

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)

2014
Interim Report



* For identification only

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

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

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

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

FINANCIAL RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) announces the unaudited results of the Company for the three months and six months ended 30 June 2014, together with the comparative unaudited figures for the corresponding period in 2013, as follows:

Statement of Comprehensive Income

For the three months and six months ended 30 June 2014

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Revenue	2	13,115	16,808	21,320	28,517
Cost of sales		(10,429)	(12,379)	(17,156)	(20,638)
Gross profit		2,686	4,429	4,164	7,879
Other income and gain		417	595	701	1,001
Selling and distribution expenses		(291)	(238)	(501)	(468)
Administrative and other operating expenses		(3,338)	(5,310)	(6,948)	(10,250)
Finance costs		(284)	(257)	(475)	(491)
Loss before tax	4	(810)	(781)	(3,059)	(2,329)
Income tax	5	—	—	—	—
Loss for the period		(810)	(781)	(3,059)	(2,329)
Other comprehensive income for the period		—	—	—	—
Total comprehensive expense for the period		(810)	(781)	(3,059)	(2,329)
Loss per share attributable to owners of the Company:					
— Basic and diluted	6	RMB(0.003)	RMB(0.003)	RMB(0.01)	RMB(0.008)

Statement of Financial Position

As at 30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		87,082	88,813
Land use rights		11,853	11,999
Interest in an associate		—	—
Total non-current assets		98,935	100,812
CURRENT ASSETS			
Inventories		25,140	21,827
Trade receivables	8	14,373	15,658
Prepayments, deposits and other receivables		3,925	2,385
Due from a shareholder		593	593
Due from a former related company		4,283	4,283
Cash and cash equivalents		453	13,452
Total current assets		48,767	58,198
CURRENT LIABILITIES			
Trade payables	9	7,673	8,469
Accrued liabilities, deposits received and other payables		21,244	26,166
Due to a shareholder		14,400	14,400
Bank and other borrowings		15,000	17,000
Total current liabilities		58,317	66,035
NET CURRENT LIABILITIES		(9,550)	(7,837)
TOTAL ASSETS LESS CURRENT LIABILITIES		89,385	92,975

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT LIABILITIES		
Deferred government grants	13,779	14,310
Total non-current liabilities	13,779	14,310
NET ASSETS	75,606	78,665
EQUITY		
Equity attributable to owners of the Company		
Share capital	30,886	30,886
Reserves	44,720	47,779
TOTAL EQUITY	75,606	78,665

Statement of Changes in Equity

For the six months ended 30 June 2014

	Equity attributable to owners of the Company				
	Share capital	Capital surplus	Statutory surplus reserve	Retained earnings	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2013	30,886	18,561	11,574	19,874	80,895
Total comprehensive expense for the period	—	—	—	(2,329)	(2,329)
At 30 June 2013	30,886	18,561	11,574	17,545	78,566
At 1 January 2014	30,886	18,561	11,853	17,365	78,665
Total comprehensive expense for the period	—	—	—	(3,059)	(3,059)
At 30 June 2014	30,886	18,561	11,853	14,306	75,606

Statement of Cash Flows

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Net cash flows used in operating activities	(8,725)	(1,383)
Net cash flows used in investing activities	(799)	(976)
Net cash flows (used in)/generated from financing activities	(3,475)	2,000
Decrease in cash and cash equivalents	(12,999)	(359)
Cash and cash equivalents at 1 January	13,452	955
Cash and cash equivalents at 30 June	453	596

NOTES TO THE ACCOUNTS

1. Basis of preparation

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

These financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities, which have been measured at fair value.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to nearest thousand except when otherwise indicated.

2. Revenue

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

3. Segment information

The Company's revenue and contribution to loss were mainly derived from its sale of fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers, fiber optic tapers billets and microchannel plates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Company's directors, being the chief operating decision maker ("CODM"), for purposes of resource allocation and performance assessment.

The measures of loss and of total assets and liabilities are consistent with the statement of comprehensive income and the statement of financial position which are reported internally to the CODM. In addition, the Company's assets are located in Shanxi, the PRC. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures**(i) Information about products**

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

	For the six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
Fiber optic inverters	11,021	52	19,633	69
Fiber optic straight plates	4,761	22	3,555	12
Fiber optic face plates	295	1	421	1
Fiber optic tapers	2,350	11	3,330	12
Fiber optic tapers billets	—	—	—	—
Microchannel plates	2,802	13	1,544	6
Others	91	1	34	—
	21,320	100	28,517	100

(ii) Geographical information

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

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

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
The PRC	2,636	2,098
Hong Kong/Taiwan	1,795	3,427
Europe	16,889	22,992
	21,320	28,517

(iii) Information about major customers

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

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Customer A	10,281	13,367
Customer B	2,148	—
Customer C	2,035	—

4. Loss before tax

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Loss before tax is arrived at after charging:		
Cost of inventories sold	17,156	20,638
Depreciation of property, plant and equipment	2,458	4,989
Amortisation of land use right	146	146

5. Income tax

	For the six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current PRC Enterprise income tax	—	—

No Hong Kong profits tax has been provided as the Company had no estimated assessable profits arising in or derived from Hong Kong for the six months ended 30 June 2014 and 2013. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Company operates.

According to the applicable Enterprise Income Tax Law of the PRC, the Company, which operates in the Taiyuan Economic and Technology Development Zone, the PRC, and which is registered as a New and High Technical Enterprise, is entitled to a concessionary Enterprise Income Tax rate of 15% for 3 years. For the six months ended 30 June 2014, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2013: 15%).

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and six months ended 30 June 2014 of approximately RMB810,000 and RMB3,059,000 respectively (For the three months and six months ended 30 June 2013: RMB781,000 and RMB2,329,000) and 308,860,000 (2013: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the six months ended 30 June 2014 and 2013.

7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2014 (For the six months ended 30 June 2013: Nil).

8. Trade receivables

An aged analysis of the trade receivables is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0–90 days	8,957	12,512
91–180 days	3,605	1,539
181–365 days	1,811	1,607
	14,373	15,658

The trading terms with customers are largely on credit. The Company generally allow an average credit period of 90 days (2013: 90 days).

9. Trade payables

An aged analysis of the trade payables is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0–90 days	2,392	4,436
91–180 days	2,758	1,986
181–365 days	1,671	949
Over 365 days	852	1,098
	7,673	8,469

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

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

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

During the six months ended 30 June 2014 and 2013, the total sales to external customers by product and the percentage of total revenue by product are listed as below:

	For the six months ended 30 June			
	2014		2013	
	RMB'000	%	RMB'000	%
Fiber optic inverters	11,021	52	19,633	69
Fiber optic straight plates	4,761	22	3,555	12
Fiber optic face plates	295	1	421	1
Fiber optic tapers	2,350	11	3,330	12
Fiber optic tapers billets	—	—	—	—
Microchannel plates	2,802	13	1,544	6
Others	91	1	34	—
	21,320	100	28,517	100

Financial Review

Turnover of the Company for the six months ended 30 June 2014 was approximately RMB21,320,000, representing a decrease of approximately 25% from approximately RMB28,517,000 for the same period in 2013.

Cost of sales of the Company for the six months ended 30 June 2014 was approximately RMB17,156,000, representing a decrease of approximately 17% from approximately RMB20,638,000 for the same period in 2013.

The gross profit margin for the six months ended 30 June 2014 was approximately 19.5% (For the six months ended 30 June 2013: 27.6%).

Administrative and other operating expenses of the Company for the six months ended 30 June 2014 was approximately RMB6,948,000, representing a decrease of approximately 32% from approximately RMB10,250,000 for the same period in 2013. Administrative and other operating expenses include depreciation charges of approximately RMB2,458,000 (For the six months ended 30 June 2013: RMB4,989,000) and research and development cost of approximately RMB643,000 (For the six months ended 30 June 2013: RMB1,100,648). The decrease in the administrative and other operating expenses was mainly due to decrease in the depreciation charges and general administrative expenses.

The Company's unaudited loss attributable to owners of the Company for the six months ended 30 June 2014 was approximately RMB3,059,000 (For the six months ended 30 June 2013: RMB2,329,000).

As the Company incurred operating loss for the financial years from 2011 to 2013, the Company had obtained financial support from its banker and its shareholder. As at 30 June 2014, the Company had outstanding bank loan amounting to RMB15,000,000 (31 December 2013: RMB12,000,000). The RMB15,000,000 bank loan will be due for repayment in May 2015. As at 30 June 2014, outstanding amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation, a shareholder of the Company, amounting to RMB14,400,000 (31 December 2013: RMB14,400,000).

Financial Assistance to Related Parties

As at 30 June 2014, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (31 December 2013: RMB593,000).

As at 30 June 2014, the amount due from a former related company — Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) was approximately RMB4,283,000 (31 December 2013: RMB4,283,000).

Liquidity and Financial Resources

As at 30 June 2014, the total assets of the Company increased by approximately RMB11,308,000 to approximately RMB147,702,000 as compared to approximately RMB159,010,000 as at the end of the previous financial year, representing a decrease of approximately 7%.

As at 30 June 2014, the total liabilities of the Company increased by approximately RMB8,249,000 to approximately RMB72,096,000 as compared to approximately RMB80,345,000 as at the end of the previous financial year, representing a decrease of approximately 10%.

As at 30 June 2014, the total equity of the Company decreased by approximately RMB3,059,000 to approximately RMB75,606,000 as compared to approximately RMB78,665,000 as at the end of the previous financial year, representing a decrease of approximately 4%.

Gearing Ratio

As at 30 June 2014, the gearing ratio (defined as net debt divided by total share capital plus net debt) was approximately 43% (31 December 2013: 40%).

Significant Investment Held

As at 30 June 2014, the Company held interest in an associate with a carrying amount of Nil (31 December 2013: Nil).

Acquisition and Disposal of Subsidiaries

The Company had no other acquisition and disposal of subsidiaries during the six months ended 30 June 2014.

Pledge of Assets

As at 30 June 2014, the Company's land with the carrying value of approximately RMB11,853,000 (31 December 2013: RMB11,999,000) was pledged to a bank as securities for the borrowing facilities of the Company.

Contingent Liabilities

As at 30 June 2014, the Company had no contingent liabilities.

Exposure of Fluctuation in Exchange Rates

A majority of the Company's sales was denominated in US Dollars and Euro while a majority of the Company's cost of sales and capital and operating expenses were denominated in RMB. Accordingly, the directors of the Company are of the view that, the Company is exposed to foreign exchange risk arising from the exposure of RMB against US Dollars, Euro and Hong Kong Dollars, respectively.

Employee Information

As at 30 June 2014, the Company had approximately 580 full-time employees. The Company remunerates its employees based on their experience, performance and value, which they contribute to the Company.

OTHER INFORMATION

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

As at 30 June 2014, the interests and short positions of the directors or supervisors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the shares and underlying shares of the Company

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

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

Notes:

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

Save as disclosed above, as at 30 June 2014, none of the directors or supervisors of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 30 June 2014, so far as the directors of the Company are aware, persons other than directors or supervisors of the Company who have interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Domestic Shares:					
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Notes 1 & 2)	41.34%	—	26.61%
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Note 2)	41.34%	—	26.61%
Taiyuan Changcheng Optics Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	—	25.95%
Liaoning Shuguang Industrial Group Company Limited	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	17.10%	—	11.01%

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*
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.

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 of the Company are not aware of other person who, as at 30 June 2014, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The Company does not have share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the six months ended 30 June 2014, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2014, 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 period.

Directors' and Supervisors' Interest in Contracts

No contracts of significance in relation to the Company's business to which the Company was a party and in which a director and supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the six months ended 30 June 2014 or at any time during the period.

Purchase, Sale or Redemption of Shares

The Company has not purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2014.

Audit Committee

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee are to review and to provide supervision over the financial reporting process and internal control system of the Company. The audit committee comprises three independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, and Ms. Zhang Zhi Hong. Ms. Zhang Zhi Hong has been appointed as the chairwoman of the audit committee. The audit committee has reviewed the unaudited financial statements of the Company for the six months ended 30 June 2014.

Competing Interests

None of the directors, supervisors and the management shareholders of the Company nor any of their respective associates (as defined under the GEM Listing Rules) have engaged in any business that competes or may compete with the business of the Company or has any other conflict of interests with the Company during the six months ended 30 June 2014.

Corporate Governance Practice

The Board is always committed to maintaining high standards of corporate governance. The Company has complied with the code provisions set out in the Corporate Governance Code (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.

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.

Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2014. Having made specific enquiry of all directors of the Company, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

Interests of the Compliance Adviser

As notified by the Company's compliance adviser, Messis Capital Limited (the "Compliance Adviser"), except for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 26 September 2012 for a period of two years commencing on 1 October 2012, neither the Compliance Adviser nor its directors, employees or associates had any interests in relation to the Company as at 30 June 2014 which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wang Wen Sheng

Chairman

Taiyuan City, Shanxi Province, the PRC, 12 August 2014

As at the date of this report, the Board comprises nine directors, of which three are executive directors, namely Mr. Wang Wen Sheng, Mr. Tian Qun Xu and Mr. Guo Xu Zhi; 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.