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)

2013 ANNUAL REPORT

* 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.

CONTENTS

Corporate Information

Board of Directors

Executive directors

Mr. Wang Wen Sheng *(Chairman)*
Mr. Song Lian Bin *(Chairman)*
(resigned on 28 June 2013)
Mr. Guo Xu Zhi *(appointed on 1 November 2013)*
Mr. Tian Qun Xu

Non-executive directors

Mr. Zhang Shao Hui
Mr. Yuan Guo Liang

Independent non-executive directors

Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Duan Zhong
Ms. Zhang Zhi Hong

Supervisors

Ms. Han Xiao Ou *(Chairman)*
Ms. Lv Jun Li
Mr. Sun Wei
Mr. Xiang Hui

Compliance Adviser

Messis Capital Limited *(appointed on 1 October 2012)*
Room 1606
16th Floor, Tower 1
Admiralty Centre
18 Harcourt Road
Hong Kong

Compliance Officer

Mr. Wang Wen Sheng

Authorised Representatives

Mr. Wang Wen Sheng
Mr. Tsang Kwok Wai

Company Secretary

Mr. Tsang Kwok Wai

Audit Committee

Ms. Zhang Zhi Hong *(Chairman)*
Mr. Ni Guo Qiang
Mr. Li Li Cai

Remuneration Committee

Mr. Li Li Cai *(Chairman)*
Ms. Zhang Zhi Hong
Mr. Wu Yan Ge

Nomination Committee

Mr. Wang Wen Sheng *(Chairman)*
Mr. Ni Guo Qiang
Mr. Duan Zhong

Auditors

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31st Floor
Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

Corporate Information (continued)

Hong Kong Share Registrar and Transfer Office

Tricor Standard Limited
Level 22
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal Bankers

China Minsheng Banking Corporation Limited
Hua Xia Bank Co., Limited
Industrial and Commercial Bank of China Limited

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

The Company reported a turnover approximately RMB62,758,000 for the year of 2013, representing an increase of approximately 30% as compared to that of the previous financial year. The Company recorded loss after tax approximately RMB2,230,000 for the year ended 31 December 2013.

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 target on different sections of the Company.

On behalf of the board of directors, I hereby express our sincere gratitude to the contributions and efforts made by the management and all employees, as well as the strong support from our shareholders.

Yours sincerely,

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 28 March 2014

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 billers; and microchannel plates.

During the years ended 31 December 2013 and 2012, the total sales to external customers by product and the percentage of total revenue by product are listed as below:

	2013		2012	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**43,445**	**69**	38,172	79
Fiber optic straight plates	**7,199**	**11**	2,273	5
Fiber optic face plates	**1,217**	**2**	1,595	3
Fiber optic tapers	**6,570**	**11**	4,902	10
Fiber optic tapers billets	**—**	**—**	875	2
Microchannel plates	**4,327**	**7**	296	1
	62,758	**100**	48,113	100

Financial Review

Turnover of the Company for the year ended 31 December 2013 was approximately RMB62,758,000 (2012: RMB48,113,000), representing an increase of approximately 30% as compared to that of the previous financial year.

Cost of sales of the Company for the year ended 31 December 2013 was approximately RMB45,681,000 (2012: RMB37,328,000), representing an increase of approximately 22% as compared to that of the previous financial year.

The gross profit margin for the year ended 31 December 2013 was 27.2% (2012: 22.4%). The improvement of gross profit margin was mainly due to the increase in the passing rate of product production during the year ended 31 December 2013.

Management Discussion and Analysis (continued)

Administrative expenses of the Company for the year ended 31 December 2013 was approximately RMB14,733,000 (2012: RMB19,966,000), representing a decrease of approximately RMB5,233,000 as compared to that of the previous financial year. At the year end of 2013, the management of the Company reviewed the estimated useful lives of the Company's leasehold buildings. Based on the recent assessment made by the registered developer of the Company's leasehold buildings, the directors of the Company reasonably believe that the useful lives of the Company's leasehold building should not be less than 40 years. In connection with such circumstance, the depreciation rate of Company's leasehold buildings is revised from 10 years or over the lease terms, whichever is shorter to 40 years or over the lease terms, whichever is shorter as disclosed in the note 3 to the financial statements. Accordingly, the depreciation charge for the Company's leasehold buildings for the year ended 31 December 2013 amounting to approximately RMB1,273,000 (2012: RMB5,888,000), representing a decrease of approximately RMB4,615,000 as compared to that of the previous financial year.

Other operating expenses of the Company for the year ended 31 December 2013 was approximately RMB4,989,000 (2012: RMB17,857,000), representing a decrease of approximately RMB12,868,000 as compared to that of the previous financial year. The company recorded an impairment of trade receivables amounting to approximately RMB 1,415,000 for the year ended 31 December 2013 (2012: RMB11,052,000). In addition, the Company recorded research and development cost amounting to approximately RMB3,919,000 (2012: RMB6,764,000) for the year ended 31 December 2013.

Due to the facts that the Company recorded (1) an increase in sales; (2) an improvement in the gross profit margin; and (3) a decrease in the administrative and other operating expenses during the year ended 31 December 2013; the directors of the Company believe that the financial performance of the Company is at the improvement stage.

The loss after tax for the year ended 31 December 2013 was approximately RMB2,230,000 (2012: RMB26,406,000).

Financial Support

As the Company incurred net losses for three consecutive years since 2011, the Company had obtained financial support from its banker and its shareholder. As at 31 December 2013, the Company had outstanding bank loan and other borrowing amounting to RMB17,000,000 and outstanding amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation, a shareholder of the Company, amounting to RMB14,400,000.

Going Concern

The Company incurred a net loss of approximately RMB2,230,000 during the year ended 31 December 2013 and, as of that date, the Company's current liabilities exceeded its current assets by approximately RMB7,837,000. In addition, the Company had outstanding bank and other borrowings amounting to RMB17,000,000 which would be due for repayment within the next twelve months and an amount due to a shareholder amounting to RMB14,400,000 which is repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Management Discussion and Analysis (continued)

The validity of the going concern assumption on which the financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the directors of the Company as described in note 3 to the financial statements. The financial statements have been prepared on the assumption that the Company will continue as a going concern and therefore do not include any adjustments relating to the realisation and classification of non-current assets that may be necessary if the Company is unable to continue as a going concern.

Financial Assistance to Related Parties

As at 31 December 2013, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2012: RMB593,000). As at 31 December 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 (2012: RMB4,283,000).

Liquidity and Financial Resources

As at 31 December 2013, the total assets of the Company increased by approximately RMB15,105,000 to approximately RMB159,010,000 as compared to approximately RMB143,905,000 as at the end of the previous financial year, representing an increase of approximately 11%.

As at 31 December 2013, the total liabilities of the Company increased by approximately RMB17,335,000 to approximately RMB80,345,000 as compared to approximately RMB63,010,000 as at the end of the previous financial year, representing an increase of approximately 28%.

As at 31 December 2013, the total equity of the Company decreased by approximately RMB2,230,000 to approximately RMB78,665,000 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 31 December 2013, the gearing ratio (defined as net debt divided by total share capital plus net debt) was approximately 40% (2012: 37%).

Significant Investment Held

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

Acquisition and Disposal of Subsidiaries

The Company had no other acquisition and disposal of subsidiaries during the year ended 31 December 2013.

Management Discussion and Analysis (continued)

Pledge of Assets

As at 31 December 2013, the Company's land with the carrying value of approximately RMB11,999,000 (2012: RMB12,292,000) was pledged to a bank as securities for the borrowing facilities of the Company.

Contingent Liabilities

As at 31 December 2013, the Company had no significant 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 31 December 2013, the Company had approximately 683 (2012: 617) full-time employees. For the year ended 31 December 2013, the Company reported staff costs of approximately RMB30,433,000 (2012: RMB29,678,000). 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

Mr. WANG Wen Sheng (王文生), aged 48, is the chairman of the board of directors and executive director and the general manager of the Company. Prior to joining the Company, Mr. Wang was the vice factory director of Taiyuan First Machine Tool Plant. 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. GUO Xu Zhi (高旭志), aged 50, has been appointed as the executive director of the Company on 1 November 2013. Prior to joining the Company, Mr. Guo has served as a member of Committee of Industry and Traffic of Taiyuan City Committee, head of the Organisation Department and head of Human Resources Department of Taiyuan City Economic Committee, director, deputy general manager and secretary of the Disciplinary Committee of Taiyuan Boiler Group Co., Ltd., chairman and general manager of Shanxi Automotive industry Group Co., Limited, secretary of the Party Committee, director and deputy general manager of Taiyuan Changan Heavy Duty Vehicle Co., Ltd., chairman and secretary of the Party Committee of Shanxi Jindi Enterprise Management Group Co., Limited. In 2006, Mr. Guo was awarded to “Taiyuan Model Worker” title. In 2009, 2010 and 2011, Mr. Guo was awarded to “Taiyuan Meritorious Entrepreneur” title for three years in a row. Mr. Guo has been elected as a member of Standing Committee of the Fourth Xiaodian District of Taiyuan City People’s Congress and deputy of the Tenth Taiyuan City People’s Congress. Mr. Guo graduated from North Eastern Engineering College and holds a master’s degree in engineering.

Mr. TIAN Qun Xu (田群戍), aged 75, is the executive director of the Company. Mr. Tian 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, Mr. Tian was with Taiyuan Changcheng Optics Electronics Industrial Corporation for almost 40 years. Mr. Tian graduated from the Taiyuan Industrial Professional School.

Non-executive Directors

Mr. ZHANG Shao Hui (張少輝), aged 44, is currently the vice chairman of the Company and the chairman of Jilin East-asia Night Vision Co., Limited. Mr. Zhang graduated from the China Jiliang University.

Mr. YUAN Guo Liang (袁國良), aged 52, is currently the deputy director of the Company’s Strategic Policy Committee. Prior to joining the Company, Mr. Yuan was working with Shanxi Jinxi Machines Factory and The Economic Committee of Taiyuan. Mr. Yuan graduated from the Changchun University of Science and Technology.

Profile of Directors, Supervisors and Senior Management (continued)

Independent Non-executive Directors

Mr. NI Guo Qiang (倪國強), aged 68, is currently the chief professor of the optic technology doctorate programme in the Beijing Institute of Technology. Mr. Ni graduated with a doctorate degree in optical and electrical engineering from the Beijing Institute of Technology.

Mr. LI Li Cai (黎禮才), aged 73, 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) Company Limited and vice chairman of Shanxi Taigang Stainless Steel Company. Mr. Li graduated from the Wuhan Iron & Steel Institute.

Mr. DUAN Zhong (段忠), aged 62, is currently the chairman of Shenzhen South Aviation Industry (Group) Company. Mr. Duan graduated from the Beijing University of Aeronautics & Astronautics.

Ms. ZHANG Zhi Hong (張志紅), aged 42, is a certified public accountant in the PRC. Ms. Zhang is a founder of Shanxi Zhongjie Certified Public Accountants Company Limited. Ms. Zhang graduated from the Shanxi Provincial Committee Party College.

Supervisors

Ms. HAN Xiao Ou (韓曉歐), aged 35, is a shareholder representative supervisor of the Company. Ms. Han is currently the chairman of labour union of the Company. Ms. Han graduated from the Shanxi Normal University.

Ms. LV Jun Li (呂晉莉), aged 48, is a supervisor of the Company. Ms. Lv graduated from Shanxi Provincial Committee Party College majoring in economic management.

Mr. SUN Wei (孫煒), aged 46, is a supervisor of the Company. Mr. Sun is currently the officers of Industrial, Transport and Construction Workers Committee under Taiyuan General Workers Union.

Mr. XIANG Hui (相輝), aged 40, is a supervisor of the Company. Mr. Xiang is currently the deputy secretary of the Committee Office of Taiyuan, Shanxi Province.

Profile of Directors, Supervisors and Senior Management (continued)

Senior Management

Ms. HE Ling Xian (和玲仙), aged 63, a qualified accountant and a registered accountant in the PRC, is the chief financial officer of the Company. Prior to joining the Company, Ms. He was working with an accounting firm in Shanxi. Ms. He graduated from the Chinese Communist Central College.

Mr. SHEN Jian (申健), aged 40, is the secretary of the board of directors. Mr. Shen is in-charge of the sale department 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 and obtained an on-job postgraduate in International Trade from Shanxi University of Finance & Economics.

Mr. WU Yan Ge (武彥革), aged 49, is the vice general manager of administrative and purchasing. Prior to joining the Company, Mr. Wu was the branch manager of Taiyuan Xin Kai Textile Printing & Dyeing Corporation Ltd. Mr. Wu accumulated 27 years working experience in the engineering industry. Mr. Wu graduated from the Textile Engineering Academy of Taiyuan University of Technology.

Mr. ZHANG Yu (張裕), aged 49, is the vice general manager of production of the Company. Prior to joining the Company, Mr. Zhang was the engineer of Taiyuan Wireless Electronic Factory. Mr. Zhang graduated from the North University of China.

Ms. WANG Ling Ling (王玲玲), aged 48, is the vice general manager of quality control of the Company. Prior to joining the Company, Ms. Wang was the engineer of Taiyuan Optics Factory of Taiyuan Changcheng Optics Electronics Industrial Corporation. Ms. Wang graduated from the North University of China.

Report of the Directors

The directors of the Company ("Directors") have the pleasure to present the annual report together with the audited financial statements of the Company for the year ended 31 December 2013.

Principal Activities

The Company is principally engaged in 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 2013 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 2013 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 2013 (2012: 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

As at 31 December 2013, the Company had reserves of approximately RMB17,365,000 (2012: RMB19,874,000) available for dividend distribution to shareholders.

Share Capital

There were no movements in either the Company's authorised or issued share capital during the year ended 31 December 2013.

Report of the Directors (continued)

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 2013.

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 2013, the Company reported employer's pension scheme contributions of approximately RMB6,586,000 (2012: RMB6,005,000).

Major Customers and Suppliers

During the year ended 31 December 2013, the five largest customers accounted for approximately 84% (2012: 86%) of the Company's total turnover and the five largest suppliers of the Company accounted for approximately 95% (2012: 88%) of the Company's total purchases. The largest customer of the Company accounted for approximately 36% (2012: 58%) of the Company's total turnover while the largest supplier of the Company accounted for approximately 37% (2012: 42%) of the Company's total purchases.

To the knowledge of the Directors, none of the Directors or their respective associates or any of the shareholders of the Company who owns more than 5% of the Company's issued share capital has any interest in any of the Company's five largest customers and suppliers.

Connected Transactions

The Company does not has connected transactions during the year ended 31 December 2013.

Report of the Directors (continued)

Directors and Supervisors

The Directors who held office during the year ended 31 December 2013 and up to the date of this annual report were:

Executive directors

Mr. Wang Wen Sheng *(Chairman)*
Mr. Song Lian Bin *(Chairman) (resigned on 28 June 2013)*
Mr. Guo Xu Zhi *(appointed on 1 November 2013)*
Mr. Tian Qun Xu

Non-executive directors

Mr. Zhang Shao Hui
Mr. Yuan Guo Liang

Independent Non-executive directors

Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Duan Zhong
Ms. Zhang Zhi Hong

The supervisors who held office during the year ended 31 December 2013 and up to the date of this annual report were:

Supervisors

Ms. Han Xiao Ou *(Chairman)*
Ms. Lv Jun Li
Mr. Sun Wei
Mr. Xiang Hui

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.

Report of the Directors (continued)

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 Debenture of the Company

As at 31 December 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:

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 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 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.

Report of the Directors (continued)

Substantial Shareholders

As at 31 December 2013, 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	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.

Report of the Directors (continued)

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 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 has share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the year ended 31 December 2013, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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.

Report of the Directors (continued)

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 2013 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 2013.

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 section headed "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.

Report of the Directors (continued)

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 2013.

Auditors

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

The accounts for the years ended 31 December 2012 and 2011 were audited by HLB Hodgson Impey Cheng. The practice of HLB Hodgson Impey Cheng was reorganised as HLB Hodgson Impey Cheng Limited. Save for the above, there has been no other change in the auditors of the Company in any of the preceding three years.

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

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 28 March 2014

Corporate Governance Report

Corporate Governance Practices

The board of directors (the "Board") 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 Code of Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. In the opinion of the Board, the Company has complied with the code provision except for the deviation that Code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be the same individual.

The Company has engaged Messis Capital Limited as its compliance adviser for a period of two years commencing on 1 October 2012. The Company has also engaged Crowe Horwath (HK) Limited ("Crowe Horwath") to undertake the role of reviewing and assessing the Company's internal control and to evaluate its effectiveness and efficiency on the internal control. Crowe Horwath has prepared a report to the Board and senior management on the findings of the internal control system implemented by the Company and helps to identify any significant areas of concern and made recommendations to the Board accordingly. The review report was submitted to the Stock Exchange on 8 March 2013. The Company has further engaged Crowe Horwath to evaluate the effectiveness and efficiency on the Company's internal control in April 2013. Crowe Horwath has prepared a report to the Board and senior management on the findings of the internal control system in August 2013.

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 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.

Board of Directors

The Board is responsible for oversight of the management of the business and affairs. In addition, the Board also focuses on overall strategy development of the Company and has overall responsibility for the system of internal control of the Company and for reviewing its effectiveness. The Board has delegated day-to-day operations; management and administration functions to executive directors and senior management of the Company. The directors and senior management of the Company were supplied with adequate and relevant information in a timely manner to enable the Board to make informed decisions.

Board Composition

The Board currently comprises nine directors, of which three are executive directors, namely Mr. Wang Wen Sheng, Mr. Guo Xu Zhi, 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.

Corporate Governance Report (continued)

The directors of the Company 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 each of three-year period.

The Company has received the annual confirmation of independence from all the independent non-executive directors of the Company pursuant to Rule 5.09 of the GEM Listing Rules and considered them to be independent.

To the knowledge of the directors of the Company, the Board members have no financial, business, family or other material/relevant relationships among members of the Board and between the Chairman and the Chief Executive Officer.

Director's Continuous Training and Development

The directors of the Company should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution into the Board remains informed and relevant. During the year ended 31 December 2013, the individual training record of each director of the Company is as follows:

Name of director	Updating on the business, operations and corporate governance matter
Mr. Wang Wen Sheng	✓
Mr. Song Lian Bin *(resigned on 28 June 2013)*	✓
Mr. Guo Xu Zhi *(appointed on 1 November 2013)*	✓
Mr. Tian Qun Xu	✓
Mr. Zhang Shao Hui	✓
Mr. Yuan Guo Liang	✓
Mr. Ni Guo Qiang	✓
Mr. Li Li Cai	✓
Mr. Duan Zhong	✓
Ms. Zhang Zhi Hong	✓

Chairman and Chief Executive Officer

Following the resignation of Mr. Song Lian Bin on 28 June 2013, Mr. Wang Wen Sheng was elected as the Chairman of the Board. Accordingly, the Chairman of the Board and the Chief Executive Officer are currently held by Mr. Wang Wen Sheng due to the fact that Mr. Wang is very familiar with the Company's operation and the Board believes that this is the best interest to the Company to keep Mr. Wang as the Chief Executive Officer of the Company at the current stage.

The Chairman of the Board provides leadership to the Board and is also responsible for the effective functioning of the Board in accordance with good corporate governance practice.

The Chief Executive Officer is responsible for the management of the business of the Company, implementation of the policies and objectives set out by the Board and is accountable to the Board for the overall operation of the Company.

Corporate Governance Report (continued)

Board Meeting

The Board met eight times during the year ended 31 December 2013 and the attendance of the members is as follows:

Name of director	Number of attendance in person	% of attendance
Mr. Wang Wen Sheng	8/8	100%
Mr. Song Lian Bin *(resigned on 28 June 2013)*	0/4	0%
Mr. Guo Xu Zhi *(appointed on 1 November 2013)*	1/2	50%
Mr. Tian Qun Xu	8/8	100%
Mr. Zhang Shao Hui	6/8	75%
Mr. Yuan Guo Liang	6/8	75%
Mr. Ni Guo Qiang	8/8	100%
Mr. Li Li Cai	8/8	100%
Mr. Duan Zhong	6/8	75%
Ms. Zhang Zhi Hong	8/8	100%

Board Committees

The Company has set up three committees including audit committee, remuneration committee, and nomination committee, each committee with its specific terms of reference as set out in the CG Code.

Audit Committee

The Company has established an audit committee with written terms of reference in consistence with the CG Code. The audit committee comprises three independent non-executive directors of the Company, namely Ms. Zhang Zhi Hong, Mr. Ni Guo Qiang and Mr. Li Li Cai. Ms. Zhang Zhi Hong has been appointed as the Chairman of the audit committee.

The primary duties of the audit committee include the following:

(a) To consider the appointment of external auditors and any questions of resignation or dismissal.

(b) To review the Company's financial information.

(c) To oversight of the Company's financial reporting system and internal control procedures.

Corporate Governance Report (continued)

The audit committee met four times during the year ended 31 December 2013 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Ni Guo Qiang	4/4	100%
Mr. Li Li Cai	4/4	100%
Ms. Zhang Zhi Hong	4/4	100%

During the year ended 31 December 2013, 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 2013 have been reviewed by the audit committee.

Remuneration Committee

The Company has established a remuneration committee with written terms of reference in consistence with the CG Code. The remuneration committee comprises two independent non-executive directors and an internal staff the Company, namely Mr. Li Li Cai, Ms. Zhang Zhi Hong, and Mr. Wu Yan Ge. Mr. Li Li Cai has been appointed as the Chairman of the committee.

The primary duties of the remuneration committee include the following:

(a) To make recommendations to the Board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

(b) To review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives.

(c) Either: (i) to determine, with delegated responsibility, the remuneration packages of individual executive directors and senior management; or (ii) to make recommendations to the Board on the remuneration packages of individual executive directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

(d) To make recommendations to the Board on the remuneration of non-executive directors.

(e) To consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Company.

Corporate Governance Report (continued)

(f) To review and approve compensation payable to executive directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive.

(g) To review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate.

(h) To ensure that no director or any of his/her associates is involved in deciding his/her own remuneration.

The remuneration committee met two times during the year ended 31 December 2013 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Li Li Cai	2/2	100%
Ms. Zhang Zhi Hong	2/2	100%
Mr. Wu Yan Ge *(appointed on 6 August 2013)*	2/2	100%
Mr. Qian Yun *(resigned on 6 August 2013)*	0/0	0%

Details of remuneration paid to members of senior management (including directors and supervisors) fell within the following bands:

	Number of individuals
RMB 100,000 or below	15
RMB 100,001– RMB200,000	4

Nomination Committee

The Company has established a nomination committee with written terms of reference in consistence with the CG Code. The nomination committee comprises three directors, namely Mr. Weng Wen Sheng, Mr. Duan Zhong, and Mr. Ni Guo Qiang. Mr. Weng Wen Sheng has been appointed as the Chairman of the committee.

The primary duties of the nomination committee include the following:

(a) To review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.

Corporate Governance Report (continued)

(b) To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.

(c) To assess the independence of independent non-executive directors.

(d) To make recommendations to the Board on the appointment or reappointment of directors and succession planning for directors, in particular the Chairman of the Board and the Chief Executive Officer.

The nomination committee met two times during the year ended 31 December 2013 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Wang Wen Sheng	2/2	100%
Mr. Duan Zhong	1/2	50%
Mr. Ni Guo Qiang	2/2	100%

Board Diversity Policy

The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage. The Company has adopted the board diversity policy ("Policy") at the end of 2013. The Nomination Committee will review this Policy annually (effective from the year of 2014) and where appropriate, recommend revisions to the Board for consideration and approval.

Accountability and Audit

Financial reporting

The Board is responsible for presenting annual; interim; and quarterly reports, price-sensitive announcements and other disclosure requirements under the GEM Listing Rules and other regulatory requirements.

The respective responsibilities of the directors of the Company and the auditors for preparing financial statements of the Company for the year ended 31 December 2013 are set out in the Independent Auditors' Report of this annual report.

Internal control

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.

Corporate Governance Report (continued)

Auditors' remuneration

The external auditors provide audit services to the Company during the year ended 31 December 2013. The remuneration of the external auditors for the provision of audit service during the year under review is HK$500,000.

Auditors

The accounts for the year ended 31 December 2013 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

Shareholders' Rights

Convening an extraordinary general meeting and putting forward proposal at shareholders' meeting

Pursuant to article 73 of the Articles of Association of the Company, extraordinary general meeting ("EGM") may be convened on the written requisition of any two or more shareholders of the Company holding more than 10% of the paid up capital of the Company which carries the right of voting at general meetings of the Company (the "Requisitionists"). Such written requisition must specify the resolution(s) to be considered in the EGM and must be signed by the Requisitionists and deposited at the principal place of business of the Company in Hong Kong or, in the event the Company ceases to have such principal office, the registered office of the Company. Shareholders should follow the requirements and procedures as set out in such article for convening an EGM. If the Board does not convene the EGM within 30 days from the receipt of such requisition, the Requisitionists are entitled to convene the EGM themselves within four months after the Board received their requisition at the Company's expense.

Enquiries put to the Board

Shareholders may send written enquiries or requests in respect of their rights to the principal place of business of the Company in Hong Kong or by email to ccoegvv@126.com, for the attention of the secretary of the Board.

Investor relations

The Company establishes different communication channels with investors to update the latest business development and financial performance including the publication of quarterly, interim and annual reports, notices, announcements and circulars on the GEM website and the Company's website in order to maintain a high level of transparency, and to ensure there is no selective disclosure of inside information.

Independent Auditors' Report

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

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 were engaged to audit the financial statements of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") set out on pages 30 to 81, which comprise the statement of financial position as at 31 December 2013, 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. Except for the inability to obtain sufficient appropriate audit evidence as explained below, 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 as to whether the financial statements are free from material misstatement. Because of the matters described in the Basis for Disclaimer of Opinion paragraphs, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

(a) Going concern

As disclosed in note 3 to the financial statements, the Company incurred a net loss of approximately RMB2,230,000 during the year ended 31 December 2013 and, as of that date, the Company's current liabilities exceeded its current assets by approximately RMB7,837,000. In addition, the Company had outstanding bank and other borrowings amounting to RMB17,000,000 which would be due for repayment within the next twelve months and an amount due to a shareholder amounting to RMB14,400,000 which is repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

Independent Auditors' Report (continued)

The validity of the going concern assumption on which the financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the directors of the Company as described in note 3 to the financial statements. The financial statements have been prepared on the assumption that the Company will continue as a going concern and therefore do not include any adjustments relating to the realisation and classification of non-current assets that may be necessary if the Company is unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the statement of financial position. In addition, the Company may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

In the absence of sufficient documentary evidence, we were unable to ascertain whether the assumptions made by the directors of the Company in the preparation of the financial statements on a going concern basis were fair and reasonable. Accordingly, we were unable to satisfy ourselves that the use of the going concern assumption was appropriate. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the appropriateness of the use of the going concern assumption, which might have a consequential significant effect on the net assets of the Company as at 31 December 2013 and the loss of the Company for the year then ended, and the related disclosures thereof in the financial statements.

(b) Impairment of property, plant and equipment

Included in the property, plant and equipment on the statement of financial position of the Company as at 31 December 2013 were plant and machinery with carrying amount of approximately RMB22,718,000 (2012: 26,073,000). The fact that the Company incurred net losses for three consecutive years, may, in our opinion, constitute an indicator of impairment. However, no impairment losses were recognised for the years ended 31 December 2012 and 2013. We were unable to satisfy ourselves as to the appropriateness of the assumptions made by the directors of the Company in assessing the recoverable amount of the aforesaid item of property, plant and equipment with carrying amount of approximately RMB22,718,000 as at 31 December 2013 (2012: RMB26,073,000), and whether any impairment losses should be recognised in accordance with Hong Kong Accounting Standard 36 "Impairment of Assets". Any adjustments that might have been found to be necessary in respect of the carrying amounts of the aforesaid item of property, plant and equipment and impairment losses would have a consequential significant effect on the net assets of the Company as at 31 December 2013 and 2012 and the losses for the years then ended, and the related disclosures in these financial statements. This also caused us to disclaim our audit opinion on the financial statements in respect of the year ended 31 December 2012.

(c) Amounts due from a shareholder/a former related company

Included in current assets on the statement of financial position of the Company as at 31 December 2013 were amounts due from a shareholder and a former related company of approximately RMB593,000 (2012: RMB593,000) and RMB4,283,000 (2012: RMB4,283,000) respectively, which were unsecured and remained outstanding up to the date of this report. In addition, audit confirmation of such balance as at 31 December 2013 has not been received from the former related company. We were unable to obtain sufficient reliable audit evidence or to carry out alternative audit procedures that we considered necessary to assess the validity and recoverability of such receivables as at 31 December 2013. Accordingly, we were unable to assess whether the carrying amounts of the aforesaid receivables as at 31 December 2013 were fairly stated and whether any impairment loss should be recognised. Any adjustments that might have been found to be necessary in respect

Independent Auditors' Report (continued)

of the carrying amounts of the amounts due from a shareholder and a former related company would have a consequential significant effect on the net assets of the Company as at 31 December 2013 and 2012 and the losses for the years then ended, and the related disclosures in these financial statements. This also caused us to disclaim our audit opinion on the financial statements in respect of the year ended 31 December 2012.

(d) Other payables

Included in the accrued liabilities, deposits received and other payables on the statement of financial position of the Company as at 31 December 2013 was other payables of approximately RMB7,000,000. Since audit confirmations of such balances have not been received from the respective creditors, we have not been able to assess the accuracy and completeness of the above liabilities. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that these balances as at 31 December 2013 were free from material misstatement and we have been unable to determine whether any adjustments to these amounts are necessary and the related disclosures have been properly recorded and reflected in the financial statements of the Company.

Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company as at 31 December 2013 and of the loss and cash flows of the Company for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hui Chun Keung, David
Practising Certificate Number: P05447

Hong Kong, 28 March 2014

Statement of Comprehensive Income

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Revenue	6	**62,758**	48,113
Cost of sales		**(45,681)**	(37,328)
Gross profit		**17,077**	10,785
Other income and gain	6	**2,677**	2,915
Selling and distribution expenses		**(1,195)**	(1,376)
Administrative expenses		**(14,733)**	(19,966)
Other operating expenses		**(4,989)**	(17,857)
Finance costs	8	**(1,067)**	(907)
Loss before tax	7	**(2,230)**	(26,406)
Income tax	11	**—**	—
Loss for the year		**(2,230)**	(26,406)
Other comprehensive income for the year		**—**	—
Total comprehensive expense for the year		**(2,230)**	(26,406)
Loss per share attributable to owners of the Company:	12		
— Basic and diluted		**RMB(0.007)**	RMB(0.085)

Statement of Financial Position

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**88,813**	91,759
Land use right	14	**11,999**	12,292
Interest in an associate	15	**—**	—
Total non-current assets		**100,812**	104,051
CURRENT ASSETS			
Inventories	16	**21,827**	23,232
Trade receivables	17	**15,658**	8,552
Prepayments, deposits and other receivables	18	**2,385**	2,239
Due from a shareholder	19	**593**	593
Due from a former related company	20	**4,283**	4,283
Cash and cash equivalents	21	**13,452**	955
Total current assets		**58,198**	39,854
CURRENT LIABILITIES			
Trade payables	22	**8,469**	7,782
Accrued liabilities, deposits received and other payables	23	**26,166**	15,574
Due to a shareholder	24	**14,400**	12,400
Bank and other borrowings	25	**17,000**	12,000
Total current liabilities		**66,035**	47,756
NET CURRENT LIABILITIES		**(7,837)**	(7,902)
TOTAL ASSETS LESS CURRENT LIABILITIES		**92,975**	96,149
NON-CURRENT LIABILITIES			
Deferred government grants	26	**14,310**	15,254
NET ASSETS		**78,665**	80,895

Statement of Financial Position (continued)

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**30,886**	30,886
Reserves	28	**47,779**	50,009
TOTAL EQUITY		**78,665**	80,895

Wang Wen Sheng
Director

Tian Qun Xu
Director

Statement of Changes in Equity

For the year ended 31 December 2013

	Equity attributable to owners of the Company				
	Share capital RMB'000 (Note 27)	Capital surplus* RMB'000 (Note 28)	Statutory surplus reserve* RMB'000 (Note 28)	Retained earnings* RMB'000	Total equity RMB'000
At 1 January 2012	30,886	18,561	11,574	46,280	107,301
Total comprehensive expense for the year	—	—	—	(26,406)	(26,406)
At 31 December 2012 and 1 January 2013	**30,886**	**18,561**	**11,574**	**19,874**	**80,895**
Total comprehensive expense for the year	**—**	**—**	**—**	**(2,230)**	**(2,230)**
Transfer from retained earnings to statutory surplus reserve	**—**	**—**	**279**	**(279)**	**—**
At 31 December 2013	**30,886**	**18,561**	**11,853**	**17,365**	**78,665**

* These reserve accounts comprise the reserves of approximately RMB47,779,000 (2012: RMB50,009,000) in the statement of financial position.

Statement of Cash Flows

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(2,230)**	(26,406)
Adjustments for:			
Interest expense	8	**1,067**	907
Depreciation	7	**5,919**	10,442
Amortisation of land use right	7	**293**	293
Amortisation of deferred government grants	6	**(1,794)**	(1,477)
Gain on disposal of property, plant and equipment	6	**—**	(88)
Interest income	6	**(2)**	(4)
Impairment of inventories	7	**400**	715
Impairment loss of trade receivables	7	**1,415**	11,052
Reversal of impairment of trade receivables	7	**(755)**	(148)
Impairment loss of other receivables	7	**622**	745
		4,935	(3,969)
Decrease/(increase) in inventories		**1,005**	(7,132)
(Increase)/decrease in trade receivables		**(7,766)**	214
(Increase)/decrease in prepayments, deposits and other receivables		**(768)**	2,297
Increase in trade payables		**687**	1,078
Increase in accrued liabilities, deposits received and other payables		**10,592**	6,015
Net cash flows generated from/(used in) in operating activities		**8,685**	(1,497)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,973)**	(8,332)
Proceeds from disposal of property, plant and equipment		**—**	88
Government grants received	26	**850**	600
Interest received		**2**	4
Net cash flows used in investing activities		**(2,121)**	(7,640)

Statement of Cash Flows (continued)

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from a shareholder		**2,000**	11,900
Proceeds from bank and other borrowings		**17,000**	12,000
Repayment of bank borrowing		**(12,000)**	(14,000)
Interest paid		**(1,067)**	(907)
Net cash flows generated from financing activities		**5,933**	8,993
Net increase/(decrease) in cash and cash equivalents		**12,497**	(144)
Cash and cash equivalents at beginning of year		**955**	1,099
CASH AND CASH EQUIVALENTS AT END OF YEAR		**13,452**	955
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**13,452**	955

Notes to the Financial Statements

For the year ended 31 December 2013

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 for the year ended 31 December 2013 were approved for issue by the board of directors on 28 March 2014.

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 Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for the Company's financial year beginning 1 January 2013.

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards — Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 — *Transition Guidance*
HKFRS 13	*Fair Value Measurement*
HKAS 1 Amendments	*Amendments to HKAS1 Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*
HKAS 19 (2011)	*Employee Benefits*
HKAS 27 (2011)	*Separate Financial Statements*
HKAS 28 (2011)	*Investments in Associates and Joint Ventures*
HK (IFRIC)-Int 20	*Stripping Costs in the Production Phase of a Surface Mine*
Annual Improvements 2009–2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

HKFRS 12 sets out the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities 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. Details of the disclosures for the associate are included in note 15 to the financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. HKFRS 13 is applied prospectively and the adoption has had no material impact on the Company's fair value measurements. As a result of the guidance in HKFRS 13, the policies for measuring fair value have been amended.

The HKAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Company.

Annual Improvements 2009-2011 Cycle issued in June 2012 sets out amendments to a number of standards. There are separate transitional provisions for each standard. None of these amendments have had a significant financial impact on the Company. Details of the key amendments most applicable to the Company are as follows:

- HKAS 1 *Presentation of Financial Statements*: Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

  In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- HKAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with HKAS 12 *Income Taxes*. The amendment removes existing income tax requirements from HKAS 32 and requires entities to apply the requirements in HKAS 12 to any income tax arising from distributions to equity holders.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

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

Issued but not yet effective HKFRSs

The Company has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in these financial statements.

HKFRS 9	*Financial Instruments*[3]
HKFRS 9, HKFRS 7 and HKAS 39 Amendments	*Hedge Accounting and amendments to HKFRS 9, HKFRS 7 and HKAS 39*[5]
HKFRS 10, HKFRS 12 and HKAS 27 (2011) Amendments	Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) — *Investment Entities*[1]
HKFRS 14	*Regulatory Deferral Accounts*[6]
HKAS 19 Amendments	Amendments to HKAS 19 *Employee Benefits — Defined Benefit Plans: Employee Contributions*[2]
HKAS 32 Amendments	Amendments to HKAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[1]
HKAS 36 Amendments	Amendments to HKAS 36 *Impairment of Assets — Recoverable Amount Disclosures for Non-Financial Assets*[1]
HKAS 39 Amendments	Amendments to HKAS 39 *Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting*[1]
HK(IFRIC)-Int 21	*Levies*[1]
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs issued in January 2014[4]
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs issued in January 2014[2]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 No mandatory effective date yet determined but is available for adoption.
6 Effective for annual periods beginning on or after 1 January 2016.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Issued but not yet effective HKFRSs (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 as at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. 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 OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

In December 2013, the HKICPA added to HKFRS 9 the requirements related to hedge accounting and made some related changes to HKAS 39 and HKFRS 7 which include the corresponding disclosures about risk management activity for applying hedge accounting. The amendments to HKFRS 9 relax the requirements for assessing hedge effectiveness which result in more risk management strategies being eligible for hedge accounting. The amendments also allow greater flexibility on the hedged items and relax the rules on using purchased options and non-derivative financial instruments as hedging instruments. In addition, the amendments to HKFRS 9 allow an entity to apply only the improved accounting for own credit risk-related fair value gains and losses arising on FVO liabilities as introduced in 2010 without applying the other HKFRS 9 requirements at the same time.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on impairment of financial assets continues to apply. The previous mandatory effective date of HKFRS 9 was removed by the HKICPA in December 2013 and a mandatory effective date will be determined after the entire replacement of HKAS 39 is completed. However, the standard is available for application now. The Company will quantify the effect in conjunction with other phases, when the final standard including all phases is issued.

Amendments to HKFRS 10 include a definition of an investment entity and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity. Investment entities are required to account for subsidiaries at fair value through profit or loss in accordance with HKFRS 9 rather than consolidate them. Consequential amendments were made to HKFRS 12 and HKAS 27 (2011). The amendments to HKFRS 12 also set out the disclosure requirements for investment entities. The Company expects that these amendments will not have any impact on the Company as the Company is not an investment entity as defined in HKFRS 10.

The HKAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in HKAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments are not expected to have any impact on the financial position or performance of the Company upon adoption on 1 January 2014.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

Issued but not yet effective HKFRSs (Continued)

The HKAS 36 Amendments remove the unintended disclosure requirement made by HKFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided HKFRS 13 is also applied.

The Annual Improvements to HKFRSs 2010 — 2012 Cycle and the Annual Improvements to HKFRSs 2011 — 2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. The directors have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

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

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 ("HKASs") and Interpretations) issued by the 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 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Going concern

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 RMB2,230,000 during the year ended 31 December 2013 and, as of that date, the Company's current liabilities exceeded its current assets by approximately RMB7,837,000. In addition, the Company had outstanding bank and other borrowings amounting to RMB17,000,000 which would be due for repayment within the next twelve months and an amount due to a shareholder amounting to RMB14,400,000 which is repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and therefore the Company may be unable to realise its assets and discharge its liabilities in the normal course of business.

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.

Investments in associates

An associate is an 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Company's interest 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Investments in associates (Continued)

The Company's share of the post-acquisition results and other comprehensive income of an associate is included in the statement of comprehensive income. In addition, when there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the statement of changes in equity. 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 interest in an associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Company measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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*.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Company. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), 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 of disposal, 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 an 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

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 controls 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).

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost 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.

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	40 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 including 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

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 intention 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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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 are classified as loans and receivables and include trade receivables, deposits and other receivables, amount due from a shareholder, amount due from a former related company and cash and bank balances.

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 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 primarily derecognised (i.e., removed from the Company's statement of financial position) 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Derecognition of financial assets (Continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of the Company's continuing involvement. 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.

Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

The carrying amount of the asset is reduced through the use of an allowance account and 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 write-off is later recovered, the recovery is credited to other operating expenses in the statement of comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, 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.

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

The Company's financial liabilities include trade payables, accrued liabilities and other payables, amount due to an associate, amount due to a shareholder and bank and other borrowings.

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs 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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Income tax (Continued)

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, when 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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

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 on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to 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 instalments 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;

(ii) from the rending of services, when services are rendered; and

(iii) 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.

Pension scheme

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. 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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

3. Summary of Significant Accounting Policies (Continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. The Company determines its own functional currency and items included in the financial statements of the Company are measured using that functional currency. Foreign currency transactions recorded by the Company are initially recorded using the functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

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 revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

4. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Net realisable value of inventories

Net realisable value of inventories is the estimated selling price, less any estimated costs 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. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will revise the depreciation and amortisation charges where useful lives are different to previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

During the year, the directors of the Company reviewed the estimated useful lives of the Company's leasehold buildings in light of a recent review exercise carried out by the registered developer of the Company's leasehold buildings and the estimated useful lives of the Company's leasehold buildings at the end of the reporting period was determined to be 40 years. Accordingly depreciation charge in respect to the Company's leasehold buildings of RMB1,273,000 was recognised in the statement of comprehensive income for the year ended 31 December 2013, resulting in an decrease of RMB4,615,000 as compared with previous year. The changes in accounting estimates of the Company is applied prospectively and will result in the net carrying amount of the Company's leasehold buildings to be depreciated over the original estimated useful lives of 10 years to 40 years over the revised estimated useful lives.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

4. Significant Accounting Judgements and Estimates (Continued)

Estimation uncertainty (Continued)

Impairment of non-financial assets (other than goodwill)

The Company assesses whether there are any indicators of impairment for all non-financial assets at the end of the reporting period. They are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of fair value less costs of disposal 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 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

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:

	2013		2012	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**43,445**	**69**	38,172	79
Fiber optic straight plates	**7,199**	**11**	2,273	5
Fiber optic face plates	**1,217**	**2**	1,595	3
Fiber optic tapers	**6,570**	**11**	4,902	10
Fiber optic tapers billets	**—**	**—**	875	2
Microchannel plates	**4,327**	**7**	296	1
	62,758	**100**	48,113	100

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

5. Segment Information (Continued)

Entity-wide disclosures (Continued)

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:

	2013 RMB'000	2012 RMB'000
The PRC	11,192	4,906
Hong Kong	7,699	6,197
Europe	43,799	36,666
Others	68	344
	62,758	48,113

Information about major customers

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

	2013 RMB'000	2012 RMB'000
Customer A	22,376	27,955
Customer B	12,381	N/A[1]
Customer C	8,887	N/A[1]

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

6. Revenue and Other Income and Gain

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 gain is as follows:

	2013 RMB'000	2012 RMB'000
Revenue:		
Sale of goods	**62,758**	48,113
Other income and gain:		
Amortisation of deferred government grants (note 26)	**1,794**	1,477
Bank interest income	**2**	4
Gain on disposal of items of property, plant and equipment	**—**	88
Others	**881**	1,346
	2,677	2,915

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

7. Loss Before Tax

The Company's loss before tax is arrived at after charging/(crediting):

	2013 RMB'000	2012 RMB'000
Auditors' remuneration	**393**	609
Cost of inventories sold	**45,681**	37,328
Employee benefit expense (including directors', chief executive's and supervisors' remuneration — note 9):		
Wages, salaries and other benefits	**23,847**	23,673
Pension scheme contributions	**6,586**	6,005
	30,433	29,678
Less: Amounts capitalised (note (i))	**(21,278)**	(20,123)
	9,155	9,555
Depreciation of property, plant and equipment (note (ii))	**5,919**	10,442
Less: Amounts capitalised (note (ii))	**(4,112)**	(4,050)
	1,807	6,392
Amortisation of land use right (included in administrative expenses)	**293**	293
Gain on disposal of items of property, plant and equipment	**—**	(88)
Net foreign exchange loss	**578**	637
Research and development costs (included in other operating expenses)	**3,919**	6,764
Impairment of inventories	**400**	715
Impairment of trade receivables (included in other operating expenses)	**1,415**	11,052
Reversal of impairment of trade receivables (included in other operating expenses)	**(755)**	(148)
Impairment of other receivables (included in administrative expenses)	**622**	745

Notes:

(i) Salaries and other benefits of approximately RMB21,278,000 were capitalised in inventories for the year ended 31 December 2013 (2012: RMB20,123,000).

(ii) Depreciation of property, plant and equipment of approximately RMB4,112,000 was capitalised in inventories for the year ended 31 December 2013 (2012: RMB4,050,000).

8. Finance Costs

	2013 RMB'000	2012 RMB'000
Interest on bank and other loans, wholly repayable within five years	**1,067**	907

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

9. Directors', Chief Executive's and Supervisors' Remuneration

Directors' and chief executive's remuneration

Details of directors' and chief executive's remuneration for the year are as follows:

	2013 RMB'000	2012 RMB'000
Fees	—	—
Other emoluments		
Salaries, allowances and benefits in kind	606	687
Pension scheme contributions	10	—
	616	687

The emoluments of each director and the chief executive, 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
2013				
Executive directors				
Wang Wen Sheng	—	142	10	152
Tian Qun Xu	—	140	—	140
Guo Xu Zhi *(appointed on 1 November 2013)*	—	6	—	6
Song Lian Bin *(resigned on 28 June 2013)*	—	90	—	90
Non-executive directors				
Zhang Shao Hui	—	48	—	48
Yuan Guo Liang	—	36	—	36
Ni Guo Qiang#	—	36	—	36
Li Li Cai#	—	36		36
Duan Zhong#	—	36	—	36
Zhang Zhi Hong#	—	36	—	36
	—	606	10	616

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

9. Directors', Chief Executive's and Supervisors' Remuneration (Continued)

Directors' and chief executive's remuneration (Continued)

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2012				
Executive directors				
Wang Wen Sheng	—	139	—	139
Tian Qun Xu	—	140	—	140
Song Lian Bin *(resigned on 28 June 2013)*	—	180	—	180
Non-executive directors				
Zhang Shao Hui	—	48	—	48
Yuan Guo Liang	—	36	—	36
Ni Guo Qiang#	—	36	—	36
Li Li Cai#	—	36	—	36
Duan Zhong#	—	36	—	36
Zhang Zhi Hong#	—	36	—	36
	—	687	—	687

Independent non-executive directors

The chief executive of the Company Mr. Wang Wen Sheng, is also a director and chairman of the Company.

Supervisors' remuneration

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

	2013 RMB'000	2012 RMB'000
Fees	**—**	—
Other emoluments		
Salaries, allowances and benefits in kind	**101**	83
Pension scheme contributions	**17**	15
	118	98

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

9. Directors', Chief Executive's and Supervisors' Remuneration (Continued)

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
2013				
Han Xiao Ou	—	64	11	75
Lv Jun Li	—	27	6	33
Sun Wei	—	5	—	5
Xiang Hui	—	5	—	5
	—	101	17	118
2012				
Han Xiao Ou	—	60	10	70
Lv Jun Li *(appointed on 1 June 2012)*	—	13	5	18
Sun Wei *(appointed on 1 June 2012)*	—	5	—	5
Xiang Hui *(appointed on 1 June 2012)*	—	5	—	5
Zhang Fu Sheng *(resigned on 31 May 2012)*	—	—	—	—
Meng Yan *(resigned on 31 May 2012)*	—	—	—	—
Wang Guang Hua *(resigned on 31 May 2012)*	—	—	—	—
	—	83	15	98

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

10. Five Highest Paid Employees

The five highest paid employees during the year included three directors (2012: three directors), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining two (2012: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	191	203
Pension scheme contributions	30	49
	221	252

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

	Number of employees	
	2013	2012
Nil to HK$1,000,000	2	2

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

11. Income Tax

	2013 RMB'000	2012 RMB'000
Current PRC Enterprise income tax		
— Charge for the year	—	—
Deferred tax	—	—
Total tax charge for the year	—	—

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 2013 (2012: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Company operates.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

11. Income Tax (Continued)

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% for 3 years. For the year ended 31 December 2013, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2012: 15%).

The tax charge for the year can be reconciled to the loss before tax per the statement of comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
Loss before tax	**(2,230)**	(26,406)
Tax at statutory tax rate of 15% (2012: 15%)	**(335)**	(3,961)
Income not subject to tax	**(269)**	(221)
Expenses not deductible for tax	**1,022**	3,496
Tax losses not recognised	**—**	686
Tax losses utilised from previous periods	**(418)**	—
Income tax charge	**—**	—

As at 31 December 2013, the Company has estimated unused tax losses of approximately RMB2,866,000 (2012: RMB5,652,000) 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 RMB2,866,000 at 31 December 2013 (2012: RMB5,652,000) is due to expire within one to five years for offsetting against future taxable profits of the Company in which the losses arise.

12. Loss Per Share

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB2,230,000 (2012: RMB26,406,000) and 308,860,000 (2012: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2012 and 2013.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

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 2013							
At 1 January 2013:							
Cost	61,417	34	48,678	3,110	1,172	18,070	132,481
Accumulated depreciation	(14,644)	(8)	(22,605)	(2,439)	(1,026)	—	(40,722)
Net carrying amount	46,773	26	26,073	671	146	18,070	91,759
At 1 January 2013, net of accumulated depreciation	46,773	26	26,073	671	146	18,070	91,759
Additions	—	—	642	98	—	2,233	2,973
Transferred from construction in progress	4,167	—	262	—	—	(4,429)	—
Depreciation provided during the year	(1,273)	(3)	(4,259)	(318)	(66)	—	(5,919)
At 31 December 2013, net of accumulated depreciation	49,667	23	22,718	451	80	15,874	88,813
At 31 December 2013:							
Cost	65,584	34	49,582	3,208	1,172	15,874	135,454
Accumulated depreciation	(15,917)	(11)	(26,864)	(2,757)	(1,092)	—	(46,641)
Net carrying amount	49,667	23	22,718	451	80	15,874	88,813
31 December 2012							
At 1 January 2012:							
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
At 1 January 2012, net of accumulated depreciation	49,718	29	28,265	993	212	14,652	93,869
Additions	—	—	521	8	—	7,803	8,332
Transferred from construction in progress	2,943	—	1,442	—	—	(4,385)	—
Disposal	—	—	—	—	—	—	—
Depreciation provided during the year	(5,888)	(3)	(4,155)	(330)	(66)	—	(10,442)
At 31 December 2012, net of accumulated depreciation	46,773	26	26,073	671	146	18,070	91,759
At 31 December 2012:							
Cost	61,417	34	48,678	3,110	1,172	18,070	132,481
Accumulated depreciation	(14,644)	(8)	(22,605)	(2,439)	(1,026)	—	(40,722)
Net carrying amount	46,773	26	26,073	671	146	18,070	91,759

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

13. Property, Plant and Equipment (Continued)

As at 31 December 2013, the Company's leasehold buildings held under medium term leases are situated in the PRC.

As at 31 December 2013, 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 RMB49,667,000 (2012: RMB46,773,000). 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 2013.

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:

	2013 RMB'000	2012 RMB'000
At the beginning of the year		
Cost	14,634	14,634
Accumulated amortisation	(2,342)	(2,049)
Net carrying amount	12,292	12,585
For the year ended		
Opening net carrying amount	12,292	12,585
Amortisation	(293)	(293)
Net carrying amount	11,999	12,292
At the end of the year		
Cost	14,634	14,634
Accumulated amortisation	(2,635)	(2,342)
Net carrying amount	11,999	12,292

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

As at 31 December 2012 and 2013, 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 bank loan to the Company (note 25).

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

15. Interest in an Associate

	2013 RMB'000	2012 RMB'000
Share of net assets	**2,578**	2,578
Due to an associate	**(13)**	(113)
	2,565	2,465
Less: Provision for impairment	**(2,565)**	(2,465)
	–	–

Particulars of the associate at 31 December 2013 are as follows:

Name	Place of incorporation and registration	Particulars of registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
山西華遠交通光電技術工程有限公司 (transliterated as "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 2013, the Company recognised a provision for impairment of approximately RMB2,565,000 (2012: RMB2,465,000) in respect of the interest in an associate mainly due to uncertainties surrounding the industry in which the associate operates.

The associate is accounted for using the equity method in these financial statements and the associate is not considered to be individually material to the Company.

Summarised financial information in respect of the Company's associate is set out below.

	2013 RMB'000	2012 RMB'000
Share of the associate's profit for the year	**–**	–
Share of the associate's other comprehensive income	**–**	–
Share of the associate's total comprehensive income	**–**	–
Carrying amount of the Company's interest in an associate	**–**	–

The Company has discontinued the recognition of its share of results of an associate because the share of losses of the associate exceeded the Company's interest in an associate. As at 31 December 2013, the cumulatively unrecognised share of losses of the associate is approximately RMB284,000 (2012: RMB293,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

16. Inventories

	2013 RMB'000	2012 RMB'000
Raw materials	**1,092**	1,376
Work in progress	**12,098**	12,776
Finished goods	**8,637**	9,080
	21,827	23,232

17. Trade Receivables

	2013 RMB'000	2012 RMB'000
Trade receivables	**17,157**	10,724
Impairment	**(1,499)**	(2,172)
	15,658	8,552

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:

	2013 RMB'000	2012 RMB'000
0–90 days	**12,512**	7,512
91–180 days	**1,539**	536
181–365 days	**1,607**	504
	15,658	8,552

The trading terms with customers are largely on credit. The Company generally allow an average credit period of 90 days (2012: 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

17. Trade Receivables (Continued)

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

	2013 RMB'000	2012 RMB'000
At 1 January	**2,172**	1,153
Impairment losses recognised (note 7)	**1,415**	11,052
Reversal of impairment losses recognised (note 7)	**(755)**	(148)
Amount written off as uncollectible	**(1,333)**	(9,885)
At 31 December	**1,499**	2,172

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB1,499,000 (2012: RMB2,172,000). 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:

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	**12,341**	7,512
Less than 9 months past due	**3,317**	1,040
	15,658	8,552

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

18. Prepayments, Deposits and Other Receivables

	2013 RMB'000	2012 RMB'000
Other receivables	2,514	1,991
Less: Impairment	(1,367)	(745)
	1,147	1,246
Deposits	83	85
Prepayments	508	429
Other tax recoverable	647	479
	2,385	2,239

The movements in provision for impairment of other receivables during the year are as follows:

	2013 RMB'000	2012 RMB'000
At the beginning of the year	745	—
Impairment losses recognised (note 7)	622	745
At the end of the year	1,367	745

Included in the above provision for impairment of other receivables of the Company as at 31 December 2013 are provision for individually impaired other receivables of RMB1,367,000 (2012: RMB745,000) with carrying amounts before provision of RMB1,367,000 (2012: RMB745,000). The individually impaired other receivables of the Company relate to other debtors that were in financial difficulties and is not expected to be recoverable. The Company do not hold any collateral or other credit enhancement over their other receivable balances.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

19. Due from a Shareholder

Details of the amount due from a shareholder is set out below:

Name	Maximum outstanding during the year RMB'000	2013 RMB'000	2012 RMB'000
太原唐海自動控制有限公司 (transliterated as "Taiyuan Tanghai Automatic Control Company Limited")	593	593	593

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

20. Due from a Former Related Company

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

Name	Maximum outstanding during the year RMB'000	2013 RMB'000	2012 RMB'000
山西錦地裕成醫療設備有限公司 (transliterated as "Shanxi Jindi Yucheng Medical Equipments Company Limited") ("Shanxi Jindi")	4,283	4,283	4,283

Shanxi Jindi (formerly known as 太原華美醫療設備有限公司 (transliterated as "Taiyuan Huamei Medical Equipments Company Limited")) was a subsidiary of Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng"), a substantial shareholder of the Company. The amount due is unsecured, interest-free and repayable on demand.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

21. Cash and Cash Equivalents

Cash and cash equivalents include the following components:

	2013 RMB'000	2012 RMB'000
Cash at bank and in hand	**13,452**	955

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 that are authorised to conduct foreign exchange business.

Cash at bank earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

22. 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:

	2013 RMB'000	2012 RMB'000
0–90 days	**4,436**	3,335
91–180 days	**1,986**	1,640
181–365 days	**949**	1,327
Over 365 days	**1,098**	1,480
	8,469	7,782

The trade payables are non-interest-bearing and are mainly denominated in RMB.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

23. Accrued Liabilities, Deposits Received and Other Payables

	2013 RMB'000	2012 RMB'000
Accrued salaries and other benefits	**13,698**	9,445
Accrued expenses	**4,412**	3,826
Receipt in advance	**550**	1,433
Other payables	**7,506**	870
	26,166	15,574

24. Due to a Shareholder

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

25. Bank and Other Borrowings

	2013		2012	
	Maturity	RMB'000	Maturity	RMB'000
Bank loan — secured (note (i))	**2014**	**12,000**	2013	12,000
Other borrowing — unsecured (note (ii))	**2014**	**5,000**	N/A	—
		17,000		12,000

	2013 RMB'000	2012 RMB'000
Analysed into:		
Loans repayable:		
Within one year	**17,000**	12,000

Notes:

(i) 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 2012 and 2013, 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% (2012: 130%).

(ii) The other borrowing is unsecured, non-interest-bearing and repayable in January 2014.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

26. Deferred Government Grants

	RMB'000
At 1 January 2012	
Cost	22,050
Accumulated amortisation	(5,919)
Net carrying amount	16,131
Year ended 31 December 2012	
Opening net carrying amount	16,131
Additions	600
Amortisation	(1,477)
Closing net carrying amount	15,254
At 1 January 2013	
Cost	22,650
Accumulated amortisation	(7,396)
Net carrying amount	15,254
Year ended 31 December 2013	
Opening net carrying amount	**15,254**
Additions	**850**
Amortisation	**(1,794)**
Closing net carrying amount	**14,310**
At 31 December 2013	
Cost	**23,500**
Accumulated amortisation	**(9,190)**
Net carrying amount	**14,310**

Note: The balance of RMB850,000 (2012: RMB600,000) comprised (i) subsidies of RMB500,000 (2012: RMB300,000) 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) subsidies of RMB350,000 (2012: RMB300,000) 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

27. Share Capital

	2013 RMB'000	2012 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2012: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2012: 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.

28. 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.

(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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

29. Pledge of Assets

Details of the Company bank loan which is secured by the assets of the Company are included in note 25 to the financial statements.

30. Capital Commitments

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

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for		
— Buildings	7,969	8,527
— Plant and machinery	1,431	1,431
	9,400	9,958

31. Related Party Transactions

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2013 RMB'000	2012 RMB'000
Short term employee benefits	707	770
Post-employment benefits	27	15
	734	785

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

32. 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:

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables:		
Trade receivables	**15,658**	8,552
Financial assets included in prepayments, deposits and other receivables	**1,230**	1,331
Due from a shareholder	**593**	593
Due from a former related company	**4,283**	4,283
Cash and cash equivalents	**13,452**	955
	35,216	15,714
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**8,469**	7,782
Financial liabilities included in accrued liabilities, deposits received and other payables	**25,616**	14,141
Due to an associate	**13**	113
Due to a shareholder	**14,400**	12,400
Bank and other borrowings	**17,000**	12,000
	65,498	46,436

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

33. Financial Risk Management Objectives 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. There has been no change to the types of the Company's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

(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 Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure closely and will consider hedging significant foreign currency exposure should the need arise.

The following table details the Company's exposure at the end of the reporting period to foreign currency risk arising from major recognised assets or liabilities denominated in a currency other than the Company's functional currency.

	Liabilities		Assets	
	2013 RMB'000	2012 RMB'000	**2013 RMB'000**	2012 RMB'000
USD	**7**	228	**5,792**	6,236
Euro	**—**	—	**1,360**	18

Sensitivity analysis

The sensitivity analysis has been determined assuming that the reasonably possible change in foreign exchange rates 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. A 5% (strengthening)/weakening of RMB against USD and Euro at the end of the reporting period would (decrease)/increase in the Company's loss before 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.

	2013 RMB'000	2012 RMB'000
5% (strengthening)/weakening of RMB against		
USD	**(289)/289**	(300)/300
Euro	**(68)/68**	(1)/1

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

33. Financial Risk Management Objectives and Policies (Continued)

(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 before tax. There is no material impact on other components of the Company's equity.

	Increase/ (decrease) in loss before tax RMB'000
2013	
Increase in 100 basis points	**120**
Decrease in 100 basis points	**(120)**
2012	
Increase in 100 basis points	120
Decrease in 100 basis points	(120)

(c) Credit risk

The maximum credit risk exposure of the financial assets is summarised in note 32. The credit risk on cash and cash equivalents is limited as the Company has deposited its cash principally with various banks in the PRC.

The Company has significant concentration of credit risk arising from its ordinary course of business due to its 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 32. 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

33. Financial Risk Management Objectives 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 1 year RMB'000	Over 1 year RMB'000	Total contractual undiscounted cash flows RMB'000	Total carrying amount RMB'000
2013					
Trade payables	—	8,469	—	8,469	8,469
Accrued liabilities, deposits received and other payables	514	25,102	—	25,616	25,616
Due to an associate	—	—	13	13	13
Due to a shareholder	14,400	—	—	14,400	14,400
Bank and other borrowings	—	17,027	—	17,027	17,000
	14,914	50,598	13	65,525	65,498
2012					
Trade payables	—	7,782	—	7,782	7,782
Accrued liabilities, deposits received and other payables	606	13,535	—	14,141	14,141
Due to an associate	—	—	113	113	113
Due to a shareholder	12,400	—	—	12,400	12,400
Interest-bearing bank loan	—	12,487	—	12,487	12,000
	13,006	33,804	113	46,923	46,436

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

33. Financial Risk Management Objectives 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).

During the years ended 31 December 2013 and 2012, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

As at 31 December 2013 and 2012, the Company did not have any assets and liabilities that are measured at the above fair value measurement hierarchy.

(f) Price risk

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

(g) Capital management

The primary objectives of the Company's capital management are to safeguard the Company's ability to continue as a going concern and to maintain healthy capital ratios, so that it can continue to provide returns for the shareholders and benefits for other stakeholders, by pricing products commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts. The Company is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2013.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2013 amounted to approximately RMB78,665,000 (2012: RMB80,895,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

Notes to the Financial Statements (continued)

For the year ended 31 December 2013

33. Financial Risk Management Objectives 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. Net debt includes trade payables, accrued liabilities, deposits received and other payables, amount due to an associate, amount due to a shareholder and bank and other borrowings less cash and cash equivalents. Total capital includes share capital and reserves. The gearing ratios as at the end of the reporting period were as follows:

	2013 RMB'000	2012 RMB'000
Trade payables	**8,469**	7,782
Accrued liabilities, deposits received and other payables	**26,166**	15,574
Due to an associate	**13**	113
Due to a shareholder	**14,400**	12,400
Interest-bearing bank loan	**17,000**	12,000
Less: Cash and cash equivalents	**(13,452)**	(955)
Net debt	**52,596**	46,914
Total capital	**78,665**	80,895
Capital and net debt	**131,261**	127,809
Gearing ratio	**40%**	37%

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 2013.

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
RESULTS					
Revenue	**62,758**	48,113	55,333	64,578	58,820
Operating (loss)/profit	**(1,163)**	(25,499)	(10,275)	10,967	15,403
Finance costs	**(1,067)**	(907)	(1,043)	(82)	(30)
(Loss)/profit before tax	**(2,230)**	(26,406)	(11,318)	10,885	15,373
Income tax credit/(expense)	**—**	—	277	(1,549)	(2,041)
(Loss)/profit for the year	**(2,230)**	(26,406)	(11,041)	9,336	13,332
Net (loss)/profit attributable to owners of the Company	**(2,230)**	(26,406)	(11,041)	9,336	13,332

	As at 31 December				
	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
ASSETS AND LIABILITIES					
Total assets	**159,010**	143,905	154,195	156,590	132,772
Total liabilities	**(80,345)**	(63,010)	(46,894)	(38,248)	(23,766)
Total equity	**78,665**	80,895	107,301	118,342	109,006

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 Jin Xue Yuan of Shanxi Province Committee Party School at 96 Xue Fu Street, Taiyuan City, Shanxi Province, the People's Republic of China (the "PRC") on 30 May 2014 at 9:30 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 2013;

2. to receive and approve the audited financial statements of the Company for the year ended 31 December 2013;

3. to consider and approve the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the year of 2014 with a term of office until the conclusion of the next AGM and to authorise the board of directors to fix their remuneration;

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

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

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

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

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

9. to re-elect Mr. Duan Zhong as the independent non-executive director of the Company;

10. to re-elect Ms. Zhang Zhi Hong as the independent non-executive director of the Company;

11. to re-elect Ms. Han Xiao Ou as the shareholder representing supervisor of the Company; and

12. to authorise 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.
Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 28 March 2014

Notice of Annual General Meeting (continued)

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 Level 22, Hopewell Centre, 183 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 24 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 28 April 2014 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 29 April 2014 to 29 May 2014 (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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 28 April 2014 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 9 May 2014.

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