



2011

Interim 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 positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

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

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*This report, for which the directors 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 of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.*

## FINANCIAL RESULTS

The board of directors (the "Board") of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") announce the unaudited results of the Company for the three months and six months ended 30 June 2011, together with the comparative unaudited figures for the corresponding period in 2010, as follows:

### Statement of Comprehensive Income

For the three months and six months ended 30 June 2011

	Notes	For the three months ended 31 March		For the six months ended 30 June	
		2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
<b>Revenue</b>	2	<b>12,483</b>	18,192	<b>30,296</b>	34,434
Cost of sales		<b>(7,916)</b>	(9,863)	<b>(18,170)</b>	(18,243)
<b>Gross profit</b>		<b>4,567</b>	8,329	<b>12,126</b>	16,191
Other income and gains		<b>328</b>	298	<b>1,115</b>	595
Selling and distribution expenses		<b>(463)</b>	(215)	<b>(502)</b>	(512)
Administrative expenses		<b>(5,215)</b>	(4,680)	<b>(10,091)</b>	(8,668)
<b>Operating profit/(loss)</b>		<b>(783)</b>	3,732	<b>2,648</b>	7,606
Finance costs		<b>(234)</b>	(7)	<b>(467)</b>	(15)
<b>Profit/(Loss) before income tax</b>	4	<b>(1,017)</b>	3,725	<b>2,181</b>	7,591
Income tax expense	5	<b>(94)</b>	(527)	<b>(574)</b>	(1,168)
<b>Profit/(Loss) for the period</b>		<b>(1,111)</b>	3,198	<b>1,607</b>	6,423
Other comprehensive income for the period		—	—	—	—
<b>Total comprehensive income/ (expense) for the period</b>		<b>(1,111)</b>	3,198	<b>1,607</b>	6,423
<b>Earnings/(Loss) per share attributable to ordinary equity holders of the Company:</b>					
— Basic and diluted	6	<b>RMB(0.003)</b>	RMB0.010	<b>RMB0.005</b>	RMB0.021

**Statement of Financial Position***As at 30 June 2011*

	<b>30 June</b>	31 December
	<b>2011</b>	2010
<i>Notes</i>	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	<b>88,944</b>	84,897
Land use rights	<b>12,590</b>	12,878
Deposits for acquisition of property, plant and equipment	<b>8,255</b>	8,255
Interest in an associate	<b>—</b>	—
	<hr/>	<hr/>
<b>Total non-current assets</b>	<b>109,789</b>	106,030
	<hr/>	<hr/>
<b>CURRENT ASSETS</b>		
Due from shareholders	<b>5,185</b>	5,153
Due from a related company	<b>4,283</b>	4,290
Inventories	<b>15,040</b>	13,585
Trade receivables	<b>14,082</b>	15,019
Prepayments, deposits and other receivables	<b>4,131</b>	2,878
Cash and cash equivalents	<b>5,510</b>	9,635
	<hr/>	<hr/>
<b>Total current assets</b>	<b>48,231</b>	50,560
	<hr/>	<hr/>
<b>CURRENT LIABILITIES</b>		
Trade payables	<b>3,362</b>	1,957
Accrued liabilities, deposits received and other payables	<b>6,897</b>	8,621
Interest-bearing bank loan	<b>14,000</b>	14,000
Tax payable	<b>167</b>	483
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>24,426</b>	25,061
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<b>NET CURRENT ASSETS</b>	<b>23,805</b>	25,499
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<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>133,594</b>	131,529
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	<b>30 June 2011</b>	31 December 2010
<i>Notes</i>	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Audited)
<b>NON-CURRENT LIABILITIES</b>		
Deferred government grants	<u>13,645</u>	<u>13,187</u>
<b>Total non-current liabilities</b>	<u>13,645</u>	<u>13,187</u>
<b>NET ASSETS</b>	<u>119,949</u>	<u>118,342</u>
<b>EQUITY</b>		
Equity attributable to owners of the Company		
Share capital	<b>30,886</b>	30,886
Reserves	<b>89,063</b>	87,456
<b>TOTAL EQUITY</b>	<u>119,949</u>	<u>118,342</u>

**Statement of Changes in Equity***For the six months ended 30 June 2011*

	<b>Equity attributable to owners of the Company</b>				
	<b>Share capital</b>	<b>Capital surplus</b>	<b>Statutory surplus reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010	30,886	18,561	10,475	49,084	109,006
Total comprehensive income for the period	—	—	—	6,423	6,423
At 30 June 2010	<u>30,886</u>	<u>18,561</u>	<u>10,475</u>	<u>55,507</u>	<u>115,429</u>
At 1 January 2011	30,886	18,561	11,574	57,321	118,342
Total comprehensive income for the period	—	—	—	1,607	1,607
<b>At 30 June 2011</b>	<b><u>30,886</u></b>	<b><u>18,561</u></b>	<b><u>11,574</u></b>	<b><u>58,928</u></b>	<b><u>119,949</u></b>

**Statement of Cash Flows***For the six months ended 30 June 2011*

	For the six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Net cash generated from operating activities	3,719	9,683
Net cash outflow from investing activities	(7,272)	(12,894)
Net cash outflow from financing activities	(572)	(121)
Decrease in cash and cash equivalents	(4,125)	(3,332)
Cash and cash equivalents at 1 January	9,635	8,708
Cash and cash equivalents at 30 June	5,510	5,376

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation

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.

The significant accounting policies that have been used in the preparation of these financial statements 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand except when otherwise indicated.

### 2. Revenue

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.

### 3. 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*

## (i) 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 period:

	<b>For the six months ended 30 June</b>			
	<b>2011</b>		2010	
	<b>RMB'000</b>	<b>%</b>	RMB'000	%
Fiber optic inverters	<b>23,913</b>	<b>79</b>	24,844	72
Fiber optic straight plates	<b>1,949</b>	<b>7</b>	7,892	23
Fiber optic face plates	<b>1,603</b>	<b>5</b>	880	3
Fiber optic tapers	<b>2,199</b>	<b>7</b>	725	2
Fiber optic tapers billets	<b>632</b>	<b>2</b>	93	—
	<b>30,296</b>	<b>100</b>	34,434	100

## (ii) 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:

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
The PRC	<b>2,459</b>	4,621
Hong Kong	<b>5,603</b>	8,698
Europe	<b>22,234</b>	21,115
	<b>30,296</b>	34,434

## (iii) Information about major customers

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

	For the six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Customer A	23,329	21,115
Customer B	4,624	8,698
Customer C	—	3,804
	<u>          </u>	<u>          </u>

## 4. Profit/(Loss) before income tax

	For the six months ended 30 June	
	2011 RMB'000	2010 RMB'000
Profit/(Loss) before income tax is arrived at after charging:		
Cost of inventories sold	18,170	18,243
Depreciation	2,029	1,599
Amortisation of land use rights	156	146
	<u>          </u>	<u>          </u>

## 5. Income tax expense

	<b>For the six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Current income tax — PRC	<b>574</b>	1,168

No Hong Kong profits tax has been provided as the Company had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2011 (For the six months ended 30 June 2010: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Company operates. The Company is registered as a New and High Technical Enterprise (高新技術企業) and is entitled to a concessionary Enterprise Income Tax rate of 15% over 3 years, beginning on 1 January 2009.

## 6. Earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to the owners of the Company for the three months and six months ended 30 June 2011 of approximately RMB(1,111,000) and RMB1,607,000 (For the three months and six months ended 30 June 2010: RMB3,198,000 and RMB6,423,000) and 308,860,000 (2010: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the six months ended 30 June 2011 and 2010.

## 7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2011 (For the six months ended 30 June 2010: Nil).

**8. Trade receivables**

An ageing analysis of the net trade receivables is as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
0–90 days	<b>13,549</b>	14,419
91–180 days	<b>254</b>	20
181–365 days	<b>279</b>	580
	<b>14,082</b>	15,019

The credit period granted by the Company to its customers is generally less than 90 days.

**9. Trade payables**

An ageing analysis of the trade payables is as follows:

	<b>30 June 2011 RMB'000 (Unaudited)</b>	31 December 2010 RMB'000 (Audited)
0–90 days	<b>2,379</b>	1,837
91–180 days	<b>16</b>	111
181–365 days	<b>967</b>	9
	<b>3,362</b>	1,957

## 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

The Company reported a turnover of approximately RMB30,296,000 for the six months ended 30 June 2011, representing a decrease of 12% from approximately RMB34,434,000 for the same period in 2010. The decrease in the sales was mainly due to the decrease in the demand from the Asian customers and partly due to the continued appreciation of Renminbi as a majority of the Company's sales was denominated in US Dollars.

During the six months ended 30 June 2011, the Company recorded cost of sales amounting to approximately RMB18,170,000, representing a decrease of 1% from approximately RMB18,243,000 for the same period in 2010. The decrease in the cost of sales was not in line with the decrease in the sales was mainly due to the increase in the cost of raw materials. The cost of certain raw materials was increased by few times during the past twelve months.

Administrative expenses of the Company for the six months ended 30 June 2011 was approximately RMB10,091,000, representing an increase of 16% from approximately RMB8,668,000 for the same period in 2010. The increase in the administrative expenses was mainly due to the substantial increase in the research and development costs by approximately RMB1,539,000 to approximately RMB2,884,000 as compared to approximately RMB1,345,000 for the same period in 2010 as the Company has been preparing to launch a new product line in the coming future.

The Company's unaudited profit attributable to owners of the Company for the six months ended 30 June 2011 was approximately RMB1,607,000 (For the six months ended 30 June 2010: RMB6,423,000).

To conclude, the management of the Company considered that (1) continued appreciation of Renminbi; (2) increase in the cost of certain raw materials substantially and the cost of production; (3) increase in the research and development costs substantially for the preparation of the launch of a new product line; (4) increase in the overheads generally; and (5) increase in the finance costs were the main factors to lead to the decrease in the profit of the Company for the six months ended 30 June 2011.

**Liquidity and Financial Resources**

As at 30 June 2011, the total assets of the Company increased by approximately RMB1,430,000 to approximately RMB158,020,000 as compared to approximately RMB156,590,000 as at the end of the previous financial year, representing an increase of approximately 1%.

As at 30 June 2011, the total liabilities of the Company decreased by approximately RMB177,000 to approximately RMB38,071,000 as compared to approximately RMB38,248,000 as at the end of the previous financial year, representing a decrease of approximately 1%.

As at 30 June 2011, the total equity of the Company increased by approximately RMB1,607,000 to approximately RMB119,949,000 as compared to approximately RMB118,342,000 as at the end of the previous financial year, representing an increase of approximately 1%.

**Capital Structure**

As at 30 June 2011 and 31 December 2010, the Company had total outstanding bank loan of RMB14,000,000.

**Gearing Ratio**

As at 30 June 2011, the gearing ratio (defined as total liabilities over total assets) was approximately 24% (31 December 2010: 24%).

**Charges of Assets**

As at 30 June 2011, the Company's land use right with the carrying value of approximately RMB12,590,000 was pledged as securities for the borrowing facilities of the Company.

**Significant Investment Held**

As at 30 June 2011 and 31 December 2010, 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 six months ended 30 June 2011.

**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 of the Company 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.

**Contingent Liabilities**

As at 30 June 2011, the Company had no contingent liabilities.

**Employee Information**

As at 30 June 2011, the Company had approximately 680 full-time employees (31 December 2010: 640). The Company remunerates its employees based on their experience, performance and value, which they contribute to the Company.

## OTHER INFORMATION

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

As at 30 June 2011, the interests and short positions of the directors or supervisors of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO 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 Rule 5.46 of the GEM Listing Rules, were as follows:

#### *Long positions in the shares and underlying shares of the Company*

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Note 1)	41.34%	—	26.61%
Yuan Guo Liang	Personal Interest and Family Interest	3,895,000 H shares (Note 2)	—	3.54%	1.26%

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

#### Notes:

- Part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir Venture Capital Management Limited ("Beijing Gensir"). Beijing Gensir is owned as to 100% by Zhang Shao Hui. The rest of these domestic shares (24,900,000 domestic shares) are registered in the name of Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai") in which Zhang Shao Hui has an indirect interest through his shareholdings in Beijing Gensir.
- 3,645,000 H shares is registered in the name of Yuan Guo Liang and 250,000 H shares is registered in name of his spouse.



Save as disclosed above, as at 30 June 2011, 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) as recorded in the register required to be kept under section 352 of the SFO 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

The register of substantial shareholders required to be kept under Section 336 of the SFO shows that as at 30 June 2011, the Company had been notified of the following substantial shareholders' interests or short positions, being interests of 5% or more of the Company's issued share capital, 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*
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Notes 1 & 2)	41.34%	—	26.61%
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	—	26.61%
Taiyuan Changcheng Optics and Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	—	25.95%

<b>Name</b>	<b>Nature and capacity in the shareholding of the Company</b>	<b>Number and type of domestic shares/H shares</b>	<b>Approximate percentage of holding of the domestic shares of the Company*</b>	<b>Approximate percentage of holding of the H shares of the Company*</b>	<b>Approximate percentage of holding of the total share capital of the Company*</b>
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 (Note 3)	17.10%	—	11.01%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 3)	17.10%	—	11.01%
Taiyuan Tanghai Automatic Control Company Limited	Registered and beneficial owner of the domestic shares	24,900,000 domestic shares	12.52%	—	8.06%
Liu Jiang	Interest in a controlled corporation	24,900,000 domestic shares (Note 4)	12.52%	—	8.06%
Qiu Gui Qin	Family interest	24,900,000 domestic shares (Note 4)	12.52%	—	8.06%
Kwong Tat Finance Limited	Beneficial owner of H shares	33,975,000 H shares (Note 5)	—	30.89%	11.00%
Cai Zheng	Interest in a controlled corporation	33,975,000 H shares (Note 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 47.29% by Liu Jiang. As Liu Jiang 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, Liu Jiang is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai. Qiu Gui Qin, as the spouse of Liu Jiang, is taken to be interested in the shares held by Liu Jiang by virtue of Part XV of the SFO.
5. These 33,975,000 H shares is registered in the name of Kwong Tat Finance Limited. For the purpose of the SFO, Cai Zheng is deemed to be interested in all the H shares held by Kwong Tat Finance Limited.

Save as disclosed above, the directors of the Company are not aware of other person who, as at 30 June 2011, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### **Share Option Scheme**

The Company does not have share option scheme.

### **Directors' and Supervisors' Rights to Acquire H Shares**

During the six months ended 30 June 2011, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2011, 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 in the Company or had exercised any such right during the period.

### **Directors' and Supervisors' Interest in Contracts**

No contracts of significance in relation to the Company's business to which the Company was a party and in which a director and supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2011 or at any time during the period.

### **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 six months ended 30 June 2011.

### **Purchase, Sale or Redemption of Shares**

The Company has not purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2011.

### **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. Li Li Cai, Mr. Duan Zhong and Ms. Zhang Zhi Hong. Mr. Ni Guo Qiang has been appointed as the chairman of the committee.

The audit committee has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2011.

### **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 a remuneration committee was not established by the Company.

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 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 on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2011. Having made specific enquiry of all directors of the Company, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

By order of the Board

**Shanxi Changcheng Microlight Equipment Co. Ltd.**

**Song Lian Bin**

*Chairman*

Taiyuan City, Shanxi Province, the PRC, 8 August 2011

*As at the date of this report, the Board comprises nine directors, of which three are executive directors, namely Mr. Song Lian Bin, Mr. Wang Wen Sheng, and Mr. Tian Qun Xu; two non-executive directors, namely Mr. Zhang Shao Hui and Mr. Yuan Guo Liang; and four independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, Mr. Duan Zhong and Ms. Zhang Zhi Hong.*