

Interim Report
2013

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)

2010

2011

2009

2012



* For identification only

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

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

FINANCIAL RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) announce the unaudited results of the Company for the three months and six months ended 30 June 2013, together with the comparative unaudited figures for the corresponding period in 2012, as follows:

Statement of Comprehensive Income

For the three months and six months ended 30 June 2013

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Revenue	2	16,808	12,672	28,517	25,437
Cost of sales		(12,379)	(10,049)	(20,638)	(20,347)
Gross profit		4,429	2,623	7,879	5,090
Other income and gain		595	343	1,001	686
Selling and distribution expenses		(238)	(205)	(468)	(482)
Administrative and other operating expenses		(5,310)	(4,734)	(10,250)	(9,253)
Finance costs		(257)	(203)	(491)	(481)
Loss before tax	4	(781)	(2,176)	(2,329)	(4,440)
Income tax	5	—	—	—	—
Loss for the period		(781)	(2,176)	(2,329)	(4,440)
Other comprehensive income for the period		—	—	—	—
Total comprehensive expense for the period		(781)	(2,176)	(2,329)	(4,440)
Loss per share attributable to owners of the Company:					
— Basic and diluted	6	RMB(0.003)	RMB(0.007)	RMB(0.008)	RMB(0.014)

Statement of Financial Position

As at 30 June 2013

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		87,444	91,759
Land use rights		12,146	12,292
Interest in an associate		—	—
Total non-current assets		99,590	104,051
CURRENT ASSETS			
Inventories		23,014	23,232
Trade receivables	8	15,005	8,552
Prepayments, deposits and other receivables		2,408	2,239
Due from a shareholder		593	593
Due from a former related company		4,283	4,283
Cash and cash equivalents		596	955
Total current assets		45,899	39,854
CURRENT LIABILITIES			
Trade payables	9	9,046	7,782
Accrued liabilities, deposits received and other payables		25,947	15,574
Due to a shareholder		17,400	12,400
Interest-bearing bank loan		—	12,000
Total current liabilities		52,393	47,756
NET CURRENT LIABILITIES		(6,494)	(7,902)
TOTAL ASSETS LESS CURRENT LIABILITIES		93,096	96,149

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		14,530	15,254
Total non-current liabilities		14,530	15,254
NET ASSETS			
EQUITY			
Equity attributable to owners of the Company			
Share capital		30,886	30,886
Reserves		47,680	50,009
TOTAL EQUITY		78,566	80,895

Statement of Changes in Equity

For the six months ended 30 June 2013

	Equity attributable to owners of the Company				
	Share capital	Capital surplus	Statutory	Retained earnings	Total equity
			surplus reserve		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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
At 1 January 2013	30,886	18,561	11,574	19,874	80,895
Total comprehensive expense for the period	—	—	—	(2,329)	(2,329)
At 30 June 2013	30,886	18,561	11,574	17,545	78,566

Statement of Cash Flows

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Net cash flows used in operating activities	(1,383)	(1,435)
Net cash flows used in investing activities	(976)	(1,335)
Net cash flows generated from financing activities	2,000	3,000
(Decrease)/Increase in cash and cash equivalents	(359)	230
Cash and cash equivalents at 1 January	955	1,099
Cash and cash equivalents at 30 June	596	1,329

NOTES TO THE ACCOUNTS

1. Basis of preparation

The financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants. 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").

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 loss 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 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.

*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			
	2013		2012	
	RMB'000	%	RMB'000	%
Fiber optic inverters	19,633	69	20,914	82
Fiber optic straight plates	3,555	12	715	3
Fiber optic face plates	421	1	1,178	5
Fiber optic tapers	3,330	12	1,817	7
Fiber optic tapers billets	—	—	811	3
Microchannel plates	1,544	6	2	—
Others	34	—	—	—
	28,517	100	25,437	100

(ii) Geographical information

The Company principally operates in the PRC, the country of the Company's domicile, with revenue and loss 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	
	2013	2012
	RMB'000	RMB'000
The PRC	2,098	1,329
Hong Kong/Taiwan	3,427	6,766
Europe	22,992	17,342
	28,517	25,437

(iii) Information about major customers

Revenue from major customer contributing 10% or more of the total revenue is set out below:

	For the six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Customer A	13,367	18,635

4. Loss before tax

	For the six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Loss before tax is arrived at after charging:		
Cost of inventories sold	20,638	20,347
Depreciation of property, plant and equipment	4,989	4,326
Amortisation of land use right	146	147

5. Income tax

	For the six months ended 30 June	
	2013 RMB'000	2012 RMB'000
Current PRC Enterprise Income Tax	—	—

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 six months ended 30 June 2013 and 2012. 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, the PRC, and which is registered as a New and High Technical Enterprise, is entitled to a concessionary Enterprise Income Tax rate of 15% for 3 years. For the six months ended 30 June 2013, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2012: 15%).

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and six months ended 30 June 2013 of approximately RMB781,000 and RMB2,329,000 respectively (For the three months and six months ended 30 June 2012: RMB2,176,000 and RMB4,440,000) and 308,860,000 (2012: 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 2013 and 2012.

7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2013 (For the six months ended 30 June 2012: Nil).

8. Trade receivables

An aged analysis of the trade receivables is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
0–90 days	11,547	7,512
91–180 days	2,332	536
181–365 days	742	504
Over 365 days	384	—
	15,005	8,552

The trading terms with customers are largely on credit. The credit period is generally 90 days (2012: 90 days).

9. Trade payables

An aged analysis of the trade payables is as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
0-90 days	4,069	3,335
91-180 days	2,350	1,640
181-365 days	1,070	1,327
Over 365 days	1,557	1,480
	9,046	7,782

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Image transmission fibre optics products manufactured by the Company are image transmission devices containing a rigidly bundle of optical fibres arranged in an ordered fashion so that images can be transmitted from one end of the optical fibre bundle and displayed on the other end of the bundle. A typical image transmission fibre optic product of the Company would consist of over 10 million optical fibres.

The Company currently has produced six products including fibre optic inverters; fibre optic straight plates; fibre optic face plates; fibre optic tapers; fibre optic taper billets; and microchannel plates.

During the six months ended 30 June 2013 and 2012, the total sales to external customers by product and the percentage of total revenue by product are listed as below:

	For the six months ended 30 June			
	2013		2012	
	RMB'000	%	RMB'000	%
Fiber optic inverters	19,633	69	20,914	82
Fiber optic straight plates	3,555	12	715	3
Fiber optic face plates	421	1	1,178	5
Fiber optic tapers	3,330	12	1,817	7
Fiber optic tapers billets	—	—	811	3
Microchannel plates	1,544	6	2	—
Others	34	—	—	—
	28,517	100	25,437	100

Financial Review

Turnover of the Company for the six months ended 30 June 2013 was approximately RMB28,517,000, representing an increase of approximately 12% from approximately RMB25,437,000 for the same period in 2012.

Cost of sales of the Company for the six months ended 30 June 2013 was approximately RMB20,638,000, representing an increase of approximately 1% from approximately RMB20,347,000 for the same period in 2012.

The gross profit margin for the six months ended 30 June 2013 was approximately 27.6%, representing a sharp improvement from approximately 20% for the same period in 2012.

Administrative and others expenses of the Company for the six months ended 30 June 2013 was approximately RMB10,250,000, representing an increase of approximately 11% from approximately RMB9,253,000 for the same period in 2012. Administrative and others expenses include depreciation charges approximately RMB4,989,000 (For the six months ended 30 June 2012: RMB4,326,000) and research and development cost approximately RMB1,100,648 (For the six months ended 30 June 2012: RMB1,168,000).

The Company's unaudited loss attributable to owners of the Company for the six months ended 30 June 2013 was approximately RMB2,329,000 (For the six months ended 30 June 2012: RMB4,440,000).

As the Company incurred substantial loss for the financial years of 2011 and 2012, the Company had obtained financial support from bank and its shareholder. As at 30 June 2013, the Company had outstanding bank loan amounting to RMB Nil (31 December 2012: RMB12,000,000). The aforesaid bank loan was repaid by the Company to banker on 30 June 2013 and renewed in July 2013 for the same amount. As at 30 June 2013, outstanding amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation, a shareholder of the Company, amounting to RMB17,400,000 (31 December 2012: RMB12,400,000).

On 20 February 2013, each of Taiyuan Changcheng Optics Electronics Industrial Corporation and Beijing Gensir Venture Capital Management Limited, the substantial shareholders of the Company, have agreed in writing to Company that they will financially support the Company as a going concern.

Financial Assistance to Related Parties

As at 30 June 2013, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (31 December 2012: RMB593,000).

As at 30 June 2013, the amount due from a former related company — Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) was approximately RMB4,283,000 (31 December 2012: RMB4,283,000).

Liquidity and Financial Resources

As at 30 June 2013, the total assets of the Company increased by approximately RMB1,584,000 to approximately RMB145,489,000 as compared to approximately RMB143,905,000 as at the end of the previous financial year, representing an increase of approximately 1%.

As at 30 June 2013, the total liabilities of the Company increased by approximately RMB3,913,000 to approximately RMB66,923,000 as compared to approximately RMB63,010,000 as at the end of the previous financial year, representing an increase of approximately 6%.

As at 30 June 2013, the total equity of the Company decreased by approximately RMB2,329,000 to approximately RMB78,566,000 as compared to approximately RMB80,895,000 as at the end of the previous financial year, representing a decrease of approximately 3%.

Gearing Ratio

As at 30 June 2013, the gearing ratio (defined as net debt divided by total share capital plus net debt) was approximately 40% (31 December 2012: 37%).

Significant Investment Held

As at 30 June 2013, the Company held interest in an associate with a carrying amount of Nil (31 December 2012: Nil).

Acquisition and Disposal of Subsidiaries

The Company had no other acquisition and disposal of subsidiaries during the six months ended 30 June 2013.

Pledge of Assets

As at 30 June 2013, the Company's land with the carrying value of approximately RMB12,146,000 (31 December 2012: RMB12,292,000) was pledged to a bank as securities for the borrowing facilities of the Company.

Contingent Liabilities

As at 30 June 2013, the Company had no contingent liabilities.

Exposure of 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.

Employee Information

As at 30 June 2013, the Company had approximately 590 full-time employees (31 December 2012: 617). 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 2013, 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 Securities and Futures Ordinance (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 2013, 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 30 June 2013, so far as the directors of the Company 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%

Shanxi Changcheng Microlight Equipment Co. Ltd.

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*
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	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 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 of the Company are not aware of other person who, as at 30 June 2013, 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 2013, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2013, 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 six months ended 30 June 2013 or at any time during the period.

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 2013.

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 chairwoman of the audit committee. The audit committee has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2013.

Competing Interests

None of the directors, supervisors and the management shareholders of the Company nor any of their respective associates (as defined under the GEM Listing Rules) 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 2013.

Corporate Governance Practice

The board of directors of the Company is always committed to maintaining high standards of corporate governance. The Company has complied with the code provision set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 15 of the GEM Listing Rules. In the opinion of the Board, the Company has complied with the code provision.

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 six months ended 30 June 2013. 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.

Interests of the Compliance Adviser

As notified by the Company's compliance adviser, Messis Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 26 September 2012 for a period of two years commencing on 1 October 2012, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 June 2013 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wang Wen Sheng

Chairman

Taiyuan City, Shanxi Province, the PRC, 6 August 2013

As at the date of this report, the Board comprises eight directors, of which two are executive directors, namely 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.