SHANXI CHANGCHENG

Shanxi Changcheng Microlight Equipment Co. Ltd.*

山 西 長 城 微 光 器 材 股 份 有 限 公 司

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

(Stock Code : 8286)

Annual Report **2011**

CCOE

* For identification only

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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.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Song Lian Bin *(Chairman)* (appointed on 8 August 2011)
Mr. Zhang Xiu Sheng *(Chairman)*
(resigned on 8 August 2011)
Mr. Wang Wen Sheng
Mr. Tian Qun Xu

Non-executive Directors

Mr. Zhang Shao Hui (appointed on 27 May 2011)
Mr. Yuan Guo Liang (appointed on 27 May 2011)
Mr. Lin Yin Ping (resigned on 27 May 2011)

Independent Non-executive Directors

Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Duan Zhong (appointed on 27 May 2011)
Ms. Zhang Zhi Hong (appointed on 27 May 2011)
Mr. Shen Ming Hong (resigned on 27 May 2011)
Ms. Chen Yue Jie (resigned on 27 May 2011)

SUPERVISORS

Ms. Huan Xiao Ou *(Chairman)* (appointed on 27 May 2011)
Mr. Zhang Fu Sheng
Mr. Meng Yan
Mr. Wang Guang Hua

COMPLIANCE OFFICER

Mr. Song Lian Bin (appointed on 8 August 2011)
Mr. Zhang Xiu Sheng (resigned on 8 August 2011)

AUTHORISED REPRESENTATIVES

Mr. Song Lian Bin (appointed on 8 August 2011)
Mr. Zhang Xiu Sheng (resigned on 8 August 2011)
Mr. Tsang Kwok Wai

COMPANY SECRETARY

Mr. Tsang Kwok Wai

AUDIT COMMITTEE

Ms. Zhang Zhi Hong *(Chairman)* (appointed on 27 May 2011)
Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Shen Ming Hong (resigned on 27 May 2011)
Ms. Chen Yue Jie (resigned on 27 May 2011)

REMUNERATION COMMITTEE

Mr. Li Li Cai *(Chairman)*
Ms. Zhang Zhi Hong
Mr. Qian Yun

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

China Minsheng Banking Corp., Limited
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.

The Company reported a turnover approximately RMB55,333,000 for the year of 2011, representing a decrease of approximately 14% as compared to the previous financial year. The Company recorded net loss after tax approximately RMB11,041,000 for the year ended 31 December 2011.

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,

Song Lian Bin
Chairman

Taiyuan City, Shanxi Province, the PRC, 26 March 2012

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.

FINANCIAL REVIEW

Turnover of the Company for the year ended 31 December 2011 was approximately RMB55,333,000 (2010: RMB64,578,000), representing a decrease of approximately 14% as compared to the previous financial year. The decrease in the sales was mainly due to the decrease in the demand from the Asian customers and partly due to the continuing appreciation of Renminbi as a majority of the Company's sales was denominated in US Dollars and Euro.

Cost of sales of the Company for the year ended 31 December 2011 was approximately RMB39,900,000 (2010: RMB33,781,000), representing an increase of approximately 18% as compared to the previous financial year. The increase in the cost of sales was mainly due to the increase in the cost of raw materials.

Administrative expenses of the Company for the year ended 31 December 2011 was approximately RMB19,933,000 (2010: RMB15,082,000), representing an increase of approximately 32% as compared to the previous financial year. The increase in the administrative expenses was mainly due to the substantial increase in the amount of depreciation.

The loss after tax for the year ended 31 December 2011 was approximately RMB11,041,000 (2010: profit after tax of approximately RMB9,336,000).

To conclude, the management of the Company considered that (1) continuing appreciation of Renminbi; (2) increase in the cost of certain raw materials 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 amount of depreciation; and (5) increase in the finance costs were the main factors to lead to the loss of the Company for the year ended 31 December 2011.

As at 31 December 2011, the amount due from a shareholder — Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng") was RMB0 (2010: RMB4,444,000).

As at 31 December 2011, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai") was approximately RMB593,000 (2010: RMB709,000). The Company is in the process to discuss with Taiyuan Tanghai relating to the repayment of the outstanding balance.

As at 31 December 2011, the amount due from a related company — Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei") was approximately RMB4,283,000 (2010: 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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the total assets of the Company decreased by approximately RMB2,395,000 to approximately RMB154,195,000 as compared to approximately RMB156,590,000 as at the end of the previous financial year, representing a decrease of approximately 2%.

As at 31 December 2011, the total liabilities of the Company increased by approximately RMB8,646,000 to approximately RMB46,894,000 as compared to approximately RMB38,248,000 as at the end of the previous financial year, representing an increase of approximately 23%.

As at 31 December 2011, the total equity of the Company decreased by approximately RMB11,041,000 to approximately RMB107,301,000 as compared to approximately RMB118,342,000 as at the end of the previous financial year, representing a decrease of approximately 9%.

GEARING RATIO

As at 31 December 2011, the gearing ratio (defined as net debt dividend by the total capital plus net debt) was approximately 22% (2010: 11%).

SIGNIFICANT INVESTMENT HELD

As at 31 December 2011, the Company held interest in an associate with a carrying amount of Nil (2010: Nil).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Company had no other acquisition and disposal of subsidiaries during the year ended 31 December 2011.

PLEDGE OF ASSETS

As at 31 December 2011, the Company's land with the carrying value of approximately RMB12,585,000 was pledged to a bank as securities for the borrowing facilities of the Company.

CONTINGENT LIABILITIES

As at 31 December 2011, the Company had no contingent liabilities.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES

A majority of the Company's sales was denominated in US Dollars and Euro 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, Euro and Hong Kong Dollars, respectively.

EMPLOYEE INFORMATION

As at 31 December 2011, the Company had approximately 644 (2010: 640) full-time employees. For the year ended 31 December 2011, the Company reported staff costs of approximately RMB27,586,000 (2010: RMB27,384,000). 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. SONG Lian Bin (宋連斌), aged 44, has been appointed as an executive director of the Company on 8 August 2011. Prior to joining the Company, Mr. Song was head of the editorial department of Gujiao Newspaper of Gujiao City (古交市), deputy secretary-general of Gujiao Municipal Government, head of Gujiao Government Information Centre, director of Organisation Department of Stated-Owned Assets Supervision and Administration Commission of Taiyuan Municipal Government, assistant investigation and research officer of Stated-Owned Assets Supervision and Administration Commission of Taiyuan Municipal Government, and deputy director of Office of the Enterprise Reform Leading Group (企業改革領導組辦公室). Mr. Song is also party secretary and general manager of Taiyuan Changcheng Optics Electronics Industrial Corporation (太原長城光電子工業公司). Mr. Song graduated from the Shanxi Agricultural University (山西農業大學).

Mr. WANG Wen Sheng (王文生), aged 46, is 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 of image transmission fibre optic products of the Company. Mr. Tian has over 40 years of experience in research and development 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).

NON-EXECUTIVE DIRECTOR'S PROFILE

Mr. ZHANG Shao Hui (張少輝), aged 42, has been appointed as a non-executive director of the Company on 27 May 2011. Mr. Zhang is currently the vice chairman of the Company and the chairman of Jilin East-asia Night Vision Co., Limited (吉林東亞夜視有限公司). Mr. Zhang graduated from the China Jiliang University (中國計量學院).

Mr. YUAN Guo Liang (袁國良), aged 50, has been appointed as a non-executive director of the Company on 27 May 2011. Mr. Yuan is currently the deputy director of the Company's Strategic Policy Committee (戰略決策委員會). Prior to joining the Company, Mr. Yuan has worked with Shanxi Jinxi Machines Factory (山西晉西機器廠) and The Economic Committee of Taiyuan (太原市經濟委員會). Mr. Yuan graduated from the Changchun University of Science and Technology (長春理工大學).

INDEPENDENT NON-EXECUTIVE DIRECTORS' PROFILE

Mr. NI Guo Qiang (倪國強), aged 66, 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).

Mr. LI Li Cai (黎禮才), aged 71, has over 30 years of experience in corporate management and investment. Prior to joining the Company, Mr. Li was the deputy general manager of Taiyuan Iron & Steel (group) Co., Limited (太原鋼鐵集團公司) and vice chairman of Shanxi Taigang Stainless Steel Company (太鋼不銹). Mr. Li graduated from the Wuhan Iron & Steel Institute (武漢鋼鐵學院).

Mr. DUAN Zhong (段忠), aged 60, has been appointed as an independent non-executive director of the Company on 27 May 2011. Mr. Duan is currently the chairman of Shenzhen South Aviation Industry (Group) Company (深圳南航工業集團公司). Mr. Duan graduated from the Beijing University Of Aeronautics & Astronautics (北京航空航天大學).

Ms. ZHANG Zhi Hong (張志紅), aged 40, has been appointed as an independent non-executive director of the Company on 27 May 2011. Prior to joining the Company, Ms. Zhang has worked with Shanxi Jiao Jia Dian Corporation (山西省交家電總公司) and Zhongxi Certified Public Accountants Co., Limited (中喜會計師事務所有限責任公司). Ms. Zhang is currently a founder of Shanxi Zhongjie Certified Public Accountants Co., Limited (山西中捷會計師事務所有限責任公司). Ms. Zhang is a China Certified Public Accountants and graduated from the Shanxi Provincial Committee Pary College (山西省委黨校).

SUPERVISORS' PROFILE

Ms. HUAN Xiao Ou (韓曉歐), aged 33, has been appointed as a shareholder representative supervisor of the Company on 27 May 2011. Ms. Huan is currently the chairman of labour union of the Company. Ms. Huan graduated from the Shanxi Normal University (山西師範大學).

Mr. ZHANG Fu Sheng (張府生), aged 61, 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 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 57, 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 52, 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 61, 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).

Mr. SHEN Jian (申健), aged 38, 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).

Mr. QIAN Yun (錢沄), aged 48, 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 (太原三晉鋁業有限公司). Mr. Qian was graduated from the Taiyuan Polytechnic University (太原理工大學).

Mr. FAN Ji Ming (范繼民), aged 50, 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 47, 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 (太原無線電四廠). Mr. Zhang graduated from the North University of China (中北大學).

Ms. WANG Ling Ling (王玲玲), aged 46, 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 2011.

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 2011 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 2011 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 2011 (2010: 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 section headed "Statement of Changes in Equity" of this annual report.

The Company had reserves of approximately RMB46,280,000 (2010: RMB57,321,000) available for dividend distribution to shareholders as at 31 December 2011.

SHARE CAPITAL

There were no movements in either the Company's authorised or issued share capital during the year ended 31 December 2011.

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 2011.

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 2011, the Company reported employer's staff retirement cost charged to the statement of comprehensive income of approximately RMB6,516,000 (2010: RMB5,706,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the five largest customers accounted for approximately 95% (2010: 99%) of the Company's total turnover and the five largest suppliers of the Company accounted for approximately 71% (2010: 85%) of the Company's total purchases. The largest customer of the Company accounted for approximately 71% (2010: 54%) of the Company's total turnover while the largest supplier of the Company accounted for approximately 39% (2010: 21%) 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 2010 and 2011, 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 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 2011 and up to the date of this annual report were:

Executive Directors

Mr. Song Lian Bin *(Chairman)* (appointed on 8 August 2011)
Mr. Zhang Xiu Sheng *(Chairman)* (resigned on 8 August 2011)
Mr. Wang Wen Sheng
Mr. Tian Qun Xu

Non-executive Directors

Mr. Zhang Shao Hui (appointed on 27 May 2011)
Mr. Yuan Guo Liang (appointed on 27 May 2011)
Mr. Lin Yin Ping (resigned on 27 May 2011)

Independent Non-executive Directors

Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Duan Zhong (appointed on 27 May 2011)
Ms. Zhang Zhi Hong (appointed on 27 May 2011)
Mr. Shen Ming Hong (resigned on 27 May 2011)
Ms. Chen Yue Jie (resigned on 27 May 2011)

The supervisors who held office during the year ended 31 December 2011 and up to the date of this annual report were:

Supervisors

Ms. Huan Xiao Ou *(Chairman)* (appointed on 27 May 2011)
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

Each of the Directors has entered into a service contract with the Company for a fixed term of three years. Each of the supervisors of the Company has entered into an appointment contract with the Company for a fixed term of three years.

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 OF THE COMPANY

As at 31 December 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:

1. 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.

2. 3,645,000 H shares are registered in the name of Yuan Guo Liang and 250,000 H shares are registered in name of his spouse.

Save as disclosed above, as at 31 December 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

As at 31 December 2011, so far as the Directors are aware, persons other than Directors or supervisors of the Company who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Domestic Shares:					
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Notes 1 & 2)	41.34%	–	26.61%
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	–	26.61%
Taiyuan Changcheng Optics 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 (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%
H Shares:					
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 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 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 year ended 31 December 2011, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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 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 2011 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 three independent non-executive Directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, and Ms. Zhang Zhi Hong. Ms. Zhang Zhi Hong has been appointed as the chairman of the audit committee. The audit committee has reviewed the annual results of the Company for the year ended 31 December 2011.

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 2011.

AUDITORS

HLB Hodgson Impey Cheng 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 Hodgson Impey Cheng as auditors of the Company will be proposed at the forthcoming annual general meeting.

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

Song Lian Bin
Chairman

Taiyuan City, Shanxi Province, the PRC, 26 March 2012

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.

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 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.

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 2011, the Board held five physical meetings and the attendance of the Directors is as follows:

Name of director	Number of attendance in person	% of attendance
Mr. Song Lian Bin (appointed on 8 August 2011)	2/5	40%
Mr. Zhang Xiu Sheng (resigned on 8 August 2011)	2/5	40%
Mr. Wang Wen Sheng	5/5	100%
Mr. Tian Qun Xu	5/5	100%
Mr. Zhang Shao Hui (appointed on 27 May 2011)	2/5	40%
Mr. Yuan Guo Liang (appointed on 27 May 2011)	3/5	60%
Mr. Lin Yin Ping (resigned on 27 May 2011)	2/5	40%
Mr. Ni Guo Qiang	3/5	60%
Mr. Li Li Cai	5/5	100%
Mr. Duan Zhong (appointed on 27 May 2011)	2/5	40%
Ms. Zhang Zhi Hong (appointed on 27 May 2011)	3/5	60%
Mr. Shen Ming Hong (resigned on 27 May 2011)	1/5	20%
Ms. Chen Yue Jie (resigned on 27 May 2011)	2/5	40%

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 re-election for appointment by shareholders at the general meeting by the end of the three-year period. During the year ended 31 December 2011, Mr. Tian Qun Xu was re-elected as the executive Director and Mr. Ni Guo Qiang and Mr. Li Li Cai were re-elected as the independent non-executive Directors.

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. Song Lian Bin, 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.

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 three independent non-executive Directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai and Ms. Zhang Zhi Hong. Ms. Zhang Zhi Hong has been appointed as the chairman of the audit committee.

The audit committee met four times during the year ended 31 December 2011 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Ni Guo Qiang	3/4	75%
Mr. Li Li Cai	4/4	100%
Ms. Zhang Zhi Hong (appointed on 8 August 2011)	2/4	50%
Mr. Shen Ming Hong (resigned on 27 May 2011)	1/4	25%
Ms. Chen Yue Jie (resigned on 27 May 2011)	2/4	50%

During the year ended 31 December 2011, 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, if appropriate.

The audited financial statements for the year ended 31 December 2011 have been reviewed by the audit committee.

REMUNERATION COMMITTEE

During the year ended 31 December 2011, the Company has established the remuneration committee. The remuneration committee comprises two independent non-executive Directors and one internal staff, namely Mr. Li Li Cai, Ms. Zhang Zhi Hong and Mr. Qian Yun. Mr. Li Li Cai has been appointed as the chairman of the committee.

NOMINATION OF DIRECTORS

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

AUDITOR'S REMUNERATION

The external auditors provide audit service to the Company during the year ended 31 December 2011. The remuneration of the external auditors for the provision of audit service during the year under review is HK$420,000.

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.

Huan Xiao Ou
Chairman

Taiyuan City, Shanxi Province, the PRC, 26 March 2012

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 25 to 76, which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and 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 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.

OPINION

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2011, and of its loss 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 to the financial statements which indicates that the Company incurred a net loss of approximately RMB11,041,000 and net operating cash outflow of approximately RMB2,068,000 during the year ended 31 December 2011 and, as of that date, the Company has outstanding bank loan amounted to approximately RMB14,000,000 which is due for repayment within the next twelve months. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. As explained in Note 3, the financial statements have been prepared on a going concern basis, the validity of which depends upon the ongoing support from the Company's banker and the Company's ability to generate sufficient cash flows from future operations to cover the Company's operating costs and to meet its financial obligations as and when they fall due for the foreseeable future. The financial statements do not include any adjustments that would result from the failure to operate as a going concern.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 26 March 2012

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Revenue	6	**55,333**	64,578
Cost of sales		**(39,900)**	(33,781)
Gross profit		**15,433**	30,797
Other income	6	**2,239**	1,418
Other gain/(loss)	6	**310**	(921)
Selling and distribution expenses		**(1,051)**	(1,025)
Administrative expenses		**(19,933)**	(15,082)
Other operating expenses		**(7,273)**	(4,220)
Operating (loss)/profit		**(10,275)**	10,967
Finance costs	8	**(1,043)**	(82)
(Loss)/profit before tax	7	**(11,318)**	10,885
Income tax	11	**277**	(1,549)
(Loss)/profit for the year		**(11,041)**	9,336
Other comprehensive income for the year		**—**	—
Total comprehensive (expense)/income for the year		**(11,041)**	9,336
(Loss)/earnings per share attributable to ordinary equity holders of the Company:	12		
— Basic and diluted		**RMB(0.036)**	RMB0.030

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**93,869**	84,897
Land use right	14	**12,585**	12,878
Deposits for acquisition of property, plant and equipment		**—**	8,255
Interest in an associate	15	**—**	—
Total non-current assets		**106,454**	106,030
CURRENT ASSETS			
Inventories	16	**16,815**	13,585
Trade receivables	17	**19,670**	15,019
Prepayments, deposits and other receivables		**4,801**	2,878
Due from shareholders	18	**593**	5,153
Due from a related company	19	**4,283**	4,290
Tax refundable		**480**	—
Cash and cash equivalents	20	**1,099**	9,635
Total current assets		**47,741**	50,560
CURRENT LIABILITIES			
Trade payables	21	**6,704**	1,957
Accrued liabilities, deposits received and other payables		**9,559**	8,621
Due to a shareholder	22	**500**	—
Interest-bearing bank loan	23	**14,000**	14,000
Tax payable		**—**	483
Total current liabilities		**30,763**	25,061
NET CURRENT ASSETS		**16,978**	25,499
TOTAL ASSETS LESS CURRENT LIABILITIES		**123,432**	131,529
NON-CURRENT LIABILITIES			
Deferred government grants	24	**16,131**	13,187
NET ASSETS		**107,301**	118,342

STATEMENT OF FINANCIAL POSITION (continued)

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	25	**30,886**	30,886
Reserves	26	**76,415**	87,456
TOTAL EQUITY		**107,301**	118,342

Song Lian Bin
Director

Wang Wen Sheng
Director

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Equity attributable to owners of the Company				
	Share capital RMB'000 (Note 25)	**Capital surplus* RMB'000** (Note 26)	**Statutory surplus reserve* RMB'000** (Note 26)	**Retained earnings* RMB'000**	**Total equity RMB'000**
At 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 and 1 January 2011	**30,886**	**18,561**	**11,574**	**57,321**	**118,342**
Total comprehensive expense for the year	**—**	**—**	**—**	**(11,041)**	**(11,041)**
At 31 December 2011	**30,886**	**18,561**	**11,574**	**46,280**	**107,301**

* These reserve accounts comprise the reserves of approximately RMB76,415,000 (2010: RMB87,456,000) in the statement of financial position.

STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before income tax		**(11,318)**	10,885
Adjustments for:			
Interest expense	8	**1,043**	82
Depreciation	7	**9,948**	4,441
Amortisation of land use right	7	**293**	293
Amortisation of deferred government grants	6	**(1,966)**	(1,368)
(Gain)/loss on disposal of items of property, plant and equipment	6	**(310)**	921
Interest income	6	**(20)**	(16)
Impairment of trade receivables	7	**18**	—
Reversal of impairment of trade receivables	7	**(36)**	(633)
Impairment of other receivables	7	**171**	—
Operating (loss)/profit before working capital changes		**(2,177)**	14,605
Increase in inventories		**(3,230)**	(4,233)
Increase in trade receivables		**(4,804)**	(4,402)
Increase in prepayments, deposits and other receivables		**(1,923)**	(784)
Decrease in amounts due from shareholders		**4,560**	4,007
Decrease/(increase) in an amount due from a related company		**7**	(190)
Increase in trade payables		**4,747**	329
Increase in accrued liabilities, deposits received and other payables		**938**	1,909
Decrease in amounts due to directors		**—**	(96)
Increase in an amount due to a shareholder		**500**	—
Cash (used in)/generated from operations		**(1,382)**	11,145
Income taxes paid		**(686)**	(2,783)
Net cash flows (used in)/from operating activities		**(2,068)**	8,362

STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(11,156)**	(22,311)
Proceeds from disposal of items of property, plant and equipment		**801**	—
Government grants received	24	**4,910**	1,280
Interest received		**20**	16
Net cash flows used in investing activities		**(5,425)**	(21,015)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital element of finance lease rental payments		**—**	(338)
Interest element of finance lease rental payments		**—**	(82)
Proceeds from interest-bearing bank loan		**14,000**	14,000
Repayment of interest-bearing bank loan		**(14,000)**	—
Interest paid		**(1,043)**	—
Net cash flows (used in)/from financing activities		**(1,043)**	13,580
Net (decrease)/increase in cash and cash equivalents		**(8,536)**	927
Cash and cash equivalents at beginning of year		**9,635**	8,708
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,099**	9,635
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	20	**1,099**	9,635
Cash and cash equivalents as stated in the statement of financial position		**1,099**	9,635

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's H shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section of this annual report.

The principal activities of the Company included design, research, development, manufacture and sale of image transmission fibre optic products.

The financial statements of the Company have been prepared in accordance with the new and revised Hong Kong Financial Reporting Standards (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 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 financial statements for the year ended 31 December 2011 were approved for issue by the board of directors on 26 March 2012.

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 HKFRSs issued by the HKICPA that are effective for the Company's financial year beginning 1 January 2011.

HKFRS 1 Amendment	Amendment to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 Amendment	Amendment to HKAS 32 Financial Instruments: Presentation — Classification of Rights Issues
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments
Improvements to HKFRSs 2010	Amendments to a number of HKFRSs issued in May 2010

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.

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

New and Revised HKFRSs in Issue but not yet Effective

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

HKFRS 1 Amendments	Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets [1]
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities [4]
HKFRS 9	Financial Instruments [6]
HKFRS 10	Consolidated Financial Statements [4]
HKFRS 11	Joint Arrangements [4]
HKFRS 12	Disclosure of Interests in Other Entities [4]
HKFRS 13	Fair Value Measurement [4]
HKAS 1 Amendments	Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income [3]
HKAS 12 Amendments	Amendments to HKAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets [2]
HKAS 19 (2011)	Employee Benefits [4]
HKAS 27 (2011)	Separate Financial Statements [4]
HKAS 28 (2011)	Investments in Associates and Joint Ventures [4]
HKAS 32 Amendments	Amendments to HKAS 32 Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities [5]
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine [4]

1 Effective for annual periods beginning on or after 1 July 2011.
2 Effective for annual periods beginning on or after 1 January 2012.
3 Effective for annual periods beginning on or after 1 July 2012.
4 Effective for annual periods beginning on or after 1 January 2013.
5 Effective for annual periods beginning on or after 1 January 2014.
6 Effective for annual periods beginning on or after 1 January 2015.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

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

New and Revised HKFRSs in Issue but not yet Effective (Continued)

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply.

The directors anticipate that HKFRS 9 that will be adopted in the Company's financial statements for the annual period beginning 1 January 2015 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.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Company expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Company is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Company expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycle) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Company expects to adopt the amendments from 1 January 2013.

The directors anticipate that the application of the other new or revised standards, amendments or interpretations will have no material effect on the results and financial position of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

Basis of preparation

In preparing the financial statements, the directors have given consideration to the future liquidity of the Company in light of a net loss of approximately RMB11,041,000 and net operating cash outflow of approximately RMB2,068,000 during the year ended 31 December 2011 and, as of that date, the Company has outstanding bank loan amounted to approximately RMB14,000,000 which is due for repayment within the next twelve months.

The Company intends to maintain its strong business relationship with its banker to maintain its continuing support. The directors are of the opinion that there are good track records or relationship with the bank which enhance the Company's ability to renew the current bank loan upon expiry.

In addition, the directors have been taking active steps to improve the liquidity position of the Company. These steps include (i) implementing stringent cost control measures to strengthen its cash flow position; and (ii) implementing various sales strategies to increase the sales turnover and margins of the products.

Provided that these measures can successfully improve the liquidity position of the Company, the directors are satisfied that the Company will be able to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis. Should the Company be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities. The effect of these adjustments has not been reflected in the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 investment in an associate is 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 the associate is included in the statement of comprehensive income and reserves, respectively. Unrealised gains and losses resulting from transactions between the Company and its associate are eliminated to the extent of the Company's investment in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of the associate is included as part of the Company's investment in an associate and is not individually tested for impairment.

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.

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 statement of comprehensive income in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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 statement of comprehensive income 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related Parties

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

(a) the party is a person or a close member of that person's family and that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Company or of a parent of the Company;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Company are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Company are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a) (i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, Plant and Equipment

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. 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 statement of comprehensive income 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 depreciates them accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (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 buildings	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 statement of comprehensive income 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.

Research and Development Costs

All research costs are charged to the statement of comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intension to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 statement of comprehensive income 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 statement of comprehensive income 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 statement of comprehensive income 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. Where the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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 trade and other receivables, amounts due from shareholders, amount due from a related company and cash and bank balances.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Other Financial Assets (Continued)

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 statement of comprehensive income. The loss arising from impairment is recognised in the statement of comprehensive income.

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.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the assets. When it 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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.

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 statement of comprehensive income. 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 statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 plus, in the case of loans and borrowings, directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, an amount due to a shareholder and interest-bearing bank loan.

Subsequent Measurement

The subsequent 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 statement of comprehensive income when the liabilities are derecognised as well as through the effective interest rate 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 statement of comprehensive income.

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 statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 based on estimated selling price less any estimated cost to be incurred to completion and disposal.

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.

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 statement of comprehensive income.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

- when 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Tax (Continued)

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.

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 statement of comprehensive income 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 statement of comprehensive income by way of a reduced depreciation charge.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Company is required to contribute a certain percentage of its basic salaries to the central pension scheme. The contributions are charged to the statement of comprehensive income as they become payable in accordance with the rules of the central pension scheme.

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.

Borrowing Costs

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.

Foreign Currencies

These financial statements are presented in Renminbi ("RMB"), which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

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. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. 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. 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.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

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.

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 loss/profit were mainly derived from its sale of fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers, fiber optic tapers billets and microchannel plates, 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 directors, being the chief operating decision maker ("CODM"), for purposes of resource allocation and performance assessment.

The measures of loss/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 CODM. In addition, the Company's assets are located in Shanxi, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

5. SEGMENT INFORMATION (CONTINUED)

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:

	2011		2010	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**44,170**	**80**	49,807	77
Fiber optic straight plates	**4,559**	**8**	9,072	14
Fiber optic face plates	**2,717**	**5**	2,949	5
Fiber optic tapers	**3,233**	**6**	2,370	4
Fiber optic tapers billets	**632**	**1**	380	—
Microchannel plates	**22**	**—**	—	—
	55,333	**100**	64,578	100

Geographical Information

The Company principally operates in the PRC, the country of the Company's domicile, with revenue and loss/profit 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:

	2011	2010
	RMB'000	RMB'000
The PRC	**3,607**	12,705
Hong Kong	**9,949**	16,730
Europe	**41,622**	35,143
Others	**155**	—
	55,333	64,578

5. SEGMENT INFORMATION (CONTINUED)

Information about Major Customers

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

	2011 RMB'000	2010 RMB'000
Customer A	39,419	35,143
Customer B	8,361	16,730
Customer C	N/A[1]	8,786

[1] The revenue did not contribute to 10% or more of the total revenues of the Company.

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

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 other gain/(loss) recognised during the year is as follows:

	2011 RMB'000	2010 RMB'000
Revenue:		
Sale of goods	55,333	64,578
Other income:		
Amortisation of deferred government grants (Note 24)	1,966	1,368
Bank interest income	20	16
Others	253	34
	2,239	1,418
Other gain/(loss):		
Gain/(loss) on disposal of items of property, plant and equipment	310	(921)

7. (LOSS)/PROFIT BEFORE TAX

	2011 RMB'000	2010 RMB'000
(Loss)/profit before tax is arrived at after charging/(crediting):		
Auditors' remuneration	**350**	356
Cost of inventories sold	**39,900**	33,781
Employee benefit expense (including directors' and supervisors' remuneration — note 9):		
Wages, salaries and other benefits	**21,070**	21,678
Pension scheme contributions	**6,516**	5,706
	27,586	27,384
Depreciation of property, plant and equipment	**9,948**	4,441
Amortisation of land use right (included in administrative expenses)	**293**	293
(Gain)/loss on disposal of property, plant and equipment	**(310)**	921
Net foreign exchange loss	**619**	117
Research and development costs (included in other operating expenses)	**6,420**	3,730
Minimum lease payments under operating lease rentals in respect of leasehold land and buildings	**660**	1,440
Impairment of trade receivables (included in administrative expenses)	**18**	—
Reversal of impairment of trade receivables (included in administrative expenses)	**(36)**	(633)
Impairment of other receivables (included in other operating expenses)	**171**	—

8. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interest on bank loan, wholly repayable within five years	**1,043**	—
Interest on finance leases	**—**	82
	1,043	82

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of directors' and supervisors' remuneration for the year are as follows:

	2011 RMB'000	2010 RMB'000
Directors		
Fees	–	–
Other emoluments		
Salaries, allowances and benefits in kind	680	578
Pension scheme contributions	–	–
	680	578

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
2011				
Executive directors				
Song Lian Bin				
(appointed on 8 August 2011)	–	105	–	105
Wang Wen Sheng	–	137	–	137
Tian Qun Xu	–	145	–	145
Zhang Xiu Sheng				
(resigned on 8 August 2011)	–	121	–	121
Non-executive directors				
Zhang Shao Hui				
(appointed on 27 May 2011)	–	28	–	28
Yuan Guo Liang				
(appointed on 27 May 2011)	–	36	–	36
Ni Guo Qiang#	–	22	–	22
Li Li Cai#	–	22	–	22
Duan Zhong#				
(appointed on 27 May 2011)	–	17	–	17
Zhang Zhi Hong#				
(appointed on 27 May 2011)	–	17	–	17
Lin Yin Ping				
(resigned on 27 May 2011)	–	20	–	20
Shen Ming Hong#				
(resigned on 27 May 2011)	–	5	–	5
Chen Yue Jie#				
(resigned on 27 May 2011)	–	5	–	5
	–	680	–	680

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2010				
Executive directors				
Wang Wen Sheng	—	148	—	148
Tian Qun Xu	—	132	—	132
Zhang Xiu Sheng	—	202	—	202
(resigned on 8 August 2011)				
Non-executive directors				
Ni Guo Qiang#	—	12	—	12
Li Li Cai#	—	12	—	12
Lin Yin Ping	—	48	—	48
(resigned on 27 May 2011)				
Shen Ming Hong#	—	12	—	12
(resigned on 27 May 2011)				
Chen Yue Jie#				
(resigned on 27 May 2011)	—	12	—	12
	—	578	—	578

Independent non-executive directors

	2011 RMB'000	2010 RMB'000
Supervisors		
Fees	**—**	—
Other emoluments		
Salaries, allowances and benefits in kind	**56**	27
Pension scheme contributions	**—**	5
	56	32

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2011				
Huan Xiao Ou *(appointed on 27 May 2011)*	**—**	**53**	**—**	**53**
Zhang Fu Sheng	**—**	**1**	**—**	**1**
Meng Yan	**—**	**2**	**—**	**2**
Wang Guang Hua	**—**	**—**	**—**	**—**
	—	**56**	**—**	**56**
2010				
Zhang Fu Sheng	—	2	—	2
Meng Yan	—	5	—	5
Wang Guang Hua	—	20	5	25
	—	27	5	32

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 expense is key management personnel compensation which comprises the following categories:

	2011 RMB'000	2010 RMB'000
Short term employee benefits	**736**	671
Post-employment benefits	**—**	42
	736	713

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2010: three) directors, details of whose remuneration are reflected in the analysis presented in note 9 above. Details of the remuneration of the remaining one (2010: two) non-director, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**77**	142
Pension scheme contributions	**—**	17
	77	159

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**1**	2

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

	2011 RMB'000	2010 RMB'000
Current PRC Enterprise income tax		
— Charge for the year	—	1,549
— Over-provision in prior years	(277)	—
Deferred tax	—	—
Total tax (credit)/charge for the year	(277)	1,549

No Hong Kong profits tax has been provided as the Company had no estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2011 (2010: 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 2011, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2010: 15%).

Reconciliation between tax (credit)/expense applicable to (loss)/profit before tax at the statutory rate in the PRC to the tax (credit)/expense at the applicable tax rate is as follows:

	2011 RMB'000	2010 RMB'000
(Loss)/profit before tax	(11,318)	10,885
Tax at statutory tax rate of 15% (2010: 15%)	(1,698)	1,633
Income not subject to tax	(396)	(205)
Expenses not deductible for tax	1,941	49
Tax losses not recognised	153	—
Over-provision in prior years	(277)	—
Others	—	72
Income tax (credit)/expense	(277)	1,549

As at 31 December 2011, the Company has estimated unused tax losses of approximately RMB1,023,000 (2010: Nil) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to the unpredictability of future profit streams. The estimated unused tax losses of approximately RMB1,023,000 at 31 December 2011 (2010: Nil) will expire in 5 years.

12. LOSS/EARNINGS PER SHARE

The calculation of basic loss/earnings per share is based on the loss attributable to ordinary equity owners of the Company of approximately RMB11,041,000 (2010: profit attributable to ordinary equity owners of the Company of approximately RMB9,336,000) and 308,860,000 (2010: 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 2011.

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	Construction in progress RMB'000	Total RMB'000
31 December 2011							
At 31 December 2010 and at 1 January 2011:							
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
At 1 January 2011, net of accumulated depreciation	18,061	32	27,897	1,144	486	37,277	84,897
Additions	—	—	3,467	170	330	15,444	19,411
Transferred from construction in progress	37,251	—	818	—	—	(38,069)	—
Disposal	—	—	(3)	—	(488)	—	(491)
Depreciation provided during the year	(5,594)	(3)	(3,914)	(321)	(116)	—	(9,948)
At 31 December 2011, net of accumulated depreciation	49,718	29	28,265	993	212	14,652	93,869
At 31 December 2011:							
Cost	58,474	34	46,715	3,102	1,710	14,652	124,687
Accumulated depreciation	(8,756)	(5)	(18,450)	(2,109)	(1,498)	—	(30,818)
Net carrying amount	49,718	29	28,265	993	212	14,652	93,869

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Medium term leasehold buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010							
At 1 January 2010:							
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
At 1 January 2010, net of accumulated depreciation	233	—	15,105	366	651	48,383	64,738
Additions	—	—	7,099	1,246	—	17,176	25,521
Transferred from construction 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)
At 31 December 2010, net of accumulated depreciation	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

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

As at 31 December 2011, the Company's leasehold buildings held under medium term leases are situated in the PRC.

The land use right to which a medium term leasehold building attached is held by Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuen Changcheng") and was leased to the Company for use under an operating lease (note 30).

As at 31 December 2011, the Company has not yet obtained certificates of ownership in respect of certain buildings of the Company in the PRC with a net carrying amount of approximately RMB49,718,000 (2010: RMB18,061,000). The directors are of the view that the Company is lawfully and validly entitled to occupy and use the above mentioned buildings. The directors are also of the opinion that the aforesaid matter did not have any significant impact on the Company's financial position as at 31 December 2011.

14. LAND USE RIGHT

The Company's interest in land use right represents prepaid operating lease payment and its net carrying amount is analysed as follows:

	2011 **RMB'000**	2010 RMB'000
At beginning of the year		
Cost	**14,634**	14,634
Accumulated amortisation	**(1,756)**	(1,463)
Net carrying amount	**12,878**	13,171
For the year ended		
Opening net carrying amount	**12,878**	13,171
Amortisation	**(293)**	(293)
Net carrying amount	**12,585**	12,878
At end of the year		
Cost	**14,634**	14,634
Accumulated amortisation	**(2,049)**	(1,756)
Net carrying amount	**12,585**	12,878

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

As at 31 December 2010 and 2011, 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

	2011 RMB'000	2010 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 2011 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 2011, the Company recognised a provision for impairment of approximately RMB2,465,000 (2010: RMB2,465,000) in respect of the interest in an associate mainly due to uncertainties surrounding the industry in which the associate operates.

15. INTEREST IN AN ASSOCIATE (CONTINUED)

A summary of the financial results for the years ended 31 December 2011 and 2010, and of the assets and liabilities of the associate at the end of each reporting period are set out below:

	2011 **RMB'000**	2010 RMB'000
Total revenue	**1,445**	1,191
Profit for the year	**21**	52
Total assets	**7,408**	7,368
Total liabilities	**131**	221

The Company has discontinued the recognition of its share of losses of associate because the share of losses of the associate exceeded the Company's interest in an associate. As at 31 December 2011, the cumulatively unrecognised share of losses of the associate is approximately RMB325,000 (2010: RMB333,000).

16. INVENTORIES

	2011 **RMB'000**	2010 RMB'000
Raw materials	**1,350**	942
Work in progress	**9,763**	7,187
Finished goods	**5,702**	5,456
	16,815	13,585

17. TRADE RECEIVABLES

	2011 **RMB'000**	2010 RMB'000
Trade receivables	**20,823**	16,190
Impairment	**(1,153)**	(1,171)
	19,670	15,019

17. TRADE RECEIVABLES (CONTINUED)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2011 **RMB'000**	2010 RMB'000
0–90 days	**12,717**	14,419
91–180 days	**5,312**	20
181–365 days	**1,641**	580
	19,670	15,019

The trading terms with customers are largely on credit. The credit period is generally 90 days (2010: 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.

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

	2011 **RMB'000**	2010 RMB'000
At 1 January	**1,171**	1,838
Impairment losses recognised (note 7)	**18**	—
Reversal of impairment losses recognised (note 7)	**(36)**	(633)
Amount written off as uncollectible	**—**	(34)
At 31 December	**1,153**	1,171

17. TRADE RECEIVABLES (CONTINUED)

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB1,153,000 (2010: RMB1,171,000). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Company does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade receivables that are not individually nor collectively considered to be impaired, is as follows:

	2011 **RMB'000**	2010 RMB'000
Neither past due nor impaired	**12,484**	14,419
Less than 9 months past due	**6,813**	600
	19,297	15,019

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

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Company. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

18. DUE FROM SHAREHOLDERS

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

Name	**2011** **RMB'000**	2010 RMB'000
Taiyuan Changcheng	**–**	4,444
Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai")	**593**	709
	593	5,153

18. DUE FROM SHAREHOLDERS (CONTINUED)

The maximum amounts outstanding during the years are as follows:

Name	2011 RMB'000	2010 RMB'000
Taiyuan Changcheng	**4,444**	8,130
Taiyuan Tanghai	**709**	1,030

As at 31 December 2010, the amount due from Taiyuan Changcheng of approximately RMB4,444,000 was unsecured, interest-fee and repayable on demand.

As at 31 December 2011, the amount due from Taiyuan Tanghai of approximately RMB593,000 (2010: RMB709,000) is unsecured, interest-free and repayable on demand.

19. DUE FROM A RELATED COMPANY

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

Name	2011 RMB'000	2010 RMB'000
Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei")	**4,283**	4,290

The maximum amount outstanding during the years is as follows:

Name	2011 RMB'000	2010 RMB'000
Taiyuan Huamei	**4,290**	4,290

Taiyuan Huamei is a subsidiary of Taiyuan Changcheng, a substantial shareholder of the Company. The amount due from Taiyuan Huamei of approximately RMB4,283,000 (2010: RMB4,290,000) as at 31 December 2011 is unsecured, interest-free and repayable on demand.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2011 RMB'000	2010 RMB'000
Cash at bank and in hand	**1,099**	9,635

At the end of the reporting period, the cash and cash equivalents of the Company are mainly denominated in RMB and placed with banks in the PRC and held in hand.

RMB is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks 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. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2011 RMB'000	2010 RMB'000
0–90 days	**4,870**	1,837
91–180 days	**840**	111
181–365 days	**48**	9
Over 365 days	**946**	—
	6,704	1,957

The trade payables are non-interest-bearing and are normally settled on 30-days terms (2010: 30 days).

22. DUE TO A SHAREHOLDER

The amount due to Taiyuan Changcheng is unsecured, interest-free and repayable on demand.

23. INTEREST-BEARING BANK LOAN

	2011		2010	
	Maturity	**RMB'000**	Maturity	RMB'000
Bank loan — secured (note)	**2012**	**14,000**	2011	14,000

	2011	2010
	RMB'000	RMB'000
Analysed into:		
Loans repayable:		
Within one year	**14,000**	14,000

Note: 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).

As at 31 December 2010 and 2011, the bank loan of the Company bears interest at floating interest rate equivalent to that of a relevant term loan quoted by the People's Bank of China's best lending rate multiplied by 130% (2010: 120%).

24. DEFERRED GOVERNMENT GRANTS

	Notes	RMB'000
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	(a)	1,280
Amortisation		(1,368)
Closing net carrying amount		13,187
At 1 January 2011		
Cost		17,140
Accumulated amortisation		(3,953)
Net carrying amount		13,187
Year ended 31 December 2011		
Opening net carrying amount		**13,187**
Additions	(b)	**4,910**
Amortisation		**(1,966)**
Closing net carrying amount		**16,131**
At 31 December 2011		
Cost		**22,050**
Accumulated amortisation		**(5,919)**
Net carrying amount		**16,131**

24. DEFERRED GOVERNMENT GRANTS (CONTINUED)

Notes:

(a) 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.

(b) The balance of RMB4,910,000 comprised (i) subsidies of RMB4,410,000 granted by the Taiyuan Finance Bureau (太原市財政局) for the Company's facilities for development and research of its products, and for enhancing the Company's production facilities; and (ii) subsidiaries of RMB500,000 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.

25. SHARE CAPITAL

	2011 **RMB'000**	2010 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2010: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2010: 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.

26. 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.

26. 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.

27. NOTE TO THE STATEMENT OF CASH FLOWS

Major Non-Cash Transactions

During the year ended 31 December 2011, the Company had the following major non-cash transactions:

(i) Deposits of approximately RMB8,255,000 (2010: RMB9,052,000) 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 RMB1,540,000 (2010: RMB3,691,000) were settled by the current account with Taiyuan Changcheng (note 30).

28. PLEDGE OF ASSETS

Details of the Company bank loan which is secured by the assets of the Company are included in note 23 to the financial statements.

29. CAPITAL COMMITMENTS

The Company had the following significant capital commitments at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Contracted, but not provided for		
— Buildings	**14,949**	19,387
— Plant and machinery	**1,183**	623
	16,132	20,010

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	**2011** **RMB'000**	2010 RMB'000
Rental expenses incurred to a shareholder	(a)		
— current year		**660**	720
— prior year under-provision		**—**	720
Management fee expenses incurred to a shareholder	(b)		
— current year		**880**	960
— prior year under-provision		**—**	1,291
		1,540	3,691

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:

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables:		
Trade receivables	**19,670**	15,019
Financial assets included in prepayments, deposits and other receivables	**3,152**	1,448
Due from shareholders	**593**	5,153
Due from a related company	**4,283**	4,290
Cash and cash equivalents	**1,099**	9,635
	28,797	35,545
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**6,704**	1,957
Financial liabilities included in accrued liabilities, deposits received and other payables	**9,374**	7,573
Due to an associate	**113**	113
Due to a shareholder	**500**	—
Interest-bearing bank loan	**14,000**	14,000
	30,691	23,643

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"), United States dollars ("USD") and Euro.

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.

	Liabilities		**Assets**	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**128**	775	**4,996**	6,695
HKD	**—**	—	**6**	6
Euro	**—**	—	**13,667**	—

32. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(a) Foreign Currency Risk (continued)

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 RMB against USD, HKD and Euro. A 5% (strengthening)/weakening of RMB against USD, HKD and Euro at the end of the reporting period would (decrease)/increase in the Company's loss/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.

	2011 (Loss)/Profit RMB'000	2010 (Loss)/Profit RMB'000
5% (strengthening)/weakening of RMB against		
USD	**(243)/243**	(296)/296
HKD	**—**	(1)/1
Euro	**(683)/683**	—

(b) Interest Rate Risk

The Company's exposure to changes in market interest rates relates primarily to the Company's bank loan 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 loss/profit before tax. There is no material impact on other components of the Company's equity.

	Increase/ (decrease) in loss before tax RMB'000
2011	
Increase in 100 basis points	**140**
Decrease in 100 basis points	**(140)**

32. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (CONTINUED)

(b) Interest Rate Risk (continued)

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

(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 RMB'000	Less than 6 months RMB'000	6 to less than 12 months RMB'000	1 to 5 years RMB'000	Total RMB'000
2011					
Trade payables	**—**	**6,704**	**—**	**—**	**6,704**
Accrued liabilities, deposits received and other payables	**770**	**8,389**	**215**	**—**	**9,374**
Due to an associate	**—**	**—**	**—**	**113**	**113**
Due to a shareholder	**500**	**—**	**—**	**—**	**500**
Interest-bearing bank loan	**—**	**14,000**	**—**	**—**	**14,000**
	1,270	**29,093**	**215**	**113**	**30,691**
2010					
Trade payables	—	1,948	9	—	1,957
Accrued liabilities, deposits received and other payables	812	3,180	3,581	—	7,573
Due to an associate	—	—	—	113	113
Interest-bearing bank loan	—	—	14,000	—	14,000
	812	5,128	17,590	113	23,643

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).

As at 31 December 2010 and 2011, 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. To maintain or adjust the capital structure, the Company may adjust the dividend payment 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 2011.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2011 amounted to approximately RMB107,301,000 (2010: RMB118,342,000), 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 22%. Net debt includes trade payables, accrued liabilities, deposits received and other payables, an amount due to a shareholder, an amount due to an associate and interest-bearing bank loan 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:

	2011 **RMB'000**	2010 RMB'000
Trade payables	**6,704**	1,957
Accrued liabilities, deposits received and other payables	**9,559**	8,621
Due to a shareholder	**500**	—
Due to an associate	**113**	113
Interest-bearing bank loan	**14,000**	14,000
Less: Cash and cash equivalents	**(1,099)**	(9,635)
Net debt	**29,777**	15,056
Total capital	**107,301**	118,342
Capital and net debt	**137,078**	133,398
Gearing ratio	**22%**	11%

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 2011.

	Year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**55,333**	64,578	58,820	44,853	50,318
Operating (loss)/profit	**(10,275)**	10,967	15,403	7,145	18,396
Finance costs	**(1,043)**	(82)	(30)	—	—
Share of (loss)/profit of an associate	**—**	—	—	(615)	7
Impairment of interest in an associate	**—**	—	—	—	(2,465)
(Loss)/profit before tax	**(11,318)**	10,885	15,373	6,530	15,938
Income tax	**277**	(1,549)	(2,041)	(2,699)	(2,760)
(Loss)/profit for the year	**(11,041)**	9,336	13,332	3,831	13,178
Net (loss)/profit attributable to owners of the Company	**(11,041)**	9,336	13,332	3,831	13,178

	As at 31 December				
	2011	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**154,195**	156,590	132,772	117,125	108,778
Total liabilities	**(46,894)**	(38,248)	(23,766)	(21,451)	(16,935)
Total equity	**107,301**	118,342	109,006	95,674	91,843

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 28 May 2012 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 2011;

2. to receive and approve the report of the supervisory committee of the Company for the year ended 31 December 2011;

3. to receive and approve the audited financial statements of the Company for the year ended 31 December 2011;

4. to consider and approve the re-appointment of HLB Hodgson Impey Cheng as the auditors of the Company for the year 2012 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 re-elect Mr. Wang Wen Sheng as the executive director of the Company; and

6. to authorize the board of directors to fix the remuneration of the 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, 26 March 2012

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 27 April 2012 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 27 April 2012 to 27 May 2012 (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 26 April 2012 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 7 May 2012.

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) 351-7065996