2010 Annual Report

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)

* 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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Xiu Sheng *(Chairman)*
Mr. Wang Wen 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

SUPERVISORS

Mr. Zhang Fu Sheng
Mr. Meng Yan
Mr. Wang Guang Hua

COMPLIANCE OFFICER

Mr. Zhang Xiu Sheng

AUTHORISED REPRESENTATIVES

Mr. Zhang Xiu Sheng
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
Chartered Accountants
Certified Public Accountants
31st Floor, Gloucester Tower
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
Industrial and Commercial Bank of China

REGISTERED OFFICE

No. 7 Dianzi Street
Taiyuan City
Shanxi Province
PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

2nd Floor, Kam Lung Commercial Centre
2 Hart Avenue
Tsim Sha Tsui
Kowloon
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 and relocated its operation to the new manufacturing plant during 2010.

The Company reported a turnover approximately RMB64,578,000 for the year of 2010, representing an increase of approximately 10% as compared to the previous financial year. The Company recorded net profits after tax approximately RMB9,336,000 for the year ended 31 December 2010.

Looking forward, the management of the Company will continue to improve the financial performance of the Company by enhancing various management control measures and setting performance targets on different sections of the Company.

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

Sincerely yours,

Zhang Xiu Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 24 March 2011

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 2010 was approximately RMB64,578,000 (2009: RMB58,820,000), representing an increase of approximately 10% as compared to the previous financial year. The increase in the turnover was mainly due to the increase in the demand from its customers.

Cost of sales of the Company for the year ended 31 December 2010 was approximately RMB33,781,000 (2009: RMB30,676,000), representing an increase of approximately 10% as compared to the previous financial year. The increase in the cost of sales was mainly resulted from the increase in the sales and cost of raw materials.

General and administrative expenses of the Company for the year ended 31 December 2010 was approximately RMB15,082,000 (2009: RMB12,255,000), representing an increase of approximately 23% as compared to the previous financial year.

The profit after tax for the year ended 31 December 2010 was approximately RMB9,336,000 (2009: RMB13,332,000).

As at 31 December 2010, the amount due from a shareholder — Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng") was approximately RMB4,444,000. Taiyuan Changcheng agreed to repay its outstanding amount to the Company from the sale proceeds of disposal of its land. Taiyuan Changcheng is in the process to dispose its land and expects to take 12 months to complete the disposal of the land.

As at 31 December 2010, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai") was approximately RMB709,000. Taiyuan Tanghai agreed to repay its outstanding amount to the Company before 31 March 2011. The Company is in the process to discuss with Taiyuan Tanghai relating to the repayment of the outstanding balance.

As at 31 December 2010, the amount due from a related company — Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei") was approximately RMB4,290,000. Taiyuan Changcheng agreed to repay the outstanding amount due from Taiyuan Huamei to the Company from the sale proceeds of disposal of its land. Taiyuan Changcheng is in the process to dispose its land and expects to take 12 months to complete the disposal of the land.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the total assets of the Company increased by approximately RMB23,818,000 to approximately RMB156,590,000 as compared to approximately RMB132,772,000 as at the end of the previous financial year, representing an increase of approximately 18%.

As at 31 December 2010, the total liabilities of the Company increased by approximately RMB14,482,000 to approximately RMB38,248,000 as compared to approximately RMB23,766,000 as at the end of the previous financial year, representing an increase of approximately 61%.

As at 31 December 2010, the total equity of the Company increased by approximately RMB9,336,000 to approximately RMB118,342,000 as compared to approximately RMB109,006,000 as at the end of the previous financial year, representing an increase of approximately 9%.

GEARING RATIO

As at 31 December 2010, the gearing ratio (defined as total liabilities over total assets) was approximately 24% (2009: 18%)

SIGNIFICANT INVESTMENT HELD

As at 31 December 2010 and 2009, the Company held interest in an associate with a carrying amount of Nil.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Company had no other acquisition and disposal of subsidiaries during the year ended 31 December 2010.

CHARGE OF ASSETS

As at 31 December 2010, the Company's land with the carrying value of approximately RMB12,878,000 was pledged as securities for the borrowing facilities of the Company. As at 31 December 2009, the Company's motor vehicle with the net book value of approximately RMB651,000 was held under finance lease.

CONTINGENT LIABILITIES

As at 31 December 2010, 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 2010, the Company had approximately 640 (2009: 592) full-time employees. For the year ended 31 December 2010, the Company reported staff costs of approximately RMB27,384,000 (2009: RMB22,027,000). 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. ZHANG Xiu Sheng (張秀生), aged 57, has been appointed as an executive director of the Company with effect from 17 July 2009. Mr. Zhang is also the chairman of the board of directors, the compliance officer and the authorized representative of the Company. Mr. Zhang is also the general manager of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司). Prior to joining the Company, Mr. Zhang was a secretary of Taiyuan Wuyi Machinery Plant (太原五一機器廠), a factory director of Taiyuan Optical Instrument Factory (太原光學儀器廠), and a factory director of Taiyuan First Machine Tool Plant (太原第一機床廠). Mr. Zhang has over 30 years of experience in the engineering industry. During 2003 to 2005, Mr. Zhang was awarded an Outstanding Entrepreneur by the Government of Taiyuan, Shanxi Province. In 2007, Mr. Zhang was elected the representative of the Eleventh National People's Congress in Shanxi Province. Mr. Zhang holds a degree of Administration Engineering.

Mr. WANG Wen Sheng (王文生), aged 45, has been appointed as an executive director of the Company with effect from 17 July 2009. Mr. Wang is also the general manager of the Company. Prior to joining the Company, Mr. Wang was the vice factory director and deputy director of Taiyuan First Machine Tool Plant (太原第一機床廠). Mr. Wang has over 20 years of experience in the engineering industry. In 2001, Mr. Wang was elected the Thirteenth Outstanding Youth Factory Director in Taiyuan, Shanxi Province. In 2003, Mr. Wang was elected the Fourteenth Excellent Entrepreneur in Taiyuan, Shanxi Province. Mr. Wang holds a degree of Mechanical Engineering and a master degree in Political Economics (in Economics and Management).

Mr. TIAN Qun Xu (田群戌), aged 73, is responsible for overseeing the research and development function of the Company. Mr. Tian has over 40 years of experience in research and general management in the optical glass industry. Prior to joining the Company, he was with Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司) 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 46, 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 65, 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 43, 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 71, 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 38, 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).

SUPERVISORS' PROFILE

Mr. ZHANG Fu Sheng (張府生), aged 60, is the assistant manager of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司) Mr. Zhang is also the supervisor (監事) of the labour union (聯工代表監事) of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司) since 1996.

Mr. MENG Yan (孟焰), aged 56, 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 51, is the head of a workshop of the Company. Prior to joining the Company, he has been with Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司) since 1988.

SENIOR MANAGEMENT'S PROFILE

Ms. HE Ling Xian (和玲仙), aged 60, is the financial controller (財務總監) 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. Ms. He graduated from the Chinese Communist Central College (中共中央學校) in 1995.

Mr. SHEN Jian (申健), aged 37, is the secretary of the board of directors (董事會秘書) of the Company. Mr. Shen was a chief executive in the marketing department of the Company for 9 years. Mr. Shen graduated from the Tianjin Institute of Foreign Trade (天津對外貿易學院) in 1994.

Mr. QIAN Yun (錢沄), aged 47, is the vice general manager of enterprise planning (企業策劃副總經理) of the Company and joined the Company in 2005. Prior to joining the Company, Mr. Qian was the secretary and the factor director of Taiyuan Sanjin Aluminum Company Limited (太原三晋鋁業有限公司). Mr. Qian was graduated from the Taiyuan Polytechnic University (太原理工大學).

Mr. FAN Ji Ming (范繼民), aged 49, is the vice general manager of purchasing & supply (採購供應副總經理) of the Company and joined the Company in 2000. Prior to joining the Company, Mr. Fan was the vice general manager of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司). Mr. Fan graduated from the Shanxi Provincial Electronics School (山西省電子工業學校).

Mr. ZHANG Yu (張裕), aged 46, is the vice general manager of production (生產副總經理) of the Company and joined the Company in 2000. Prior to joining the Company, Mr. Zhang was the engineer of Taiyuan Wireless Electronic Factory (太原無綫電四廠). Mr. Zhang graduated from the North University of China (中北大學).

Ms. WANG Ling Ling (王玲玲), aged 45, is the vice general manager of quality control (技術質量副總經理) of the Company and joined the Company in 2000. Prior to joining the Company, Ms. Wang was the engineer of Taiyuan Optics Factory of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司光纖分廠). Ms. Wang graduated from the North University of China (中北大學).

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 2010.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

Details of the Company's segmental information for the year ended 31 December 2010 are set out in the notes to the financial statements to the accompanying financial statements.

RESULTS AND APPROPRIATIONS

Details of the Company's results for the year ended 31 December 2010 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 2010 (2009: 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" 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 of this annual report.

The Company had reserves of approximately RMB57,321,000 (2009: RMB49,084,000) available for dividend distribution to shareholders as at 31 December 2010.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year ended 31 December 2010.

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 2010.

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 the notes to the financial statements 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 2010, the Company reported employer's staff retirement cost charged to the statement of comprehensive income of approximately RMB5,706,000 (2009: RMB4,511,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the five largest customers accounted for approximately 99% (2009: 97%) of the Company's total turnover and the five largest suppliers of the Company accounted for approximately 21% (2009: 68%) of the Company's total purchases. The largest customer of the Company accounted for approximately 54% (2009: 47%) of the Company's total turnover while the largest supplier of the Company accounted for approximately 5% (2009: 18%) 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 2009 and 2010, the Company had several continuing connected transactions in relation to the lease of lands and properties and provision of building management services from Taiyuan Changcheng Optics and Electronics Industrial Corporation, a substantial shareholder 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").

DIRECTORS AND SUPERVISORS

The Directors who held office during the year ended 31 December 2010 and up to the date of this annual report were:

Executive Directors

Mr. Zhang Xiu Sheng
Mr. Wang Wen 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 2010 and up to the date of this annual report were:

Supervisors

Mr. Zhang Fu Sheng
Mr. Meng Yan
Mr. Wang Guang Hua

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Brief biographical details of Directors, supervisors and senior management are set out in the section headed "Profile of Directors, Supervisors and Senior Management" 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 the notes to the financial statements to the accompanying financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS

Except for Mr. Zhang Xiu Sheng, Mr. Wang Wen Sheng, and Ms. Chen Yue Jie, each of the executive Directors, non-executive Director and the independent non-executive Directors has entered into a service contract with the Company for a fixed term of three years commencing from 10 November 2003. The said service contracts shall continue thereafter until terminated by either party after the expiration of the fixed term.

For Mr. Zhang Xiu Sheng and Mr. Wang Wen Sheng, their service contracts with the Company are for a fixed term of three years commencing from 17 July 2009.

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. The said appointment contracts shall continue thereafter until terminated by either party after the expiration of the fixed term.

Save as disclosed above, none of the Directors and supervisors of the Company 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 2010, 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 2010, 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%
Liaoning 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%

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*
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	33,975,000 H shares (Notes 5)	–	30.89%	11.00%
Cai Zheng	Beneficial owner of H shares and interest in a controlled corporation	33,975,000 H shares (Notes 5)	–	30.89%	11.00%

* 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 Liaoning Shuguang Industrial Group Company Limited ("Liaoning Shuguang"). Liaoning 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 Liaoning 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 Liaoning Shuguang. Liu Gui Ying, 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, 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. These 33,975,000 H shares are registered in the name of Kwong Tat Finance Limited. For the purpose of the SFO, Cai Zheng is deemed to be interested in the 33,975,000 H shares held by Kwong Tat Finance Limited.

Save as disclosed above, the Directors are not aware of other person who, as at 31 December 2010, 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 2010, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 2010, none of the Directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares of 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 2010 or at any time during the year.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company. The audit committee comprises four independent non-executive Directors, namely Mr. Ni Guo Qiang, Mr. Shen Ming Hong, Mr. Li Li Cai and Ms. Chen Yue Jie. Mr. Ni Guo Qiang has been appointed as the chairman of the committee. The audit committee has reviewed the annual results of the Company for the year ended 31 December 2010.

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 in the Corporate Governance Report 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 of the Company, 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 nor any of their respective associates have 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 2010.

AUDITORS

During the year of 2008, Grant Thornton resigned as auditors of the Company and HLB Hodgson Impey Cheng ("HLB") were appointed by the Directors of the Company to fill the casual vacancy so arising. There have been no other changes of auditors in the past three years. HLB will retire at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLB 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. Ltd.

Zhang Xiu Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 24 March 2011

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 GEM Listing Rules except that (1) a remuneration committee was not established by the Company; and (2) directors are not subject to retirement by rotation at least once every three years.

The board 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 considers appropriate.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors of the Company 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 2010. 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 of the Company are set out in the section headed "Report of the Directors" and "Profile of Directors, Supervisors and Senior Management" of this annual report.

During the year ended 31 December 2010, 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. Zhang Xiu Sheng	6/6	100%
Mr. Wang Wen Sheng	6/6	100%
Mr. Tian Qun Xu	6/6	100%
Mr. Lin Yin Ping	5/6	83.3%
Mr. Ni Guo Qiang	5/6	83.3%
Mr. Shen Ming Hong	5/6	83.3%
Mr. Li Li Cai	5/6	83.3%
Ms. Chen Yue Jie	5/6	83.3%

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. Except for Mr. Zhang Xiu Sheng and Mr. Wang Wen Sheng, all of the 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.

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. Zhang Xiu Sheng, an executive Director, is the chairman of the Board and Mr. Wang Wen Sheng, an executive Director, is the chief executive officer of the Company.

NON-EXECUTIVE DIRECTORS

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

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The principal duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company.

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

The audit committee met four times during the year ended 31 December 2010 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 2010, 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 2010 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

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

NOMINATION OF DIRECTORS

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

AUDITOR'S REMUNERATION

The external auditors provide both audit and non-audit services to the Company during the year ended 31 December 2010. The remuneration of the external auditors for the provision of audit service during the year under review is HK$420,000 and non-audit service during the year under review is HK$35,000.

PREPARATION OF FINANCIAL STATEMENTS

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

INTERNAL CONTROLS

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

REPORT OF THE SUPERVISORY COMMITTEE

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

During the year, the supervisory committee had monitored and supervised the Company's management in formulating significant policies and reviewed the financial status of the Company and made suggestions and opinions to the board of directors of the Company.

The supervisory committee will continue to support and has great confidence in the future of the Company.

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

Zhang Fu Zheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 24 March 2011

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 23 to 73, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of financial statements that give a true and fair view 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 2010, and of the Company's 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, 24 March 2011

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	6	**64,578**	58,820
Cost of sales		**(33,781)**	(30,676)
Gross profit		**30,797**	28,144
Other income and (loss)/gains	6	**497**	2,627
Selling and distribution expenses		**(1,025)**	(855)
Administrative expenses		**(15,082)**	(12,255)
Other operating expenses		**(4,220)**	(2,258)
Operating profit		**10,967**	15,403
Finance costs	8	**(82)**	(30)
Share of profit of an associate		**—**	—
Profit before income tax	7	**10,885**	15,373
Income tax expense	11	**(1,549)**	(2,041)
Profit for the year		**9,336**	13,332
Other comprehensive income for the year		**—**	—
Total comprehensive income for the year		**9,336**	13,332
Earnings per share attributable to ordinary equity holders of the Company:	12		
— Basic and diluted		**RMB0.030**	RMB0.043

STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**84,897**	64,738
Land use rights	14	**12,878**	13,171
Deposits for acquisition of property, plant and equipment		**8,255**	11,465
Interest in an associate	15	**—**	—
Total non-current assets		**106,030**	89,374
CURRENT ASSETS			
Due from shareholders	16	**5,153**	9,160
Due from a related company	17	**4,290**	4,100
Inventories	18	**13,585**	9,352
Trade receivables	19	**15,019**	9,984
Prepayments, deposits and other receivables		**2,878**	2,094
Cash and cash equivalents	20	**9,635**	8,708
Total current assets		**50,560**	43,398
CURRENT LIABILITIES			
Due to a director	21	**—**	96
Trade payables	22	**1,957**	1,628
Accrued liabilities, deposits received and other payables		**8,621**	6,712
Interest-bearing bank loan	23	**14,000**	—
Finance lease payables	24	**—**	249
Tax payable		**483**	1,717
Total current liabilities		**25,061**	10,402
NET CURRENT ASSETS		**25,499**	32,996
TOTAL ASSETS LESS CURRENT LIABILITIES		**131,529**	122,370
NON-CURRENT LIABILITIES			
Deferred government grants	25	**13,187**	13,275
Finance lease payables	24	**—**	89
Total non-current liabilities		**13,187**	13,364
NET ASSETS		**118,342**	109,006

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	26	**30,886**	30,886
Reserves	27	**87,456**	78,120
TOTAL EQUITY		**118,342**	109,006

Zhang Xiu Sheng
Director

Wang Wen Sheng
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Equity attributable to owners of the Company				
	Share capital RMB'000 (Note 26)	**Capital surplus* RMB'000** (Note 27)	**Statutory surplus reserve* RMB'000** (Note 27)	**Retained earnings* RMB'000**	**Total equity RMB'000**
At 1 January 2009	30,886	18,561	9,410	36,817	95,674
Total comprehensive income for the year	—	—	—	13,332	13,332
Transfer from retained earnings to statutory surplus reserve	—	—	1,065	(1,065)	—
At 31 December 2009 and 1 January 2010	**30,886**	**18,561**	**10,475**	**49,084**	**109,006**
Total comprehensive income for the year	**—**	**—**	**—**	**9,336**	**9,336**
Transfer from retained earnings to statutory surplus reserve	**—**	**—**	**1,099**	**(1,099)**	**—**
At 31 December 2010	**30,886**	**18,561**	**11,574**	**57,321**	**118,342**

* These reserve accounts comprise the reserves of approximately RMB87,456,000 (2009: RMB78,120,000) in the statement of financial position.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		**10,885**	15,373
Adjustments for:			
Interest expense	8	**82**	30
Depreciation	7	**4,441**	3,055
Amortisation of land use rights	7	**293**	322
Amortisation of deferred government grants	6	**(1,368)**	(1,152)
Gain on disposal of land use rights	6	**—**	(1,425)
Loss on disposal of property, plant and equipment	6	**921**	—
Net fair value gain on financial assets at fair value through profit or loss	6	**—**	(11)
Interest income	6	**(16)**	(16)
(Reversal of)/impairment of trade receivables	7	**(633)**	493
Operating profit before working capital changes		**14,605**	16,669
Decrease/(increase) in amounts due from shareholders		**4,007**	(2,992)
Increase in amount due from a related company		**(190)**	(789)
Increase in inventories		**(4,233)**	(1,640)
(Increase)/decrease in trade receivables		**(4,402)**	154
Increase in prepayments, deposits and other receivables		**(784)**	(592)
Decrease in financial assets at fair value through profit or loss		**—**	222
Decrease in amounts due to directors		**(96)**	(13)
Increase in trade payables		**329**	540
Increase in accrued liabilities, deposits received and other payables		**1,909**	720
Cash generated from operations		**11,145**	12,279
Income taxes paid		**(2,783)**	(1,859)
Net cash flows generated from operating activities		**8,362**	10,420

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(22,311)**	(10,276)
Proceeds from disposal of land use rights		**—**	4,000
Government grants received	25	**1,280**	1,700
Interest received		**16**	16
Net cash flows used in investing activities		**(21,015)**	(4,560)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**(338)**	(152)
Interest element of finance lease rental payments		**(82)**	(30)
Proceed from interest-bearing bank loan		**14,000**	—
Net cash flows generated from/(used in) financing activities		**13,580**	(182)
Net increase in cash and cash equivalents		**927**	5,678
Cash and cash equivalents at the beginning of year		**8,708**	3,030
CASH AND CASH EQUIVALENTS AT THE END OF YEAR		**9,635**	8,708
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	20	**9,635**	8,708

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 design, research, development, manufacture and sale of image transmission fibre optic products in the PRC.

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 the new and revised 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. 7 Dianzi Street, Taiyuan City, Shanxi Province, the PRC with effect from 20 July 2009.

The financial statements for the year ended 31 December 2010 were approved for issue by the board of directors on 24 March 2011.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Company has applied the following new and revised standards, amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the Company's financial year beginning 1 January 2010.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of improvements to HKFRSs issued in 2008
HKFRS 1 (Amendments)	Additional Exemptions for First-time Adopters
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions (relating to the classification and measurement of financial assets)
HKFRS 3 (as revised in 2008)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The adoption of the new and revised HKFRSs has had no material effect on the financial statements of the Company for the current or prior accounting periods.

New and revised standards and interpretations in issue but not yet effective

The Company has not early applied the following new and revised Standards and Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010[1]
HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[5]
HKFRS 9	Financial Instruments[7]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[6]
HKAS 24 (as revised in 2009)	Related Party Disclosures[4]
HKAS 32 (Amendments)	Classification of Rights Issues[2]
HK (IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[4]
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
2 Effective for annual periods beginning on or after 1 February 2010.
3 Effective for annual periods beginning on or after 1 July 2010.
4 Effective for annual periods beginning on or after 1 January 2011.
5 Effective for annual periods beginning on or after 1 July 2011.
6 Effective for annual periods beginning on or after 1 January 2012.
7 Effective for annual periods beginning on or after 1 January 2013.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (CONTINUED)

New and revised standards and interpretations in issue but not yet effective (continued)

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

— Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

— In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may have a significant impact on amounts reported in respect of the Company's financial assets. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results 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, which have been measured at fair value. 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.

(b) Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's investments in associates are stated in the statement of financial position at the Company's share of net assets under the equity method of accounting, less any impairment losses. The Company's share of the post-acquisition results and reserves of associates is included in the income statement and reserves, respectively. Unrealised gains and losses resulting from transactions between the Company and its associates are eliminated to the extent of the Company's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Company's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 end of the reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Foreign exchange gains and losses resulting from the settlement of such transactions and from the end of the reporting period retranslation of monetary assets and liabilities are recognised in the statement of comprehensive income.

(d) Revenue recognition

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

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(ii) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(e) Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost (or valuation) less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Noncurrent assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of 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 the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognises such parts as individual assets with specific useful lives and depreciation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(f) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, financial assets, investment properties, goodwill and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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 assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises (only if there are revalued assets in the financial statements), unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(g) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Company, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessor, assets leased by the Company under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Company is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial assets at initial recognition. 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.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Company commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Company's financial assets include amount due from shareholders, amount due from a related company, trade and other receivables, and cash and cash equivalents.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets (continued)

Derecognition of financial assets (Continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Company first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Investments and other financial assets (continued)

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Company's financial liabilities include amount due to a director, trade and other payables, Interest-bearing bank loan and finance lease payables.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial liabilities (continued)

Derecognition of financial liabilities

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

When 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

(j) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

(k) 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 disposal.

(l) Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

— where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

— where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

— in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(n) 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 statement of comprehensive income 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 end of the reporting period. 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.

(o) Borrowing costs

All borrowing costs are expensed in the period in which they are incurred.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets.

The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred.

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant related an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

(q) Research and development cost

Costs associated with research activities are expensed in the statement of comprehensive income 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.

(r) 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;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Related parties (continued)

(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.

(s) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Company on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

(t) 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

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated cost to be incurred to completion and disposal. 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 end of the reporting period.

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.

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(g) respectively. The estimated useful lives reflect the management's 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 Enterprise 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

Impairment of non-financial assets (other than goodwill)

The Company assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. 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. SEGMENT INFORMATION

The Company's revenue and contribution to profit were mainly derived from its sale of fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers and fiber optic tapers billets, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Company's management for purposes of resource allocation and performance assessment. The measures of profit and of total assets and liabilities are consistent with the statement of comprehensive income and the statement of financial position which are reported internally to the Company's management. In addition, the Company's assets are located in Shanxi, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

Information about products

The following table sets forth the total sales to external customers by product and the percentage of total revenue by product during the year:

	2010		2009	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**49,807**	**77**	50,120	85
Fiber optic straight plates	**9,072**	**14**	4,952	8
Fiber optic face plates	**2,949**	**5**	1,056	2
Fiber optic tapers	**2,370**	**4**	2,692	5
Fiber optic tapers billets	**380**	**—**	—	—
	64,578	**100**	58,820	100

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Company principally operates in the PRC, the country of the Company's domicile, with revenue and profits derived mainly from its operations in the PRC. The Company's non-current assets are all located in Shanxi, the PRC.

The following is an analysis of the Company's revenue from external customers by geographical location:

	2010	2009
	RMB'000	RMB'000
The PRC	**12,705**	10,711
Hong Kong	**16,730**	20,166
Europe	**35,143**	27,943
	64,578	58,820

Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2010	2009
	RMB'000	RMB'000
Customer A	**35,143**	27,751
Customer B	**16,730**	19,855
Customer C	**8,786**	8,387

6. REVENUE, OTHER INCOME AND (LOSS)/GAINS

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, other income and (loss)/gains recognised during the year is as follows:

	2010	2009
	RMB'000	RMB'000
Revenue:		
Sale of goods	**64,578**	58,820
Other income:		
Amortisation of deferred government grants	**1,368**	1,152
Bank interest income	**16**	16
Others	**34**	23
	1,418	1,191
(Loss)/gains:		
Loss on disposal of property, plant and equipment	**(921)**	—
Gain on disposal of land use rights	**—**	1,425
Net fair value gains on financial assets at fair value through profit or loss	**—**	11
	(921)	1,436
	497	2,627

7. PROFIT BEFORE INCOME TAX

	2010 RMB'000	2009 RMB'000
Profit before income tax is arrived at after charging:		
Auditors' remuneration	**356**	369
Cost of inventories sold	**33,781**	30,676
Employee benefit expenses (including directors' and supervisors' remuneration — note 9):		
Wages, salaries and other benefits	**21,678**	17,516
Pension scheme contributions	**5,706**	4,511
	27,384	22,027
Depreciation of property, plant and equipment	**4,441**	3,055
Amortisation of land use rights (included in administrative expenses)	**293**	322
Loss on disposal of property, plant and equipment	**921**	—
Net foreign exchange losses	**117**	44
Research and development costs (included in other operating expenses)	**3,730**	2,087
Minimum lease payments under operating lease rentals in respect of leasehold land and buildings	**1,440**	720
(Reversal of)/impairment of trade receivables (included in administrative expenses)	**(633)**	493

8. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Interest on finance leases	**82**	30

9. 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:

	2010 RMB'000	2009 RMB'000
Directors		
Fees	–	–
Other emoluments		
Salaries, allowances and benefits in kind	**578**	681
Pension scheme contributions	–	35
	578	716

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**
2010				
Executive directors				
Zhang Xiu Sheng *(appointed on 17 July 2009)*	–	202	–	202
Wang Wen Sheng *(appointed on 17 July 2009)*	–	148	–	148
Tian Qun Xu	–	132	–	132
Non-executive directors				
Lin Yin Ping	–	48	–	48
Ni Guo Qiang#	–	12	–	12
Shen Ming Hong#	–	12	–	12
Li Li Cai#	–	12	–	12
Chen Yue Jie#	–	12	–	12
	–	578	–	578

9. 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
2009				
Executive directors				
Zhang Xiu Sheng *(appointed on 17 July 2009)*	—	126	—	126
Wang Wen Sheng *(appointed on 17 July 2009)*	—	94	—	94
Wang Gen Hai *(resigned on 17 July 2009)*	—	160	35	195
Tian Qun Xu	—	132	—	132
Li Kang Sheng *(resigned on 17 July 2009)*	—	49	—	49
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
	—	681	35	716

Independent non-executive directors

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

	2010	2009
	RMB'000	RMB'000
Supervisors		
Fees	**—**	—
Other emoluments		
Salaries, allowances and benefits in kind	**27**	64
Pension scheme contributions	**5**	13
	32	77

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

	Fees	**Salaries, allowances and benefits in kind**	**Pension scheme contributions**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
2010				
Zhang Fu Sheng	**—**	**2**	**—**	**2**
Meng Yan	**—**	**5**	**—**	**5**
Wang Guang Hua	**—**	**20**	**5**	**25**
	—	**27**	**5**	**32**
2009				
Zhang Fu Sheng	—	2	—	2
Meng Yan	—	5	—	5
Wang Guang Hua	—	57	13	70
Bai Yin Quan *(resigned on 31 July 2009)*	—	—	—	—
	—	64	13	77

There was no arrangement under which a director or a 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 a supervisor as an inducement to join, or upon joining the Company, or as compensation for loss of office.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

	2010	2009
	RMB'000	RMB'000
Short term employee benefits	**671**	745
Post-employment benefits	**42**	48
	713	793

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Company for the year included three (2009: four) directors, details of whose remuneration are reflected in the analysis presented in note 9 above. Details of the remuneration of the remaining two (2009: one) non-director, highest paid employee for the year are as follows:

	2010	2009
	RMB'000	RMB'000
Salaries and allowances	**142**	77
Pension scheme contributions	**17**	—
	159	77

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

	2010	2009
	RMB'000	RMB'000
I	**77**	77
II	**65**	—
	142	77

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

11. INCOME TAX EXPENSE

	2010 RMB'000	2009 RMB'000
Current income tax		
— PRC	**1,549**	2,041

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 2010 (2009: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Company operates.

According to the applicable Enterprise Income Tax Law of the PRC, the Company, which operates in the Taiyuan Economic and Technology Development Zone (太原經濟技術開發區), the PRC, and which is registered as a New and High Technical Enterprise (高新技術企業), is entitled to a concessionary Enterprise Income Tax rate of 15% over 3 years, beginning on 1 January 2009. For the year ended 31 December 2010, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2009: 15%).

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

	2010 RMB'000	2009 RMB'000
Profit before income tax	**10,885**	15,373
Tax at statutory tax rate of 15% (2009: 15%)	**1,633**	2,306
Income not subject to tax	**(205)**	(114)
Expenses not deductible for tax	**49**	57
Others	**72**	(208)
Income tax expense	**1,549**	2,041

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity owners of the Company of approximately RMB9,336,000 (2009: RMB13,332,000) and 308,860,000 (2009: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2010 and 2009.

13. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Constructions in progress RMB'000	Total RMB'000
At 1 January 2009							
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
Year ended 31 December 2009							
Opening net carrying amount	487	–	14,874	288	–	41,058	56,707
Additions	–	–	2,530	165	766	7,625	11,086
Transferred from constructions in progress	–	–	300	–	–	(300)	–
Depreciation provided during the year	(254)	–	(2,599)	(87)	(115)	–	(3,055)
Closing net carrying amount	233	–	15,105	366	651	48,383	64,738
At 31 December 2009							
Cost	2,539	432	32,707	3,540	2,202	48,383	89,803
Accumulated depreciation	(2,306)	(432)	(17,602)	(3,174)	(1,551)	–	(25,065)
Net carrying amount	233	–	15,105	366	651	48,383	64,738
Year ended 31 December 2010							
Opening net carrying amount	**233**	**–**	**15,105**	**366**	**651**	**48,383**	**64,738**
Additions	**–**	**–**	**7,099**	**1,246**	**–**	**17,176**	**25,521**
Transferred from constructions in progress	**18,684**	**34**	**9,564**	**–**	**–**	**(28,282)**	**–**
Disposal	**–**	**–**	**(719)**	**(202)**	**–**	**–**	**(921)**
Depreciation provided during the year	**(856)**	**(2)**	**(3,152)**	**(266)**	**(165)**	**–**	**(4,441)**
Closing net carrying amount	**18,061**	**32**	**27,897**	**1,144**	**486**	**37,277**	**84,897**
At 31 December 2010							
Cost	**21,223**	**466**	**42,771**	**2,955**	**2,202**	**37,277**	**106,894**
Accumulated depreciation	**(3,162)**	**(434)**	**(14,874)**	**(1,811)**	**(1,716)**	**–**	**(21,997)**
Net carrying amount	**18,061**	**32**	**27,897**	**1,144**	**486**	**37,277**	**84,897**

As at 31 December 2010, a 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 29).

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

In addition, as at 31 December 2010, except from the leasehold building of which located at No.212 Nanneihuan Street, Taiyuan City, Shanxi Province, the PRC, another leasehold buildings of the Company are located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC. The land use right to which the medium term leasehold buildings attached held by the Company has been pledged to a bank to secure a bank loan to the Company (note 23).

As at 31 December 2009, the net book value of the Company's property, plant and equipment held under finance leases included in the total amount of motor vehicles amounted to approximately RMB651,000.

14. 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:

	2010 **RMB'000**	2009 RMB'000
At beginning of the year		
Cost	**14,634**	17,634
Accumulated amortisation	**(1,463)**	(1,566)
Net carrying amount	**13,171**	16,068
For the year ended		
Opening net carrying amount	**13,171**	16,068
Disposal	**—**	(2,575)
Amortisation	**(293)**	(322)
Closing net carrying amount	**12,878**	13,171
At end of the year		
Cost	**14,634**	14,634
Accumulated amortisation	**(1,756)**	(1,463)
Net carrying amount	**12,878**	13,171

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

As at 31 December 2010, the Company's land use right located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC has been pledged to a bank to secure a bank loan to the Company (note 23).

15. INTEREST IN AN ASSOCIATE

	2010	2009
	RMB'000	RMB'000
Share of net assets	**2,578**	2,578
Due to an associate	**(113)**	(113)
	2,465	2,465
Less: Provision for impairment	**(2,465)**	(2,465)
	–	–

Particulars of the associate at 31 December 2010 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.

As at 31 December 2010, the Company recognised a provision for impairment of approximately RMB2,465,000 (2009: 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 2010 and 2009, and of the assets and liabilities of the associate at the end of each reporting period are set out below:

	2010	2009
	RMB'000	RMB'000
Total revenue	**1,191**	2,638
Profit/(Loss) for the year	**52**	(1,008)
Total assets	**7,368**	7,445
Total liabilities	**221**	178

As at 31 December 2010, the cumulatively unrecognised share of losses of the associate is approximately RMB333,000 (2009:RMB352,000).

16. DUE FROM SHAREHOLDERS

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

Name	2010 RMB'000	2009 RMB'000
Taiyuan Changcheng	**4,444**	8,130
Taiyuan Tanghai	**709**	1,030
	5,153	9,160

The maximum amounts outstanding during the years are as follows:

Name	2010 RMB'000	2009 RMB'000
Taiyuan Changcheng	**8,130**	8,130
Taiyuan Tanghai	**1,030**	1,030

As at 31 December 2010, the amount due from Taiyuan Changcheng of approximately RMB4,444,000 (2009: RMB8,130,000) is unsecured, interest-fee and due on or before 14 February 2012.

As at 31 December 2010, the amount due from Taiyuan Tanghai of approximately RMB709,000 (2009: RMB1,030,000) is unsecured, interest-free and due on 31 March 2011.

17. DUE FROM A RELATED COMPANY

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

Name	2010 RMB'000	2009 RMB'000
Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei")	**4,290**	4,100

The maximum amount outstanding during the years is as follows:

Name	2010 RMB'000	2009 RMB'000
Taiyuan Huamei	**4,290**	4,100

Taiyuan Huamei is a subsidiary of Taiyuan Changcheng, a substantial shareholder of the Company. The amount due from Taiyuan Huamei of approximately RMB4,290,000 (2009: RMB4,100,000) as at 31 December 2010 is unsecured, interest-free and due on or before 14 February 2012.

18. INVENTORIES

	2010 RMB'000	2009 RMB'000
Raw materials	**942**	1,582
Work in progress	**7,187**	4,045
Finished goods	**5,456**	3,725
	13,585	9,352

19. TRADE RECEIVABLES

	2010 RMB'000	2009 RMB'000
Trade receivables	**16,190**	11,822
Less: Provision for impairment	**(1,171)**	(1,838)
	15,019	9,984

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

	2010 RMB'000	2009 RMB'000
At 1 January	**1,838**	1,643
(Reversal of)/impairment losses recognised (note 7)	**(633)**	493
Amount written off as uncollectible	**(34)**	(298)
At 31 December	**1,171**	1,838

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB1,171,000 (2009: RMB1,838,000). 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.

19. TRADE RECEIVABLES (CONTINUED)

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

	2010	2009
	RMB'000	RMB'000
0–90 days	**14,419**	8,928
91–180 days	**20**	745
181–365 days	**580**	311
	15,019	9,984

The trading terms with customers are largely on credit. The credit period is generally 90 days (2009: 90 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:

	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**14,419**	8,928
Less than 6 months past due	**600**	1,056
	15,019	9,984

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. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2010	2009
	RMB'000	RMB'000
Cash at bank and in hand	**9,635**	8,708

At the end of the reporting period, the cash and cash equivalents of the Company is approximately RMB9,635,000 (2009: RMB8,708,000) 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 RMBfor 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.

21. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and repayable on demand.

22. TRADE PAYABLES

An ageing analysis of the Company's trade payables as at the end of the reporting period is as follows:

	2010	2009
	RMB'000	RMB'000
0–90 days	**1,837**	1,548
91–180 days	**111**	7
181–365 days	**9**	2
Over 365 days	**—**	71
	1,957	1,628

The trade payables are non-interest-bearing and are normally settled on 30-days terms (2009: 30 days).

23. INTEREST-BREAING BANK LOAN

	2010		2009	
	Maturity	**RMB'000**	Maturity	RMB'000
Bank loan — secured (note(a))	**2011**	**14,000**	—	—

	2010	2009
	RMB'000	RMB'000
Analysed into:		
Loans repayable:		
Within one year	**14,000**	—

Note:

(a) The bank loan of the Company is secured by the Company's land use right located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC (note 14).

The bank loan of the Company bears interest at a floating interest rate equivalent to that of a relevant term loan quoted by the People's Bank of China's best lending rate multipled by 120% and will be due in November 2011.

24. FINANCE LEASE PAYABLES

The Company leases a motor vehicle for its business.

At 31 December 2010, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable:				
Within one year	–	273	–	249
In the second year	–	91	–	89
Total minimum finance lease payments	–	364	–	338
Future finance charges	–	(26)		
Total net finance lease payables	–	338		
Portion classified as current liabilities	–	(249)		
Non-current portion	–	89		

25. DEFERRED GOVERNMENT GRANTS

	Notes	RMB'000
At 1 January 2009		
Cost		14,160
Accumulated amortisation		(1,433)
Net carrying amount		12,727
Year ended 31 December 2009		
Opening net carrying amount		12,727
Additions	(a)	1,700
Amortisation		(1,152)
Closing net carrying amount		13,275
At 1 January 2010		
Cost		**15,860**
Accumulated amortisation		**(2,585)**
Net carrying amount		**13,275**
Year ended 31 December 2010		
Opening net carrying amount		**13,275**
Additions	(b)	**1,280**
Amortisation		**(1,368)**
Closing net carrying amount		**13,187**
At 31 December 2010		
Cost		**17,140**
Accumulated amortisation		**(3,953)**
Net carrying amount		**13,187**

25. DEFERRED GOVERNMENT GRANTS (CONTINUED)

Notes:

(a) The balance of RMB1,700,000 comprised (i) subsidies of RMB1,000,000 granted by the Taiyuan Finance Bureau (太原市財政局) for the development of the Company's business expansion project in the Taiyuan Economic and Technology Development Zone (太原經濟技術開發區), the PRC; (ii) subsidies of RMB600,000 granted by the Taiyuan Ministry of Finance for enhancing the Company's facilities for development of foreign trade and research and development; and (iii) subsidies of RMB100,000 granted by the Taiyuan Ministry of Finance for enhancing the Company's production facilities.

(b) The balance of RMB1,280,000 comprised (i) subsidies of RMB200,000 granted by the Taiyuan Bureau of Science and Technology (太原市科學技術局) for the Company's facilities for development and research of its products; and (ii) subsidies of RMB1,080,000 granted by the Taiyuan Finance Bureau (太原市財政局) for enhancing the Company's production facilities.

26. SHARE CAPITAL

	2010 **RMB'000**	2009 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2009: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2009: 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.

27. 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.

27. RESERVES (CONTINUED)

(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.

28. NOTE TO THE STATEMENT OF CASH FLOWS

Major non-cash transactions

During the year ended 31 December 2010, the Company had the following major non-cash transactions:

(i) Deposits of approximately RMB9,052,000 (2009: RMB320,000) 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 RMB3,691,000 (2009: RMB1,680,000) were settled by the current account with Taiyuan Changcheng (note 30).

29. COMMITMENTS

At the end of the reporting period, the Company had the following outstanding commitments:

(i) Capital commitments

	Note	**2010** **RMB'000**	2009 RMB'000
Contracted, but not provided for			
— Buildings		**19,387**	23,881
— Plant and machinery		**623**	3,172
		20,010	27,053
Authorised, but not contracted for			
— Establishment of a joint venture	(a)	**15,000**	15,000

29. COMMITMENTS (CONTINUED)

(i) Capital commitments (continued)

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 rights from Taiyuan Changcheng under operating lease arrangements (the "Taiyuan Changcheng Lease") for terms ranging from five to thirty years with an option to renew the lease and renegotiate the terms at the expiry dates or at dates mutually agreed between the Company and Taiyuan Changcheng. None of the leases include contingent rentals.

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

During the year ended 31 December 2009, the second supplementary agreement (the "Second Supplementary Agreement") was entered into which principally revised the Taiyuan Changcheng Lease to a term of lease period expiring on 31 December 2010.

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases payable for leasehold land and building by the Company are as follows:

	2010	2009
	RMB'000	RMB'000
Within one year	**–**	720

(iii) Other commitments

Pursuant to the management services agreement with Taiyuan Changcheng in connection with the Taiyuan Changcheng Lease (the "Taiyuan Changcheng Management Services Agreement"), Taiyuan Changcheng was 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.

29. COMMITMENTS (CONTINUED)

(iii) Other commitments (continued)

At the end of the reporting period, other commitments in respect of management fees payable by the Company are as follows:

	2010 **RMB'000**	2009 RMB'000
Within one year	**–**	960

30. 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	**2010** **RMB'000**	2009 RMB'000
Rental expenses incurred to a shareholder	(a)		
— current year		**720**	720
— prior years under-provision		**720**	—
Management fee expenses incurred to a shareholder	(b)		
— current year		**960**	960
— prior years under-provision		**1,291**	—
		3,691	1,680

Notes:

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

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

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.

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2010 RMB'000	2009 RMB'000
Financial assets		
Loans and receivables:		
Due from shareholders	**5,153**	9,160
Due from a related company	**4,290**	4,100
Trade receivables	**15,019**	9,984
Financial assets included in other receivables	**1,448**	1,216
Cash and cash equivalents	**9,635**	8,708
	35,545	33,168
Financial liabilities		
Financial liabilities at amortised cost:		
Due to an associate	**113**	113
Due to a director	**—**	96
Trade payables	**1,957**	1,628
Financial liabilities included in other payables and accruals	**7,573**	5,435
Interest-bearing bank loan	**14,000**	—
Finance lease payables	**—**	338
	23,643	7,610

32. 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 end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the Company's functional currency.

	2010	2009
Trade receivables	**US$898,000**	US$927,000
Cash and cash equivalents	**HK$7,000**	HK$7,000
Other payables	**US$104,000**	US$94,000

Sensitivity analysis

The sensitivity analysis has been determined assuming that the reasonably possible change in foreign exchange rate had occurred at the end of the reporting period 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 end of next reporting period with reference to the historical trend of RMBagainst USD and HKD. A 5% (strengthening)/weakening of RMB against USD and HKD at the end of the reporting period 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.

	2010 (Loss)/Profit RMB'000	2009 (Loss)/Profit RMB'000
5% (strengthening)/weakening of RMBagainst		
USD	**(296)/296**	(283)/283
HKD	**(1)/1**	(1)/1

32. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Interest rate risk

The Company's exposure to changes in market interest rates relates primarily to the Company's bank load with floating interest rate. The Company has not used any interest rate swaps to hedge its interest rate risk, and will consider hedging significant interest rate risk should the need arise.

The following table demonstrates the sensitivity to a reasonably possible change in the People's Bank best lending rate, with all other variables held constant, of the Company's profit before tax. There is no material impact on other components of the Company's equity.

	Increase/ (decrease) in profit before tax RMB'000
2010	
Increase in 100 basis points	**140**
Decrease in 100 basis points	**(140)**

	Increase/ (decrease) in profit before tax RMB'000
2009	
Increase in 100 basis points	—
Decrease in 100 basis points	—

(c) Credit risk

The maximum credit risk exposure of the financial assets is summarised in note 31. 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 31. The Company reviews the recoverable amount of each individual debtor at the end of each reporting period to ensure that adequate provision for impairment are made for irrecoverable amounts. There is no requirement for collaterals by the Company.

32. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(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 end of each reporting periods, based on the contractual undiscounted payments, was as follows:

	On demand	Less than 6 months	6 to less than 12 months	1 to 5 years	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2010					
Due to an associate	**—**	**—**	**—**	**113**	**113**
Trade payables	**—**	**1,948**	**9**	**—**	**1,957**
Other payables and accruals	**812**	**3,180**	**3,581**	**—**	**7,573**
Interest-bear bank loan	**—**	**—**	**14,000**	**—**	**14,000**
	812	**5,128**	**17,590**	**113**	**23,643**
2009					
Due to an associate	—	—	—	113	113
Due to directors	96	—	—	—	96
Trade payables	—	1,555	73	—	1,628
Other payables and accruals	1,144	2,346	1,945	—	5,435
Finance lease payables	—	136	137	91	364
	1,240	4,037	2,155	204	7,636

32. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(e) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

At 31 December 2010, the Company did not have any assets and liabilities that are measured at the above fair value measurement hierarchy.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded in the financial statements approximate their fair values.

(f) Price risk

As the Company has no significant investments in financial instruments at fair values, the Company is not exposed to significant price risk.

(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 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 processes for managing capital during the years ended 31 December 2010 and 2009.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2010 amounted to approximately RMB118,342,000 (2009: RMB109,006,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

32. 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 11%. Net debt includes amount due to an associate, amounts due to directors, trade payables, accrued liabilities, deposits received and other payables, and finance lease payables less cash and cash equivalents. Capital includes equity attributable to owners of the Company. The gearing ratios as at the ends of the reporting periods were as follows:

	2010	2009
	RMB'000	RMB'000
Due to an associate	**113**	113
Due to a director	**—**	96
Trade payables	**1,957**	1,628
Accrued liabilities, deposits received and other payables	**8,621**	6,712
Interest-bear bank loan	**14,000**	—
Finance lease payables	**—**	338
Less: Cash and cash equivalents	**(9,635)**	(8,708)
Net debt	**15,056**	179
Total capital	**118,342**	109,006
Capital and net debt	**133,398**	109,185
Gearing ratio	**11%**	0%

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 2010.

	Year Ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**64,578**	58,820	44,853	50,318	41,956
Operating profit	**10,967**	15,403	7,145	18,396	11,575
Finance costs	**(82)**	(30)	—	—	—
Share of (loss)/profit of an associate	**—**	—	(615)	7	7
Impairment of interest in an associate	**—**	—	—	(2,465)	—
Profit before income tax	**10,885**	15,373	6,530	15,938	11,582
Income tax expense	**(1,549)**	(2,041)	(2,699)	(2,760)	(1,802)
Profit for the year	**9,336**	13,332	3,831	13,178	9,780
Net profit attributable to owners of the Company	**9,336**	13,332	3,831	13,178	9,780

	As at 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**156,590**	132,772	117,125	108,778	94,127
Total liabilities	**(38,248)**	(23,766)	(21,451)	(16,935)	(15,462)
Total equity	**118,342**	109,006	95,674	91,843	78,665

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the annual general meeting (the "AGM") of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") will be held at No. 7 Dianzi Street, Taiyuan City, Shanxi Province, the People's Republic of China (the "PRC") on 26 May 2011 at 9:00 a.m. for the purpose of considering, and if thought fit, pass the following resolutions:

As ordinary resolutions:

1. to receive and approve the report of the directors of the Company for the year ended 31 December 2010;

2. to receive and approve the report of the supervisory committee of the Company for the year ended 31 December 2010;

3. to receive and approve the audited financial statements of the Company for the year ended 31 December 2010;

4. to consider and approve the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the year 2011 with a term of office until the conclusion of the next AGM and to authorise the board of directors to fix their remunerations;

5. to approve the appointment of Mr. Zhang Shao Hui as the non-executive director of the Company;

6. to approve the appointment of Mr. Yuan Guo Liang as the non-executive director of the Company;

7. to approve the appointment of Mr. Duan Zhong as the independent non-executive director of the Company;

8. to approve the appointment of Ms. Zhang Zhi Hong as the independent non-executive director of the Company;

9. to re-elect Mr. Tian Qun Xu as the executive director of the Company;

10. to re-elect Mr. Li Li Cai as the independent non-executive director of the Company;

11. to re-elect Mr. Ni Guo Qiang as the independent non-executive director of the Company;

12. to authorize the board of directors to fix the remuneration of the directors of the Company;

13. to approve the appointment of Ms. Huan Xiao Ou as the shareholder representative supervisor; and

14. to discuss any other issues.

By order of the Board
Shanxi Changcheng Microlight Equipment Co. Ltd.
Zhang Xiu Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 24 March 2011

Notes:

1. Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more than one proxy to attend and vote at the meeting on his or her behalf in accordance with the provisions of the articles of association of the Company. A proxy needs not be a member of the Company.

2. In order to be valid, a proxy form of holder of Share(s) 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 registrar of the H Share(s) in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong (in respect of holders of H Share(s)) and the registered address of the Company (in respect of holders of Domestic Share(s)), not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3. Holders of the Domestic Share(s) and the H Share(s) whose name appear in the register of members of the Company on 25 April 2011 are entitled to attend and vote at the meeting.

4. Holders of the Domestic Share(s) and the H Share(s) or their proxies shall produce documents of their proof of identity when attending the meeting.

5. The register of members of the Company will be closed from 25 April 2011 to 25 May 2011 (both days inclusive). All properly completed H Share(s) transfer forms accompanied by the relevant share certificates must be lodged with the registrar of the H Share(s) in Hong Kong, Tricor Standard Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Hong Kong no later than 21 April 2011 at 4:00 p.m. for registration.

6. Holders of the Domestic Share(s) and the H Share(s) who intend to attend the meeting shall complete and deposit or post, or fax the enclosed reply slip to the registered address of the Company on or before 5 May 2011.

7. Registered address and the contact details of the Company are as follows:

   No. 7 Dianzi Street,Taiyuan City, Shanxi Province, The PRC
   Fax number: 86 351 706 5996