income tax		2,121	4,141	3,706	6,260
Income tax expense	5	(283)	(657)	(543)	(994)
Profit for the period		1,838	3,484	3,163	5,266
Earnings per share for profit attributable to the equity holders of the Company during the period					
– Basic (in RMB)	7	0.006	0.011	0.010	0.017
– Diluted (in RMB)	7	N/A	N/A	N/A	N/A

BALANCE SHEET*As at 30 June 2008*

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
<i>Notes</i>		
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	46,658	37,041
Land use rights	16,244	16,420
Deposits for acquisition of property, plant and equipment	20,609	19,525
Interest in an associate	615	615
	<u>84,126</u>	<u>73,601</u>
Current assets		
Due from shareholders	5,911	8,027
Due from a related company	3,132	18
Due from a director	141	41
Inventories	4,847	3,797
Trade receivables	8 12,185	11,739
Prepayments, deposits and other receivables	270	199
Financial assets at fair value through profit or loss	207	271
Cash and cash equivalents	1,452	11,085
	<u>28,145</u>	<u>35,177</u>
Current liabilities		
Due to directors	44	94
Trade payables	9 337	343
Tax payable	42	84
Accruals, deposits received and other payables	5,632	5,054
	<u>6,055</u>	<u>5,575</u>
Net current assets	<u>22,090</u>	<u>29,602</u>
Total assets less current liabilities	106,216	103,203
Non-current liability		
Deferred government grants	11,210	11,360
Net assets	<u>95,006</u>	<u>91,843</u>
EQUITY		
Equity attributable to the Company's equity holders		
Share capital	30,886	30,886
Reserves	64,120	60,957
Total equity	<u>95,006</u>	<u>91,843</u>

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Share capital RMB'000	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total equity RMB'000
At 1 January 2007	30,886	18,561	8,092	21,126	78,665
Profit for the period	-	-	-	5,266	5,266
At 30 June 2007	30,886	18,561	8,092	26,392	83,931
At 1 January 2008	30,886	18,561	9,410	32,986	91,843
Profit for the period	-	-	-	3,163	3,163
At 30 June 2008	30,886	18,561	9,410	36,149	95,006

CASH FLOW STATEMENT*For the six months ended 30 June 2008*

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Net cash inflow from operating activities	1,929	9,439
Net cash outflow from investing activities	(11,562)	(7,581)
(Decrease)/Increase in cash and cash equivalents	(9,633)	1,858
Cash and cash equivalents at 1 January	11,085	2,828
Cash and cash equivalents at 30 June	1,452	4,686

NOTES**1. Basis of preparation**

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

The principal accounting policies and methods of computation used in the preparation of these accounts are consistent with those adopted in the preparation of the annual accounts for the year ended 31 December 2007.

2. Revenue

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

3. Segment information

The Company has determined that geographical segment based on the location of customers is its primary segment reporting format. The following table presents revenue and profit information for each of the Company's geographical segments for the six months ended 30 June 2007 and 2008:

	Hong Kong		PRC		Europe		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:								
Sales to external customers	8,271	10,279	4,640	3,050	8,297	10,421	21,208	23,750
Segment results	3,740	5,976	2,263	1,798	3,760	6,080	9,763	13,854
Other incomes							180	107
Reversal of impairment loss on interest in an associate							319	-
General and administrative expenses							(6,237)	(7,640)
Operating profit							4,025	6,321
Share of loss of an associate							(319)	(61)
Profit before income tax							3,706	6,260
Income tax expense							(543)	(994)
Profit for the period							3,163	5,266

4. Profit before income tax

For the six months ended 30 June	
2008	2007
RMB'000	RMB'000

Profit before income tax is arrived at after charging:

Cost of inventories sold	11,324	9,748
Depreciation	860	790
Amortisation of land use rights	176	176

5. **Income tax expense**

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax – PRC	543	994

No Hong Kong profits tax has been provided as the Company had no assessable profits arising in Hong Kong during the six months ended 30 June 2008 (For the six months ended 30 June 2007: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Company operates, based on existing legislation, interpretations and practices in respect thereof during the period.

6. **Dividend**

The Board does not recommend the payment of a dividend for the six months ended 30 June 2008 (For the six months ended 30 June 2007: Nil).

7. **Earnings per share**

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the three months and six months ended 30 June 2008 approximately of RMB1,838,000 and RMB3,163,000 respectively (For the three months and six months ended 30 June 2007: RMB3,484,000 and RMB5,266,000 respectively) and 308,860,000 shared in issue during the period.

No diluted earnings per share amounts have been presented for the three months and six months ended 30 June 2007 and 2008 as there was no dilutive potential share during the period.

8. **Trade receivables**

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

	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0 – 90 days	7,910	11,184
91 – 180 days	4,256	436
181 – 365 days	19	119
	12,185	11,739

9. Trade payables

An ageing analysis of trade payables is as follows:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
0 – 90 days	256	298
91 – 180 days	–	7
181 – 365 days	44	1
Over 365 days	37	37
	337	343

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 and to focus on improving its competitiveness and maintaining its position as a leading image transmission fibre optic products manufacturer in the PRC.

Financial Review

The Company reported a turnover of approximately RMB21,208,000 for the six months ended 30 June 2008, representing a decrease of 10.7% from approximately RMB23,750,000 for the same period in 2007.

During the six months ended 30 June 2008, the Company recorded cost of sales amounting to approximately RMB11,324,000, representing an increase of 16.2% from approximately RMB9,748,000 for the same period in 2007.

General and administrative expenses of the Company for the six months ended 30 June 2008 was approximately RMB6,237,000 (For the six month ended 30 June 2007: RMB7,640,000), which represented a decrease of 18.4% as compared to the same period in 2007.

The Company's unaudited profits attributable to equity holders of the Company for the six months ended 30 June 2008 was approximately RMB3,163,000 (For the six month ended 30 June 2007: RMB5,266,000).

Liquidity and Financial Resources

As at 30 June 2008, the total assets of the Company increased by approximately RMB3,493,000 to approximately RMB112,271,000 as compared to approximately RMB108,778,000 as at the end of the previous financial year, representing an increase of approximately 3%.

As at 30 June 2008, the total liabilities of the Company increased by approximately RMB330,000 to approximately RMB17,265,000 as compared to approximately RMB16,935,000 as at the end of the previous financial year, representing an increase of approximately 2%.

As at 30 June 2008, the total equity of the Company increased by approximately RMB3,163,000 to approximately RMB95,006,000 as compared to approximately RMB91,843,000 as at the end of the previous financial year, representing an increase of approximately 3%.

Gearing Ratio

As at 30 June 2008, the gearing ratio (defined as total liabilities over total assets) was approximately 15% (31 December 2007: 16%).

Charges of Assets

As at 30 June 2008, the Company did not pledge any of its assets to obtain banking facilities nor have any charge on its assets (31 December 2007: Nil).

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.

OTHER INFORMATION

Directors' and Supervisors' Interests and Short Positions in the Shares, Underlying Shares and Debentures

As at 30 June 2008, 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.

Substantial Shareholders

As at 30 June 2008, 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 (Notes 1 & 2)	41.34%	-	26.61%
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	-	26.61%

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
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%
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares (Note 3)	17.10%	–	11.01%
Lui Gui Ying	Family interest	34,000,000 domestic shares (Note 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 (Note 4)	12.52%	–	8.06%
Ma Fong Ping	Family interest	24,900,000 domestic shares (Note 4)	12.52%	–	8.06%
H Shares:					
Kwong Tat Finance Limited	Beneficial owner of H shares	34,155,000 H shares (Note 5)	–	31.05%	11.06%
Liu Li, Luis	Beneficial owner of H shares and interest in a controlled corporation	35,055,000 H shares (Note 5)	–	31.87%	11.35%
Lu Jun	Family interest	35,055,000 H shares (Note 5)	–	31.87%	11.35%

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

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 or 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 which 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 (路軍), 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 30 June 2008, 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 six months ended 30 June 2008, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2008, none of the Directors or supervisors nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Directors' and Supervisors' Interest in Contracts

No contracts of significance in relation to the Company's business to which the Company was a party and in which a Director and supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2008 or at any time during the period.

Purchase, Sale or Redemption of Shares

The Company has not purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2008.

Audit Committee

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

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

The audit committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2008.

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 six months ended 30 June 2008.

Corporate Governance Practice

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.

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 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.

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 six months ended 30 June 2008. 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.

By order of the Board

Wang Gen Hai

Chairman

Shanxi, the People's Republic of China, 13 August 2008

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