SHANXI CHANGCHENG

Microlight Equipment Co. Ltd.*

山西長城微光器材股份有限公司

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

(Stock Code: 8286)

Annual Report

2008

*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 than other companies listed on the Stock Exchange. 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 of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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.

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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

AUTHORISED REPRESENTATIVES

Mr. Wang Gen Hai
Mr. Tsang Kwok Wai

COMPANY SECRETARY

Mr. Tsang Kwok Wai

AUDIT COMMITTEE

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

AUDITORS

HLB Hodgson Impey Cheng
31st Floor
The Landmark
11 Pedder Street
Central
Hong Kong

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

Taiyuan City Commercial Bank
Hua Xia Bank

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. 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. 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

Taiyuan City, Shanxi Province, the PRC, 30 March 2009

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.

FINANCIAL REVIEW

Turnover of the Company for the year ended 31 December 2008 was approximately RMB44,853,000 (2007: RMB50,318,000), representing a decrease of approximately 11% as compared to the previous financial year. The decrease in the turnover was mainly due to the decrease in the sales to its Europe customers and the appreciation of Renminbi.

Cost of sales of the Company for the year ended 31 December 2008 was approximately RMB23,380,000 (2007: RMB20,793,000), representing an increase of approximately 12% as compared to the previous financial year. The increase in the cost of sales was mainly resulted from the increase in the labor costs and cost of raw materials.

General and administrative expenses of the Company for the year ended 31 December 2008 was approximately RMB14,331,000 (2007: RMB11,255,000), representing an increase of approximately 27% as compared to the previous financial year.

The profit after tax for the year ended 31 December 2008 was approximately RMB3,831,000 (2007: RMB13,178,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the total assets of the Company increased by approximately RMB8,347,000 to approximately RMB117,125,000 as compared to approximately RMB108,778,000 as at the end of the previous financial year, representing an increase of approximately 8%.

As at 31 December 2008, the total liabilities of the Company increased by approximately RMB4,516,000 to approximately RMB21,451,000 as compared to approximately RMB16,935,000 as at the end of the previous financial year, representing a increase of approximately 27%.

As at 31 December 2008, the total equity of the Company increased by approximately RMB3,831,000 to approximately RMB95,674,000 as compared to approximately RMB91,843,000 as at the end of the previous financial year, representing an increase of approximately 4%.

GEARING RATIO

As at 31 December 2008, the gearing ratio (defined as total liabilities over total assets) was approximately 18% (2007: 16%).

SIGNIFICANT INVESTMENT HELD

As at 31 December 2008, the Company held interest in an associate with a carrying amount of RMBNil (2007: RMB615,000).

MANAGEMENT DISCUSSION AND ANALYSIS

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Company had no major acquisition and disposal of subsidiaries during the year ended 31 December 2008.

CHARGE OF ASSETS

As at 31 December 2008, the Company did not pledge any of its assets to obtain banking facilities nor have any charge on its assets.

CONTINGENT LIABILITIES

As at 31 December 2008, the Company had no contingent liabilities.

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 exposed to foreign exchange risk arising from the exposure of RMB against US Dollars and Hong Kong Dollars, respectively.

EMPLOYEE INFORMATION

As at 31 December 2008, the Company had 622 (2007: 542) full-time employees. For the year ended 31 December 2008, the Company reported staff costs of approximately RMB15,520,000 (2007: RMB10,001,000). The Company remunerates its employees based on their experience, performance and value, which they contribute to the Company.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS' PROFILE

Mr. WANG Gen Hai (王根海), aged 62, 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 64, 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 71, 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 44, 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 63, 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 41, 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 69, 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 36, 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 OF 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 54, 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 49, 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 44, 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 58, 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 57, 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 (範繼民), aged 48, 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 42, 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 43, 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.

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 2008.

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 2008 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 2008 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 2008 (2007: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the audited results and of the assets and liabilities of the Company for the past five financial years is set out in the section headed "Financial Summary" on page 62 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 24 of this annual report.

The Company had reserves of approximately RMB36,817,000 (2007: RMB32,986,000) available for dividend distribution to shareholders as at 31 December 2008.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year ended 31 December 2008.

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 2008.

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 2008, the Company reported employer's staff retirement cost charged to the income statement of approximately RMB3,836,000 (2007: 1,678,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2008, the five largest customers accounted for approximately 97% (2007: 98%) of the Company's total turnover and the five largest suppliers of the Company accounted for approximately 67% (2007: 79%) of the Company's total purchases. The largest customer of the Company accounted for approximately 39% (2007: 51%) of the Company's total turnover while the largest supplier of the Company accounted for approximately 20% (2007: 26%) of the Company's total purchases.

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 year ended 31 December 2007 and 2008, the Company had several continuing connected transactions in relation to the lease of lands and properties and provision of building management services from Taiyuan Changchang Optics and Electronics Industrial Corporation, a substantial shareholder of the Company, to the Company which were exempt from all the reporting, announcement and independent shareholder's approval requirement under Chapter 20 of the Rules Governing the Listing of Securities on GEM ("GEM Listing Rules"). The Company also had connected transactions in relation to the purchase of property, plant and equipment from Taiyuan Tanghai Automatic Control Company Limited.

REPORT OF THE DIRECTORS

DIRECTORS AND SUPERVISORS

The Directors who held office during the year ended 31 December 2008 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 2008 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 note 8 and note 9 to the accompanying financial statements respectively.

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS

Except for Ms. Chen Yue Jie, each of the executive Directors, non-executive Directors and the independent non-executive Director 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 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 31 December 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 (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%

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*
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 (Notes 3)	17.10%	–	11.01%
Liu 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.

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 of Taiyuan Tanghai, for the propose of the SFO, Beijing Gensir is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.

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 the 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 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 year ended 31 December 2008, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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 year.

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 2008 or at any time during the year.

REPORT OF THE DIRECTORS

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 2008.

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 16 to 18 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this 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 2008.

AUDITORS

During the year, Grant Thornton resigned as auditors of the Company and HLB Hodgson Impey Cheng were appointed by the directors to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. A resolution for the reappointment of HLB Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors
Shanxi Changcheng Microlight Equipment Co. Limited

Wang Gen Hai
Chairman

Taiyuan City, Shanxi Province, the PRC, 30 March 2009

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

The Company 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 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 of directors of the Company (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 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.

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 15 and the Profile of Directors, Supervisors and Senior Management on pages 7 to 8 of this annual report.

During the year ended 31 December 2008, the Board held six 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	6/6	100%
Mr. Li Kang Sheng	6/6	100%
Mr. Tian Qun Xu	6/6	100%
Mr. Lin Yin Ping	0/6	0%
Mr. Ni Guo Qiang	6/6	100%
Mr. Shen Ming Hong	6/6	100%
Mr. Li Li Cai	6/6	100%
Ms. Chen Yue Jie	6/6	100%

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 and evaluating the performance of the Company.

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 Company is reviewing the composition of the Board.

CORPORATE GOVERNANCE REPORT

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 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 Directors and the independent non-executive Director 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.

The audit committee met four times during the year ended 31 December 2008 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 2008, 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 2008 have been reviewed by the audit committee.

CORPORATE GOVERNANCE REPORT

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.

AUDITOR'S REMUNERATION

The external auditors provide audit service to the Company during the year ended 31 December 2008. The remuneration of the external auditors for the provision of audit service during the year under review is HK$380,000. No non-audit service has been provided by the external auditors to the Company during the year ended 31 December 2008.

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 Auditors' Report on pages 20 to 21 of this annual 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. Limited:

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 shall continue to support and has great confidence in the future of the Company.

By order of the supervisory committee
Shanxi Changcheng Microlight Equipment Co. Limited

Zhang Fu Zheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 30 March 2009

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

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 22 to 61, which comprise the balance sheet as at 31 December 2008, 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 2008 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.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 30 March 2009

INCOME STATEMENT

for the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Revenue	5	**44,853**	50,318
Cost of sales		**(23,380)**	(20,793)
Gross profit		**21,473**	29,525
Other income	5	**608**	501
Selling and distribution expenses		**(605)**	(375)
Administrative expenses		**(13,471)**	(10,910)
Impairment of an interest in an associate	14	**–**	(2,465)
Other operating expenses		**(860)**	(345)
Operating profit		**7,145**	15,931
Share of (loss)/profit of an associate		**(615)**	7
Profit before income tax	7	**6,530**	15,938
Income tax expense	10	**(2,699)**	(2,760)
Profit for the year		**3,831**	13,178
Earnings per share for profit attributable to the equity holders of the Company during the year	11		
– Basic and diluted		**RMB0.012**	RMB0.043

BALANCE SHEET

as at 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**56,707**	37,041
Land use rights	13	**16,068**	16,420
Deposits for acquisition of property, plant and equipment		**11,785**	19,525
Interest in an associate	14	**–**	615
		84,560	73,601
Current assets			
Due from shareholders	15	**6,168**	8,027
Due from a related company	16	**3,311**	18
Due from a director	17	**–**	41
Inventories	18	**7,712**	3,797
Trade receivables	19	**10,631**	11,739
Prepayments, deposits and other receivables		**1,502**	199
Financial assets at fair value through profit or loss	20	**211**	271
Cash and cash equivalents	21	**3,030**	11,085
		32,565	35,177
Current liabilities			
Due to directors	17	**109**	94
Trade payables	22	**1,088**	343
Accrued liabilities, deposits received and other payables		**5,992**	5,054
Tax payable		**1,535**	84
		8,724	5,575
Net current assets		**23,841**	29,602
Total assets less current liabilities		**108,401**	103,203
Non-current liabilities			
Deferred government grants	23	**12,727**	11,360
Net assets		**95,674**	91,843
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	24	**30,886**	30,886
Reserves	25	**64,788**	60,957
Total equity		**95,674**	91,843

Wang Gen Hai
Director

Tian Qun Xu
Director

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008

	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)	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 year	–	–	–	13,178	13,178
Total recognised income for the year	–	–	–	13,178	13,178
Transfer from retained earnings to statutory surplus reserve	–	–	1,318	(1,318)	–
At 31 December 2007 and 1 January 2008	30,886	18,561	9,410	32,986	91,843
Profit for the year	–	–	–	3,831	3,831
Total recognised income for the year	–	–	–	3,831	3,831
At 31 December 2008	**30,886**	**18,561**	**9,410**	**36,817**	**95,674**

* These reserve accounts comprise the reserve of approximately RMB64,788,000 (2007: RMB60,957,000) in the balance sheet.

CASH FLOW STATEMENT

for the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Profit before income tax		**6,530**	15,938
Adjustments for:			
Depreciation	7	**2,526**	1,580
Amortisation of land use rights	7	**352**	353
Amortisation of deferred government grants	5	**(633)**	(300)
Net fair value losses/(gains) on financial assets at fair value through profit or loss	5	**60**	(100)
Interest income	5	**(30)**	(23)
Dividend income from financial assets at fair value through profit or loss	5	**(5)**	(25)
Share of loss/(profit) of an associate		**615**	(7)
Impairment of an interest in an associate		**–**	2,465
Impairment of trade receivables	7	**1,147**	–
Impairment of other receivables	7	**–**	180
Operating profit before working capital changes		**10,562**	20,061
Decrease/(increase) in amounts due from shareholders		**1,859**	(2,813)
Increase in amount due from a related company		**(3,293)**	(18)
Net movement in balances with the directors		**56**	115
Increase in inventories		**(3,915)**	(701)
(Increase)/decrease in trade receivables		**(39)**	1,677
(Increase)/decrease in prepayments, deposits and other receivables		**(1,278)**	5,471
Increase in trade payables		**745**	77
Increase in accrued liabilities, deposits received and other payables		**993**	289
Cash generated from operations		**5,690**	24,158
Income taxes paid		**(1,248)**	(2,485)
Net cash generated from operating activities		**4,442**	21,673
Cash flows from investing activities			
Purchases of property, plant and equipment		**(14,532)**	(8,393)
Government grants received	23	**2,000**	1,300
Deposits paid for acquisition of property, plant and equipment		**–**	(6,371)
Interest received		**30**	23
Dividends received from financial assets at fair value through profit or loss		**5**	25
Net cash used in investing activities		**(12,497)**	(13,416)
Net (decrease)/increase in cash and cash equivalents		**(8,055)**	8,257
Cash and cash equivalents at beginning of the year		**11,085**	2,828
Cash and cash equivalents at end of the year		**3,030**	11,085

1. CORPORATE 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 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). 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 2008 were approved for issue by the board of directors on 30 March 2009.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Company has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no effect on these financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 Financial Instruments: Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) Amendments to HKAS 39 Financial Instruments – Recognition and Measurement and HKFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to HKAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available-for-sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held to maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to HKFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Company has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Company.

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Company's equity instruments to be accounted for as an equity-settled scheme, even if the Company buys the instruments from another party, or the shareholders provide the equity instruments needed. As the Company currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Company.

(c) HK(IFRIC)-Int 12 Service Concession Arrangements

HK(IFRIC)-Int 12 applies to service concession operators and explains how to account for the obligation undertaken and the rights received in service concession arrangements. As the Company is not an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Company.

(d) HK(IFRIC)-Int 14 HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Company has no defined benefit scheme, the interpretation has had no impact on the financial position or results of operations of the Company.

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[1]
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 and HKAS 1 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation and HKAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKAS 39 Amendment	Amendment to HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items[2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes[4]
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC)-Int 17	Distribution of Non-cash Assets to Owners[2]
HK(IFRIC)-Int 18	Transfers of Assets from Customers[3]

2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

Apart from the above, the HKICPA has also issued *Improvements to HKFRSs** which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to HKFRS 5 which is effective for annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

Notes:

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for transfers of assets from customers received on or after 1 July 2009
[4] Effective for annual periods beginning on or after 1 July 2008
[5] Effective for annual periods beginning on or after 1 October 2008

* Improvements to HKFRSs contains amendments to HKFRS 5, HKFRS 7, HKAS 1, HKAS 8, HKAS 10, HKAS 16, HKAS 18, HKAS 19, HKAS 20, HKAS 23, HKAS 27, HKAS 28, HKAS 29, HKAS 31, HKAS 34, HKAS 36, HKAS 38, HKAS 39, HKAS 40 and HKAS 41.

The Company is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application and it is anticipated that the adoption of the above revised and amended standards will not have a significant impact on the results of operations and the financial position of the Company.

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.

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

These financial statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand except when otherwise indicated.

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.

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

(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.

Interests in associates are initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Company's interests in the associates are carried at cost and adjusted for the post-acquisition changes in the Company's share of the associates' 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 interests 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.

(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.

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

(e) Property, plant and equipment *(Continued)*

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.

(f) Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire the land use rights or 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.

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

(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.

(i) Financial assets

The Company's accounting policies for financial assets 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.

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.

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) Income tax

Income tax comprises current income tax and deferred income 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 income 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 income tax liabilities are generally recognised for all taxable temporary differences. Deferred income 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 income 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 income 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 income 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 income 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 comprise cash on hand and at banks which are not restricted as to use.

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.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

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.

Financial liabilities including trade payables, other payables and accruals, amounts due to directors are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(o) Government grants

Grants from 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.

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, (a) controls, is controlled by, or is under common control with, the Company; (b) has an interest in the Company that gives it significant influence over the Company; or (c) 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.

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.

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 write 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

Depreciation and amortisation

The Company depreciates the property, plant and equipment and amortises 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.

Income tax

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.

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:

	2008 **RMB'000**	2007 RMB'000
Revenue:		
Sale of goods	**44,853**	50,318
Other income:		
Amortisation of deferred government grants	**633**	300
Government grants	**–**	50
Bank interest income	**30**	23
Net fair value (losses)/gains on financial assets at fair value through profit or loss	**(60)**	100
Dividend income from financial assets at fair value through profit or loss	**5**	25
Others	**–**	3
	608	501

6. SEGMENT INFORMATION

As over 90% of the revenue and the profit from operating activities of the Company for the years ended 31 December 2008 and 2007 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 France and the Netherlands.

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

	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	**17,309**	19,469	**8,609**	5,191	**18,935**	25,658	**44,853**	50,318
Segment results	**7,549**	11,279	**4,547**	3,007	**8,772**	14,864	**20,868**	29,150
Other income							**608**	501
Administrative expenses							**(13,471)**	(10,910)
Impairment of an interest in an associate							**–**	(2,465)
Other operating expenses							**(860)**	(345)
Operating profit							**7,145**	15,931
Share of (loss)/profit of an associate							**(615)**	7
Profit before income tax							**6,530**	15,938
Income tax expense							**(2,699)**	(2,760)
Profit for the year							**3,831**	13,178

7. PROFIT BEFORE INCOME TAX

	2008 RMB'000	2007 RMB'000
Profit before income tax is arrived at after charging:		
Auditors' remuneration	**336**	375
Cost of inventories sold	**23,380**	20,793
Employee benefit expenses (including directors' and supervisors' remuneration – Note 8):		
Wages, salaries and other benefits	**11,684**	8,323
Pension scheme contributions	**3,836**	1,678
	15,520	10,001
Depreciation of property, plant and equipment	**2,526**	1,580
Amortisation of land use rights (included in administrative expenses)	**352**	353
Net foreign exchange losses	**356**	305
Research and development costs (included in other operating expenses)	**670**	232
Minimum lease payments under operating lease rentals in respect of leasehold land and buildings	**720**	720
Impairment of trade receivables (included in administrative expenses)	**1,147**	–
Impairment of other receivables (included in administrative expenses)	**–**	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:

	2008 RMB'000	2007 RMB'000
Directors		
Fees	**–**	–
Other emoluments		
Salaries, allowances and benefits in kind	**516**	548
Pension scheme contributions	**25**	11
	541	559

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
2008				
Executive directors				
Wang Gen Hai	**–**	**198**	**25**	**223**
Tian Qun Xu	**–**	**135**	**–**	**135**
Li Kang Sheng	**–**	**63**	**–**	**63**
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**
	–	**516**	**25**	**541**
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

Independent non-executive directors

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

	2008 RMB'000	2007 RMB'000
Supervisors		
Fees	–	–
Other emoluments		
Salaries, allowances and benefits in kind	49	14
Pension scheme contributions	13	–
	62	14

The emoluments of each supervisor, 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
2008				
Zhang Fu Sheng	–	2	–	2
Meng Yan	–	5	–	5
Wang Guang Hua	–	37	13	50
Bai Yin Quan	–	5	–	5
	–	49	13	62
2007				
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.

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

Included in employee benefit expenses is key management personnel compensation which comprises the following categories:

	2008 RMB'000	2007 RMB'000
Short term employee benefits	**565**	562
Post-employment benefits	**38**	11
	603	573

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Company for the year included two (2007: two) directors, details of whose remuneration are reflected in the analysis presented in note 8 above. Details of the remuneration of the remaining three (2007: three) non-director, highest paid employees for the year are as follows:

	2008 RMB'000	2007 RMB'000
Salaries and allowances	**216**	438
Pension scheme contributions	**25**	11
	241	449

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

	2008 RMB'000	2007 RMB'000
I	**108**	102
II	**68**	186
III	**65**	161
	241	449

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.

10. INCOME TAX EXPENSE

	2008 RMB'000	2007 RMB'000
Current income tax		
– PRC	**2,699**	2,760

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 2008 (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 year.

According to the applicable corporate income tax law of the PRC, the Company, which operated in the High Technology Industrial Development Zone in Taiyuan (太原高新技術產業開發區), the PRC, and which was registered as a high technology development enterprise, was entitled to a concessionary corporate income tax rate of 15%, which had been applied for the year ended 31 December 2007. During the year ended 31 December 2008, the Company was not entitled to a concessionary corporate income tax rate of 15%. The Company is subject to corporate income tax rate of 25% for the year ended 31 December 2008.

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:

	2008 RMB'000	2007 RMB'000
Profit before income tax	**6,530**	15,938
Tax at applicable tax rate of 25% (2007: 33%)	**1,633**	5,260
Effect of concessionary rate granted by local authority and others, net	**–**	(2,498)
Effect of share of loss/(profit) of an associate	**154**	(2)
Income not subject to tax	**(1)**	–
Expenses not deductible for tax	**109**	–
Under-provision for previous years	**546**	–
Others	**258**	–
Income tax expense	**2,699**	2,760

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of approximately RMB3,831,000 (2007: RMB13,178,000) and 308,860,000 (2007: 308,860,000) shares in issue during the year.

There were no dilutive potential ordinary shares in issue during the years ended 31 December 2008 and 2007.

12. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold building RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
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 carrying amount	994	8	8,012	–	7	20,175	29,196
Year ended 31 December 2007							
Opening net carrying 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 carrying 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 carrying amount	740	–	7,164	54	–	29,083	37,041
Year ended 31 December 2008							
Opening net carrying amount	**740**	**–**	**7,164**	**54**	**–**	**29,083**	**37,041**
Additions	**–**	**–**	**6,957**	**301**	**–**	**14,934**	**22,192**
Transfer from construction in progress to plant and machinery	**–**	**–**	**2,959**	**–**	**–**	**(2,959)**	**–**
Depreciation	**(253)**	**–**	**(2,206)**	**(67)**	**–**	**–**	**(2,526)**
Closing net carrying amount	**487**	**–**	**14,874**	**288**	**–**	**41,058**	**56,707**
At 31 December 2008							
Cost	**2,539**	**432**	**29,877**	**3,419**	**1,436**	**41,058**	**78,761**
Accumulated depreciation	**(2,052)**	**(432)**	**(15,003)**	**(3,131)**	**(1,436)**	**–**	**(22,054)**
Net carrying amount	**487**	**–**	**14,874**	**288**	**–**	**41,058**	**56,707**

The leasehold building of the Company is located at No. 212 Nanneihuan Street, Taiyuan City, Shanxi Province, 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).

13. LAND USE RIGHTS

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

	2008 RMB'000	2007 RMB'000
At beginning of the year		
Cost	**17,634**	17,634
Accumulated amortisation	**(1,214)**	(861)
Net carrying amount	**16,420**	16,773
For the year ended		
Opening net carrying amount	**16,420**	16,773
Amortisation	**(352)**	(353)
Closing net carrying amount	**16,068**	16,420
At end of the year		
Cost	**17,634**	17,634
Accumulated amortisation	**(1,566)**	(1,214)
Net carrying amount	**16,068**	16,420

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

14. INTEREST IN AN ASSOCIATE

	2008 RMB'000	2007 RMB'000
Share of net assets	**2,578**	3,193
Due to an associate	**(113)**	(113)
	2,465	3,080
Less: Provision for impairment	**(2,465)**	(2,465)
	–	615

14. INTEREST IN AN ASSOCIATE *(Continued)*

Particulars of the associate at 31 December 2008 are as follows:

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

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

For the year ended 31 December 2007, the Company recognised a provision for impairment of approximately RMB2,465,000 in respect of the interest in an associate as the management of the Company expected an uncertain industrial development in relation to the associate.

A summary of the financial results for the years ended 31 December 2008 and 2007, and of the assets and liabilities of the associate at the respective balance sheet date is set out below:

	2008 RMB'000	2007 RMB'000
Total revenue	**798**	1,389
(Loss)/Profit for the year	**(2,954)**	20
Total assets	**8,401**	11,793
Total liabilities	**126**	690

15. DUE FROM SHAREHOLDERS

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

Name	2008 RMB'000	2007 RMB'000
Taiyuan Changcheng	**5,809**	7,899
Taiyuan Tanghai	**359**	128
	6,168	8,027

The maximum amounts outstanding during the years are as follows:

Name	2008 RMB'000	2007 RMB'000
Taiyuan Changcheng	**8,384**	8,046
Taiyuan Tanghai	**359**	128

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	2008 RMB'000	2007 RMB'000
Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei")	**3,311**	18

The maximum amounts outstanding during the years are as follows :

Name	2008 RMB'000	2007 RMB'000
Taiyuan Huamei	**3,311**	927

Taiyuan Huamei is a subsidiary of Taiyuan Changcheng, a substantial shareholder of the Company. The amount due from Taiyuan Huamei of approximately RMB3,311,000 as at 31 December 2008 is unsecured, interest-free and repayable on demand, of which an amount of RMB3,000,000 is due on or before 30 September 2010.

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	2008 RMB'000	Maximum amount outstanding during the year RMB'000	2007 RMB'000
Wang Gen Hai	–	165	41

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

18. INVENTORIES

	2008 RMB'000	2007 RMB'000
Raw materials	1,382	830
Work in progress	3,869	1,773
Finished goods	2,461	1,194
	7,712	3,797

19. TRADE RECEIVABLES

	2008 RMB'000	2007 RMB'000
Trade receivables	12,274	12,235
Less: Provision for impairment	(1,643)	(496)
	10,631	11,739

19. TRADE RECEIVABLES *(Continued)*

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

	2008 RMB'000	2007 RMB'000
At 1 January	**496**	496
Impairment losses recognised (Note 7)	**1,147**	–
At 31 December	**1,643**	496

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB1,643,000 (2007: RMB496,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Company does not hold any collateral or other credit enhancements over these balances.

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

	2008 RMB'000	2007 RMB'000
0 – 90 days	**7,229**	11,184
91 – 180 days	**447**	436
181 – 365 days	**2,955**	119
	10,631	11,739

The trading terms with customers are largely on credit. The credit period is generally 30 to 60 days. The Company maintains strict control over its outstanding receivables and has credit control policy in place to minimise its credit risk. The Company has significant concentration of credit risk arising from its ordinary course of business due to its relatively small customer bases. Overdue balances are regularly reviewed by management. Trade receivables are non-interest-bearing.

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

	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	**4,382**	5,247
Less than 6 months past due	**3,294**	6,373
6 to 12 months past due	**2,955**	119
	10,631	11,739

Receivables that were neither past due nor impaired relate to a number of independent customers for whom there were no recent history of default.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008 RMB'000	2007 RMB'000
Held for trading :		
Fair value of interest in unlisted investment fund	**211**	271

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:

	2008 RMB'000	2007 RMB'000
Cash at bank and in hand	**3,030**	11,085

Included in cash and cash equivalents of the Company is approximately RMB2,968,000 (2007: RMB11,020,000) 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 Company is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. TRADE PAYABLES

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

	2008 RMB'000	2007 RMB'000
0 – 90 days	**1,013**	298
91 – 180 days	**7**	7
181 – 365 days	**–**	1
Over 365 days	**68**	37
	1,088	343

The trade payables are non-interest-bearing and are normally settled on 30-days terms.

23. DEFERRED GOVERNMENT GRANTS

	Notes	RMB'000
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	(a)	1,300
Amortisation		(300)
Closing net carrying amount		11,360
At 1 January 2008		
Cost		12,160
Accumulated amortisation		(800)
Net carrying amount		11,360
Year ended 31 December 2008		
Opening net carrying amount		11,360
Additions	(b)	2,000
Amortisation		(633)
Closing net carrying amount		12,727
At 31 December 2008		
Cost		14,160
Accumulated amortisation		(1,433)
Net carrying amount		12,727

Notes:

(a) The balance of RMB1,300,000 comprised (i) subsidies of RMB400,000 granted by the Taiyuan Ministry of Finance (太原市財政局) 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 (太原市財政局) 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.

(b) The subsidies of RMB2,000,000 were granted by the Taiyuan Ministry of Finance (太原市財政局) for enhancing the Company's facilities for development of foreign trade and research and development.

24. SHARE CAPITAL

	2008 RMB'000	2007 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2007: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2007: 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.

(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) Capital surplus

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.

26. NOTE TO THE CASH FLOW STATEMENT

Major non-cash transactions

During the year ended 31 December 2008, the Company had the following major non-cash transactions:

(i) Deposits of approximately RMB7,660,000 (2007: RMB1,032,000) for acquisition of property, plant and equipment were capitalised as property, plant and equipment.

(ii) Rental expenses and management fee incurred to Taiyuan Changcheng in an aggregate amount of approximately RMB1,680,000 (2007: RMB1,680,000) were settled by the current account with Taiyuan Changcheng.

27. COMMITMENTS

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

(i) Capital commitments

	Note	**2008 RMB'000**	2007 RMB'000
Contracted, but not provided for			
– Buildings		**29,805**	28,794
– Plant and machinery		**3,772**	5,952
		33,577	34,746
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 Company's business expansion project in the Taiyuan Economic and Technology Development Zone. The Company's contribution to the joint venture will amount to approximately RMB15,000,000. Up to the date of approval 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.

27. COMMITMENTS *(Continued)*

(ii) Operating lease commitments *(Continued)*

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.

During the year ended 31 December 2008, the second supplementary agreement (the "Second Supplementary Agreement") was entered into which principally revises the Taiyuan Changcheng Lease to a term of lease period expiring on 31 December 2010.

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

	2008 **RMB'000**	2007 RMB'000
Within one year	**720**	666
In the second to fifth years, inclusive	**720**	2,664
After five years	**–**	12,519
	1,440	15,849

(iii) Other commitments

Pursuant to a management services agreement with Taiyuan Changcheng in connection with the Taiyuan Changcheng Lease, 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 premises and a land use right under the Taiyuan Changcheng Lease.

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

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

	2008 **RMB'000**	2007 RMB'000
Within one year	**960**	960
In the second to fifth years, inclusive	**960**	3,840
After five years	**–**	19,200
	1,920	24,000

28. RELATED PARTY TRANSACTIONS

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

	Notes	2008 RMB'000	2007 RMB'000
Rental expenses incurred to a shareholder	(i)	**720**	720
Management fee expenses incurred to a shareholder	(ii)	**960**	960
Purchase of property, plant and equipment from Taiyuan Tanghai	(iii)		
– paid during the year ended 31 December 2007 and included in "Deposits for acquisition of property, plant and equipment" in the balance sheet as at 31 December 2007		**1,408**	1,408
– paid during the year ended 31 December 2008		**1,282**	–
		2,690	1,408

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 premises and a land use right. The management fee expenses incurred to Taiyuan Changcheng were based on mutually agreed terms.

(iii) Purchase of property, plant and equipment from Taiyuan Tanghai was made according to the terms agreed between the contracting parties.

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.

29. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

	2008 RMB'000	2007 RMB'000
Financial assets		
Loans and receivables:		
Due from shareholders	**6,168**	8,027
Due from a related company	**3,311**	18
Due from a director	**–**	41
Trade receivables	**10,631**	11,739
Financial assets included in other receivables	**1,229**	129
Cash and cash equivalents	**3,030**	11,085
Financial assets at fair value through profit or loss:		
– held for trading		
Unlisted investment fund at fair value	**211**	271
	24,580	31,310
Financial liabilities		
Financial liabilities at amortised cost:		
Due to an associate	**113**	113
Due to directors	**109**	94
Trade payables	**1,088**	343
Financial liabilities included in other payables and accruals	**5,845**	2,480
	7,155	3,030

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 foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the Company's functional currency.

	2008	2007
Trade receivables	**US$1,067,000**	US$1,274,000
Cash and cash equivalents	**HK$69,000**	HK$69,000
Other payables	**US$313,000**	US$177,000

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 earnings by the amount shown below. Changes in foreign exchange rates have no impact on the Company's other components of equity.

	2008 **(Loss)/Profit** **RMB'000**	2007 (Loss)/Profit RMB'000
5% (strengthening)/weakening of RMB against		
USD	**(258)/258**	(340)/340
HKD	**(3)/3**	(3)/3

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 does not have significant exposure to interest rate risk. 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 29. 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 29. The Company reviews the recoverable amount of each individual debtor at each balance sheet date to ensure that adequate provision for impairment 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:

2008

	On demand RMB'000	Within 6 months RMB'000	6 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Due to an associate	–	–	–	113	113
Due to directors	109	–	–	–	109
Trade payables	–	1,020	68	–	1,088
Other payables and accruals	162	1,446	4,237	–	5,845
	271	2,466	4,305	113	7,155

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

(d) Liquidity risk *(Continued)*

2007

	On demand RMB'000	Within 6 months RMB'000	6 to 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
Due to an associate	–	–	–	113	113
Due to directors	94	–	–	–	94
Trade payables	–	305	38	–	343
Other payables and accruals	–	1,453	1,027	–	2,480
	94	1,758	1,065	113	3,030

(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) Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios, 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 its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics 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. The Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or process for managing capital during the years ended 31 December 2008 and 2007.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2008 amounted to approximately RMB95,674,000 (2007: RMB91,843,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

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

(g) Capital management *(Continued)*

The Company monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. The Company's policy is to maintain the gearing ratio between 0% and 4%. Net debt includes amount due to an associate, amounts due to directors, trade payables, accrued liabilities, deposits received and other payables, less cash and cash equivalents. Capital includes equity attributable to equity holders of the Company. The gearing ratios as at the balance sheet dates were as follows:

	2008 RMB'000	2007 RMB'000
Due to an associate	**113**	113
Due to directors	**109**	94
Trade payables	**1,088**	343
Accrued liabilities, deposits received and other payables	**5,992**	5,054
Less: Cash and cash equivalents	**(3,030)**	(11,085)
Net debt	**4,272**	N/A
Total capital	**95,674**	91,843
Capital and net debt	**99,946**	N/A
Gearing ratio	**4%**	N/A

FINANCIAL SUMMARY

The following is a summary of the audited results and of the assets and liabilities of the Company for the five years ended 31 December 2008.

	Year Ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**44,853**	50,318	41,956	29,491	34,968
Profit from operations	**7,145**	18,396	11,575	5,125	12,214
Share of profit/(loss) of an associate	**(615)**	7	7	10	7
Impairment of an interest in an associate	**–**	(2,465)	–	–	–
Profit before income tax	**6,530**	15,938	11,582	5,135	11,406
Income tax expense	**(2,699)**	(2,760)	(1,802)	(1,534)	(2,099)
Profit for the year	**3,831**	13,178	9,780	3,601	9,307
Net profit attributable to equity holder of the Company	**3,831**	13,178	9,780	3,601	9,307

	As at 31 December				
	2008	2007	2006	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**117,125**	108,778	94,127	83,951	81,824
Total liabilities	**(21,451)**	(16,935)	(15,462)	(15,066)	(16,540)
Total equity	**95,674**	91,843	78,665	68,885	65,284

Note: 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 Tuesday, 26 May 2009 at 4:00 p.m. for the following purposes:

As ordinary resolutions:

1. to consider and approve the report of the directors of the Company for the year ended 31 December 2008;

2. to consider and approve the report of the supervisory committee of the Company for the year ended 31 December 2008;

3. to consider and approve the audited financial statements of the Company for the year ended 31 December 2008;

4. to consider and approve the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the year 2009 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, 30 March 2009

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 Center, 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.

NOTICE OF ANNUAL GENERAL MEETING

6. The register of shareholders of the Company will be closed from 25 April 2009 to 25 May 2009 (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 2009 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 2009.

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.