

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)

Interim Report 2012



* For identification only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”) 1

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

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This report, for which the directors of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors of the Company, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

2 FINANCIAL RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) announce the unaudited results of the Company for the three months and six months ended 30 June 2012, together with the comparative unaudited figures for the corresponding period in 2011, as follows:

Statement of Comprehensive Income

For the three months and six months ended 30 June 2012

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Revenue	2	12,672	12,483	25,437	30,296
Cost of sales		(10,049)	(7,916)	(20,347)	(18,170)
Gross profit		2,623	4,567	5,090	12,126
Other income and gains		343	328	686	1,115
Selling and distribution expenses		(205)	(463)	(482)	(502)
Administrative expenses		(4,734)	(5,215)	(9,253)	(10,091)
Operating (loss)/profit		(1,973)	(783)	(3,959)	2,648
Finance costs		(203)	(234)	(481)	(467)
(Loss)/Profit before tax	4	(2,176)	(1,017)	(4,440)	2,181
Income tax	5	—	(94)	—	(574)
(Loss)/Profit for the period		(2,176)	(1,111)	(4,440)	1,607
Other comprehensive income for the period		—	—	—	—
Total comprehensive (expense)/income for the period		(2,176)	(1,111)	(4,440)	1,607
(Loss)/Earnings per share attributable to ordinary equity holders of the Company:					
—Basic and diluted	6	RMB(0.007)	RMB(0.003)	RMB(0.014)	RMB0.005

Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		91,925	93,869
Land use rights		12,433	12,585
Interest in an associate		—	—
Total non-current assets		104,358	106,454
CURRENT ASSETS			
Inventories		18,878	16,815
Trade receivables	8	23,067	19,670
Prepayments, deposits and other receivables		3,799	4,801
Due from a shareholder		593	593
Due from a related company		4,283	4,283
Tax refundable		492	480
Cash and cash equivalents		1,329	1,099
Total current assets		52,441	47,741
CURRENT LIABILITIES			
Trade payables	9	7,823	6,704
Accrued liabilities, deposits received and other payables		13,214	9,559
Due to a shareholder		17,500	500
Interest-bearing bank loan		—	14,000
Total current liabilities		38,537	30,763
NET CURRENT ASSETS		13,904	16,978
TOTAL ASSETS LESS CURRENT LIABILITIES		118,262	123,432
NON-CURRENT LIABILITIES			
Deferred government grants		15,401	16,131
Total non-current liabilities		15,401	16,131
NET ASSETS		102,861	107,301
EQUITY			
Equity attributable to owners of the Company			
Share capital		30,886	30,886
Reserves		71,975	76,415
TOTAL EQUITY		102,861	107,301

4 Statement of Changes in Equity

For the six months ended 30 June 2012

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	Equity attributable to owners of the Company				
	Share capital	Capital surplus	Statutory surplus reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2011	30,886	18,561	11,574	57,321	118,342
Total comprehensive income for the period	—	—	—	1,607	1,607
At 30 June 2011	30,886	18,561	11,574	58,928	119,949
At 1 January 2012	30,886	18,561	11,574	46,280	107,301
Total comprehensive expense for the period	—	—	—	(4,440)	(4,440)
At 30 June 2012	30,886	18,561	11,574	41,840	102,861

Statement of Cash Flows

For the six months ended 30 June 2012

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Net cash (used in)/generated from operating activities	(1,435)	3,719
Net cash outflow from investing activities	(1,335)	(7,272)
Net cash inflow/(outflow) from financing activities	3,000	(572)
Increase/(Decrease) in cash and cash equivalents	230	(4,125)
Cash and cash equivalents at 1 January	1,099	9,635
Cash and cash equivalents at 30 June	1,329	5,510

6 NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements of the Company have been prepared in accordance with the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

The significant accounting policies that have been used in the preparation of these financial statements have been consistently applied to all the years presented unless otherwise stated.

These financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to nearest thousand except when otherwise indicated.

2. Revenue

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

3. Segment Information

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

Entity-wide disclosures

(i) Information about products

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

	For the six months ended 30 June			
	2012 RMB'000	%	2011 RMB'000	%
Fiber optic inverters	20,914	82	23,913	79
Fiber optic straight plates	715	3	1,949	7
Fiber optic face plates	1,178	5	1,603	5
Fiber optic tapers	1,817	7	2,199	7
Fiber optic tapers billets	811	3	632	2
Microchannel plates	2	—	—	—
	25,437	100	30,296	100

(ii) Geographical information

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

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

	For the six months ended 30 June	
	2012 RMB'000	2011 RMB'000
The PRC	1,329	2,459
Hong Kong/Taiwan	6,766	5,603
Europe	17,342	22,234
	25,437	30,296

(iii) Information about major customers

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

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Customer A	18,635	23,329
Customer B	—	4,624

4. (Loss)/Profit before income tax

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
(Loss)/Profit before income tax is arrived at after charging:		
Cost of inventories sold	20,347	18,170
Depreciation	4,326	2,029
Amortisation of land use rights	147	156

5. Income tax

	For the six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax — PRC	—	574

No Hong Kong profits tax has been provided as the Company had no estimated assessable profits arising in Hong Kong for the six months ended 30 June 2012 and 2011. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Company operates. The Company is registered as a New and High Technical Enterprise (高新技術企業) and is entitled to a concessionary Enterprise Income Tax rate of 15% over 3 years, beginning on 1 January 2009.

6. (Loss)/Earnings per share

The calculation of basic (loss)/earnings per share is based on the (loss)/profit attributable to the owners of the Company for the three months and six months ended 30 June 2012 of approximately RMB(2,176,000) and RMB(4,440,000) (For the three months and six months ended 30 June 2011: RMB(1,111,000) and RMB1,607,000) and 308,860,000 (2011: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the six months ended 30 June 2012 and 2011.

7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2012 (For the six months ended 30 June 2011: Nil).

8. Trade receivables

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
0-90 days	11,656	12,717
91-180 days	9,378	5,312
181-365 days	2,033	1,641
	23,067	19,670

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

9. Trade payables

An ageing analysis of the trade payables is as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
0-90 days	4,490	4,870
91-180 days	1,548	840
181-365 days	1,785	48
Over 365 days	—	946
	7,823	6,704

10 MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Financial Review

The Company reported a turnover of approximately RMB25,437,000 for the six months ended 30 June 2012, representing a decrease of 16% from approximately RMB30,296,000 for the same period in 2011. The decrease in the sales was mainly due to the decrease in the demand from European customers.

During the six months ended 30 June 2012, the Company recorded cost of sales amounting to approximately RMB20,347,000, representing an increase of 12% from approximately RMB18,170,000 for the same period in 2011. The increase in the cost of sales was mainly due to the increase in the cost of raw materials and production costs.

Administrative expenses of the Company for the six months ended 30 June 2012 was approximately RMB9,253,000, representing a decrease of 8% from approximately RMB10,091,000 for the same period in 2011.

The Company's unaudited loss attributable to owners of the Company for the six months ended 30 June 2012 was approximately RMB4,440,000 (unaudited profit attributable to owners of the Company for the six months ended 30 June 2011: RMB1,607,000).

As at 30 June 2012, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai") was approximately RMB593,000 (31 December 2011: RMB593,000). The Company is in the process to discuss with Taiyuan Tanghai relating to the repayment of the outstanding balance.

As at 30 June 2012, the amount due from a related company — Taiyuan Huamei Medical Equipments Company Limited ("Taiyuan Huamei") was approximately RMB4,283,000 (31 December 2011: RMB4,283,000). The Company is in the process to discuss with Taiyuan Huamei relating to the repayment of the outstanding balance.

As at 30 June 2012, the amount due to a shareholder — Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng") was RMB17,500,000 (31 December 2011: RMB500,000). The advance from Taiyuan Changcheng amounting to RMB14,000,000 was used to repay the bank borrowing.

Liquidity and Financial Resources

As at 30 June 2012, the total assets of the Company increased by approximately RMB2,604,000 to approximately RMB156,799,000 as compared to approximately RMB154,195,000 as at the end of the previous financial year, representing an increase of approximately 2%.

As at 30 June 2012, the total liabilities of the Company increased by approximately RMB7,044,000 to approximately RMB53,938,000 as compared to approximately RMB46,894,000 as at the end of the previous financial year, representing an increase of approximately 15%.

As at 30 June 2012, the total equity of the Company decreased by approximately RMB4,440,000 to approximately RMB102,861,000 as compared to approximately RMB107,301,000 as at the end of the previous financial year, representing a decrease of approximately 4%.

Capital Structure

As at 30 June 2012, the Company had no outstanding bank loan (31 December 2011: RMB14,000,000).

Gearing Ratio

As at 30 June 2012, the gearing ratio (defined as net debt divided by the total capital plus net debts) was approximately 27% (31 December 2011: 22%).

Significant Investment Held

As at 30 June 2012 and 31 December 2011, the Company held interest in an associate with a carrying amount of Nil.

Acquisition and Disposal of Subsidiaries

The Company had no other acquisition and disposal of subsidiaries during the six months ended 30 June 2012.

Charges of Assets

As at 30 June 2012, the Company did not pledge any of its assets nor have any charge on its assets.

12 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 of the Company are of the view that, the Company is exposed to foreign exchange risk arising from the exposure of RMB against US Dollars, Euro and Hong Kong Dollars, respectively.

Contingent Liabilities

As at 30 June 2012, the Company had no contingent liabilities.

Employee Information

As at 30 June 2012, the Company had approximately 681 full-time employees (31 December 2011: 680). The Company remunerates its employees based on their experience, performance and value, which they contribute to the Company.

OTHER INFORMATION

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

As at 30 June 2012, the interests and short positions of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the shares and underlying shares of the Company

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

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

Notes:

- Part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir Venture Capital Management Limited ("Beijing Gensir"). Beijing Gensir is owned as to 100% by Zhang Shao Hui. The rest of these domestic shares (24,900,000 domestic shares) are registered in the name of Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai") in which Zhang Shao Hui has an indirect interest through his shareholdings in Beijing Gensir.
- 3,645,000 H shares 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 30 June 2012, 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.

14 Substantial Shareholders

As at 30 June 2012, so far as the directors of the Company are aware, persons other than the 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 and Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	—	25.95%
Liaoning Shuguang Industrial Group Company Limited	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	17.10%	—	11.01%
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares (Note 3)	17.10%	—	11.01%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 3)	17.10%	—	11.01%

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/ H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Taiyuan 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	Registered and 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:

- 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 purpose 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 of the Company are not aware of other person who, as at 30 June 2012, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The Company does not have share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the six months ended 30 June 2012, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2012, none of the directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares in the Company or had exercised any such right during the period.

Directors' and Supervisors' Interest in Contracts

None of the directors and supervisors of the Company had a material interest, whether directly or indirectly, in any contracts of significance in relation to the Company's business to which the Company was a party and in which a director and supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2012 or at any time during the period.

Competing Interests

None of the directors, supervisors and the management shareholders of the Company nor any of their respective associates have engaged in any business that competes or may compete with the business of the Company or has any other conflict of interests with the Company during the six months ended 30 June 2012.

Purchase, Sale or Redemption of Shares

The Company has not purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2012.

Audit Committee

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company. The audit committee comprises four independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, Mr. Duan Zhong and Ms. Zhang Zhi Hong. Ms. Zhang Zhi Hong has been appointed as the chairman of the committee.

The audit committee has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2012.

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.

The Board will review the corporate governance structure and practices from time to time and shall make necessary arrangements when the Board considers appropriate.

18 Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2012. Having made specific enquiry of all directors of the Company, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Song Lian Bin

Chairman

Taiyuan City, Shanxi Province, the PRC, 8 August 2012

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