Shanxi Changcheng
Microlight Equipment Co. Ltd. *
山西長城微光器材股份有限公司

(a joint stock limited company incorporated in the People's Republic of China)
(Stock Code: 8286)

Annual Report 2014

* 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.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Wen Sheng *(Chairman)*
Mr. Guo Xu Zhi
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 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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

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

During the year under review, the Group continued to be principally engaged in design, research, development, manufacture, and sale of image transmission fibre optic products.

The Group reported a turnover approximately RMB51,466,000 and recorded loss after tax approximately RMB11,332,000 for the year ended 31 December 2014.

On behalf of the board of directors, I would like to take this opportunity to thank the Group's management for their dedication and commitment and the support from our shareholders throughout the year.

Yours sincerely,

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 30 March 2015

BUSINESS REVIEW

The Group 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 Group 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 Group would consist of over 10 million optical fibres.

The Group currently produces five products including fibre optic inverters; fibre optic straight plates; fibre optic face plates; fibre optic tapers and microchannel plates.

Details of total sales to external customers by product and the percentage of total revenue by product for the years ended 31 December 2014 and 2013 are set out in notes to the consolidated financial statements.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2014 was approximately RMB51,466,000 (2013: RMB62,758,000), representing a decrease of approximately 18% as compared to that of the previous financial year.

Cost of sales of the Group for the year ended 31 December 2014 was approximately RMB39,269,000 (2013: RMB45,681,000), representing a decrease of approximately 14% as compared to that of the previous financial year.

The gross profit margin for the year ended 31 December 2014 was 23.7% (2013: 27.2%).

Administrative expenses of the Group for the year ended 31 December 2014 was approximately RMB15,443,000 (2013: RMB14,733,000), representing an increase of approximately RMB710,000 as compared to that of the previous financial year.

Other operating expenses of the Group for the year ended 31 December 2014 was approximately RMB5,574,000 (2013: RMB4,989,000). The changes in the other operating expenses were mainly due to (1) impairment of trade receivables, net amounting to approximately RMB180,000 (2013: RMB660,000); (2) research and development costs amounting to approximately RMB2,315,000 (2013: RMB3,919,000); and (3) impairment of inventory amounting to approximately RMB2,744,000 (2013: RMB 400,000).

The loss after tax for the year ended 31 December 2014 of the Group was approximately RMB11,332,000 (2013: RMB2,230,000).

FINANCIAL SUPPORT

As the Group incurred net losses for four consecutive years since 2011, the Group had obtained financial support from its banker and its shareholder. As at 31 December 2014, the Group had outstanding bank loan amounting to RMB15,000,000 and amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation, a shareholder of the Company, amounting to RMB14,400,000.

GOING CONCERN

The Group incurred a net loss of approximately RMB11,332,000 and net operating cash outflow from operating activities of approximately RMB5,686,000 during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,463,000. In addition, the Group had an outstanding bank loan amounting to RMB15,000,000 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 Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

To address the issue of going concern, the directors of the Company have taken/will take the following steps:

— negotiate with the Company's banker in advance for the renewal of outstanding bank loan amounting to RMB15,000,000 which will be expired on 28 May 2015;

— strengthen the management of overdue trade receivable;

— implement measures to improve gross profit margin of the Group's products;

— implement stringent cost control measures; and

— consider to seek further financial support from its shareholders, if appropriate.

FINANCIAL ASSISTANCE TO RELATED PARTIES

As at 31 December 2014, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2013: RMB593,000). As at 31 December 2014, the amount due from a former related company — Shanxi Jindi Yucheng Medical Equipment Company Limited (formerly known as Taiyuan Huamei Medical Equipment Company Limited) was approximately RMB4,283,000 (2013: RMB4,283,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2014, the total assets of the Group decreased by approximately RMB16,208,000 to approximately RMB142,802,000 as compared to approximately RMB159,010,000 as at the end of the previous financial year, representing a decrease of approximately 10%.

As at 31 December 2014, the total liabilities of the Group decreased by approximately RMB4,966,000 to approximately RMB75,379,000 as compared to approximately RMB80,345,000 as at the end of the previous financial year, representing a decrease of approximately 6%.

As at 31 December 2014, the total equity of the Group decreased by approximately RMB11,242,000 to approximately RMB67,423,000 as compared to approximately RMB78,665,000 as at the end of the previous financial year.

GEARING RATIO

As at 31 December 2014, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 48% (2013: 40%).

SIGNIFICANT INVESTMENT HELD

As at 31 December 2014, the Group held interests in associates with a carrying amount of RMB Nil (2013: Nil).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had no acquisition and disposal of subsidiaries during the year ended 31 December 2014.

PLEDGE OF ASSETS

As at 31 December 2014, the Group's land with the carrying value of approximately RMB11,706,000 (2013: RMB11,999,000) was pledged to a bank as securities for the borrowing facilities of the Group.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no contingent liabilities.

EXPOSURE OF FLUCTUATION IN EXCHANGE RATES

A majority of the Group's sales was denominated in US Dollars and Euro while a majority of the Group'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 Group is exposed to foreign exchange risk arising from the exposure of RMB against US Dollars and Euro respectively.

EMPLOYEE INFORMATION

As at 31 December 2014, the Group had approximately 635 (2013: 683) full-time employees. For the year ended 31 December 2014, the Group reported staff costs of approximately RMB29,054,000 (2013: RMB30,433,000). The Group remunerates its employees based on their experience, performance and value, which they contribute to the Group.

EXECUTIVE DIRECTORS

Mr. WANG Wen Sheng (王文生), aged 49, is the chairman of the board of directors, the 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 Materials.

Mr. GUO Xu Zhi (高旭志), aged 51, 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 degree in engineering.

Mr. TIAN Qun Xu (田群戌), aged 76, 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 45, is the non-executive director of the Company. He 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 53, is the non-executive director and the deputy director of the Strategic Policy Committee of the Company. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NI Guo Qiang (倪國強), aged 69, is the independent non-executive director of the Company. He is currently the doctoral supervisor of the optic technology doctoral programme in the Beijing Institute of Technology. Mr. Ni graduated with a degree from Fudan University and graduated with a master degree and a doctorate degree from the Beijing Institute of Technology, and obtained a doctorate degree in optical engineering.

Mr. LI Li Cai (黎禮才), aged 74, is the independent non-executive director of the Company. He 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 63, is the independent non-executive director of the Company. He is currently the chairman of Shenzhen Engineer Association, State Council Expert for Special Allowance and professor-level senior engineer. Mr. Duan graduated from the Beijing University of Aeronautics & Astronautics.

Ms. ZHANG Zhi Hong (張志紅), aged 43, is the independent non-executive director of the Company. Ms. Zhang Zhi Hong 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 36, 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 49, 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 47, 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 41, is a supervisor of the Company. Mr. Xiang is currently the deputy secretary of the Committee Office of Taiyuan, Shanxi Province.

SENIOR MANAGEMENT

Ms. HE Ling Xian (和玲仙), aged 64, 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 41, 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 50, 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 50, 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 49, 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") submit the annual report together with the audited consolidated financial statements of the Company and its subsidiary (together the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES

The Group is principally engaged in design, research, development, manufacture and sale of image transmission fibre optic products.

SEGMENT INFORMATION

Details of the Group's segmental information for the year ended 31 December 2014 are set out in the notes to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 are set out in the accompanying consolidated financial statements. The board of directors of the Company does not recommend the payment of a final dividend for the year ended 31 December 2014 (2013: Nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the audited results and of the assets and liabilities of the Group for the past five financial years is set out in the section headed "Five-year Financial Summary" of this annual report.

RESERVES

Movements in the reserves of the Group and the Company during for the year ended 31 December 2014 are set out in the accompanying consolidated financial statements and notes to the consolidated financial statements.

As at 31 December 2014, the Company had reserves of approximately RMB6,069,000 (2013: RMB17,365,000) available for dividend distribution to shareholders.

SHARE CAPITAL

There were no movements in either the Company's issued share capital during the year ended 31 December 2014.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the year ended 31 December 2014.

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

Movements in the property, plant and equipment of the Group are set out in the notes to the consolidated 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 2014, the Group reported employer's pension scheme contributions of approximately RMB7,112,000 (2013: RMB6,586,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2014, the Group's largest customer and the five largest customers accounted for approximately 38% (2013: 36%) and 91% (2013: 84%) respectively, of the Group's total turnover.

During the year ended 31 December 2014, the Group's largest suppler and the five largest supplies accounted for approximately 22% (2013: 37%) and 72% (2013: 95%) respectively, of the Group's total purchases.

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

CONNECTED TRANSACTIONS

The Group do not have connected transactions during the year ended 31 December 2014.

DIRECTORS AND SUPERVISORS

The directors who held office during the year ended 31 December 2014 and up to the date of this annual report were:

Executive Directors

Mr. Wang Wen Sheng *(Chairman)*
Mr. Guo Xu Zhi
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 2014 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

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. At the annual general meetings of the Company dated 30 May 2014 and 5 August 2014, the attending shareholders proposed to delay in changing the composition of the Board and had no casting of vote of the relevant resolutions regarding the re-election of the respective directors. Therefore, Mr. Tian Qun Xu; Mr. Zhang Shao Hui; Mr. Yuan Guo Liang; Mr. Ni Guo Qiang; Mr. Li Li Cai; Mr. Duan Zhong and Ms. Zhang Zhi Hong have not been re-elected for appointment as the directors of the Company upon the end of three-year period since their last appointment. Each of Mr. Tian Qun Xu; Mr. Zhang Shao Hui; Mr. Yuan Guo Liang; Mr. Ni Guo Qiang; Mr. Li Li Cai; Mr. Duan Zhong and Ms. Zhang Zhi Hong continue to act as directors of the Company.

The supervisors of the Company are appointed for a term of three years. At the annual general meetings of the Company dated 30 May 2014 and 5 August 2014, the attending shareholders had no casting of vote of the resolution regarding the re-election of Miss Han Xiao Ou as the shareholder representative supervisor of the Company. Therefore, Miss Han Xiao Ou has not been re-elected for appointment as the shareholder representative supervisor of the Company upon the end of three-year period since her last appointment. Miss Han Xiao Ou continues to act as the shareholder representative supervisor of the Company.

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 Group are set out in the notes to the consolidated financial statements.

DIRECTORS' AND SUPERVISORS' SERVICE AGREEMENTS

Save as disclosed, 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 OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURE OF THE COMPANY

As at 31 December 2014, Directors or supervisors of the Company who had interests or short positions 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 and 2)	41.34%	—	26.61%
Yuan Guo Liang	Personal Interest and Family Interest	3,895,000 H shares (Note 3)	—	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. 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.

2. 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. 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, Zhang Shao Hui is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.

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

Save as disclosed above, as at 31 December 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 31 December 2014, so far as the Directors are aware, persons other than Directors or supervisors of the Company who 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, 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 (Note 1)	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 2)	17.10%	—	11.01%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 2)	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 3)	12.52%	—	8.06%
Qiu Gui Qin	Family interest	24,900,000 domestic shares (Note 3)	12.52%	—	8.06%
H Shares:					
Kwong Tat Finance Limited	Registered and beneficial owner of H shares	33,975,000 H shares (Note 4)	—	30.89%	11.00%
Cai Zheng	Interest in a controlled corporation	33,975,000 H shares (Note 4)	—	30.89%	11.00%

* 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 domestics shares (24,900,000) are 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. 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 purpose of the SFO, Beijing Gensir 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.

2. 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.

3. 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.

4. 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 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 Group do not have share option scheme.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE H SHARES

During the year ended 31 December 2014, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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 year.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

Save as disclosed, no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a director and supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2014 or at any time during the year ended 31 December 2014.

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.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

COMPETING INTERESTS

The Directors believe that none of the directors, supervisors and the management shareholders of the Company nor any of their respective associates had an interest in a business which competes or may compete with the business of the Group during the year ended 31 December 2014.

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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

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 Group. 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 Group for the year ended 31 December 2014.

AUDITORS

The accounts for the year ended 31 December 2014 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.

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

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 30 March 2015

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: (1) 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 and (2) seven directors of the Company have not been re-elected for appointment upon the end of three-year period since their last appointment.

The Company has engaged Messis Capital Limited as its compliance adviser for a period of two years commencing on 1 October 2012 and ending on 30 September 2014.

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 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.

BOARD OF DIRECTORS

The Board is responsible for oversight of the management of the business and focuses on overall strategy development of the Company and its subsidiary (together the "Group"). The Board has delegated day-to-day operation and management functions to executive directors and senior management of the Group. The directors and senior management of the Group 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.

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.

At the annual general meetings of the Company dated 30 May 2014 and 5 August 2014, the attending shareholders proposed to delay in changing the composition of the Board and had no casting of vote of the relevant resolutions regarding the re-election of the respective directors. Therefore, Mr. Tian Qun Xu; Mr. Zhang Shao Hui; Mr. Yuan Guo Liang; Mr. Ni Guo Qiang; Mr. Li Li Cai; Mr. Duan Zhong and Ms. Zhang Zhi Hong have not been re-elected for appointment as the directors of the Company upon the end of three-year period since their last appointment. Each of Mr. Tian Qun Xu; Mr. Zhang Shao Hui; Mr. Yuan Guo Liang; Mr. Ni Guo Qiang; Mr. Li Li Cai; Mr. Duan Zhong and Ms. Zhang Zhi Hong continue to act as directors of the Company.

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 2014, 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. Guo Xu Zhi	✓
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

Mr. Wang Wen Sheng was elected as the Chairman of the Board in 2013. The Chairman of the Board and the Chief Executive Officer are currently held by Mr. Wang Wen Sheng. The Board believes that this is the best interest to the Group to keep Mr. Wang as the Chief Executive Officer of the Company at the current stage due to the fact that Mr. Wang is very familiar with the Group's operation.

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 Group, implementation of the policies and objectives set out by the Board and is accountable to the Board for the overall operation of the Group.

ANNUAL GENERAL MEETING

At the annual general meeting dated 30 May 2014, all the directors of the Company attended the meeting. At the adjourned annual general meeting dated 5 August 2014, all the directors of the Company (except for Mr. Yuan Guo Liang) attended the meeting.

BOARD MEETING

The Board met five times during the year ended 31 December 2014 and the attendance of the members is as follows:

Name of director	**Number of attendance in person**	**% of attendance**
Mr. Wang Wen Sheng	5/5	100%
Mr. Guo Xu Zhi	5/5	100%
Mr. Tian Qun Xu	5/5	100%
Mr. Zhang Shao Hui	5/5	100%
Mr. Yuan Guo Liang	5/5	100%
Mr. Ni Guo Qiang	5/5	100%
Mr. Li Li Cai	5/5	100%
Mr. Duan Zhong	5/5	100%
Ms. Zhang Zhi Hong	5/5	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 Group's financial information.

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

The audit committee met four times during the year ended 31 December 2014 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Ms. Zhang Zhi Hong	4/4	100%
Mr. Li Li Cai	4/4	100%
Mr. Ni Guo Qiang	3/4	75%

During the year ended 31 December 2014, 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 Group, discussing with executive directors, management and the auditors of the Group, and making recommendations to the Board, if appropriate. The audited financial statements for the year ended 31 December 2014 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.

(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 2014 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	2/2	100%

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

	Number of individuals
RMB120,000 or below	16
RMB120,001 — RMB300,000	2

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.

(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 re-appointment of directors and succession planning for directors, in particular the Chairman of the Board and the Chief Executive Officer.

The nomination committee met one time during the year ended 31 December 2014 and the attendance of the members is as follows:

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

BOARD DIVERSITY POLICY

The Company recognises 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 (the "Policy"). The Nomination Committee has reviewed the Policy during the year ended 31 December 2014 and where appropriate, recommends revision 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 Group for the year ended 31 December 2014 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 Group 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 Group's assets.

Auditors' remuneration

The external auditors provide services to the Group during the year ended 31 December 2014. The remuneration of the external auditors for the provision of audit service during the year under review is HK$500,000 and the provision of non-audit services is HK$66,000.

Auditors

The accounts for the year ended 31 December 2014 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.

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 consolidated financial statements of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 33 to 89, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated 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 consolidated 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 consolidated 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 consolidated 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 2.1 to the consolidated financial statements, the Group incurred a net loss of approximately RMB11,332,000 and net operating cash outflow of approximately RMB5,686,000 during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB15,463,000. In addition, the Group had an outstanding bank loan amounting to RMB15,000,000 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 Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The validity of the going concern assumption on which the consolidated 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 2.1 to the consolidated financial statements. The consolidated financial statements have been prepared on the assumption that the Group 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 Group 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 consolidated and company statements of financial position. In addition, the Group 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 consolidated 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 Group as at 31 December 2014 and the loss of the Group for the year then ended, and the related disclosures thereof in the consolidated financial statements.

(b) Impairment of property, plant and equipment

Included in the property, plant and equipment on the consolidated and company statements of financial position as at 31 December 2014 were plant and machinery with carrying amount of approximately RMB19,376,000 (2013: RMB22,718,000). The fact that the Group incurred net losses for four consecutive years and net operating cash outflow during the year ended 31 December 2014, may, in our opinion, constitute an indicator of impairment. However, no impairment losses were recognised for the years ended 31 December 2013 and 2014. 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 RMB19,376,000 as at 31 December 2014 (2013: RMB22,718,000), 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 Group as at 31 December 2014 and 2013 and the losses for the years then ended, and the related disclosures in these consolidated financial statements. This also caused us to disclaim our audit opinion on the financial statements in respect of the year ended 31 December 2013.

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

Included in current assets on the consolidated and company statements of financial position as at 31 December 2014 were amounts due from a shareholder and a former related company of approximately RMB593,000 (2013: RMB593,000) and RMB4,283,000 (2013: RMB4,283,000) respectively, which were unsecured and remained outstanding up to the date of this report. In addition, audit confirmations of such balances as at 31 December 2014 have not been received from the shareholder and 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 2014. Accordingly, we were unable to assess whether the carrying amounts of the aforesaid receivables as at 31 December 2014 were fairly stated and whether any impairment loss should be recognised. Any adjustments that might have been found to be necessary in respect 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 Group as at 31 December 2014 and 2013 and the losses for the years then ended, and the related disclosures in these consolidated financial statements. This also caused us to disclaim our audit opinion on the financial statements in respect of the year ended 31 December 2013.

(d) Other payables

Included in the accrued liabilities, deposits received and other payables on the consolidated and company statements of financial position 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 for the year ended 31 December 2013. The matter describe above also caused us to disclaim our audit opinion on the financial statements in respect of the year ended 31 December 2013. Our opinion on the current year's consolidated financial statements is also modified because of the possible effect of this matter on the comparability of the current year's figures and the comparative information.

(e) Amount due to shareholder

Included in the consolidated and company statements of financial position as at 31 December 2014 was an amount due to a shareholder of approximately RMB14,400,000. Since audit confirmation of such balance has not been received from the shareholder, we have not been able to assess the accuracy and completeness of the above liability. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that this balance as at 31 December 2014 was free from material misstatement and we have been unable to determine whether any adjustment to this amount are necessary and the related disclosures have been properly recorded and reflected in the consolidated 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 consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated 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, 30 March 2015

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
Revenue	5	**51,466**	62,758
Cost of sales		**(39,269)**	(45,681)
Gross profit		**12,197**	17,077
Other income, gains and losses	5	**783**	2,677
Selling and distribution expenses		**(1,460)**	(1,195)
Administrative expenses		**(15,443)**	(14,733)
Other operating expenses		**(5,574)**	(4,989)
Finance costs	7	**(1,835)**	(1,067)
Loss before tax	6	**(11,332)**	(2,230)
Income tax	10	**—**	—
Loss for the year		**(11,332)**	(2,230)
Other comprehensive income for the year		**—**	—
Total comprehensive expense for the year		**(11,332)**	(2,230)
Loss attributable to:			
Owners of the Company		**(11,306)**	(2,230)
Non-controlling interest		**(26)**	—
		(11,332)	(2,230)
Total comprehensive expense attributable to:			
Owners of the Company		**(11,306)**	(2,230)
Non-controlling interest		**(26)**	—
		(11,332)	(2,230)
Loss per share attributable to owners of the Company:	12		
— Basic and diluted		**RMB(0.037)**	RMB(0.007)

Consolidated Statement of Financial Position

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**84,373**	88,813
Land use right	14	**11,706**	11,999
Interests in associates	16	**—**	—
Total non-current assets		**96,079**	100,812
CURRENT ASSETS			
Inventories	17	**22,539**	21,827
Trade receivables	18	**15,996**	15,658
Prepayments, deposits and other receivables	19	**2,079**	2,385
Due from a shareholder	20	**593**	593
Due from a former related company	21	**4,283**	4,283
Cash and cash equivalents	22	**1,233**	13,452
Total current assets		**46,723**	58,198
CURRENT LIABILITIES			
Trade payables	23	**8,399**	8,469
Accrued liabilities, deposits received and other payables	24	**24,387**	26,166
Due to a shareholder	25	**14,400**	14,400
Bank and other borrowing	26	**15,000**	17,000
Total current liabilities		**62,186**	66,035
NET CURRENT LIABILITIES		**(15,463)**	(7,837)
TOTAL ASSETS LESS CURRENT LIABILITIES		**80,616**	92,975
NON-CURRENT LIABILITIES			
Deferred government grants	27	**13,193**	14,310
NET ASSETS		**67,423**	78,665

	Notes	2014 RMB'000	2013 RMB'000
EQUITY			
Share capital	28	**30,886**	30,886
Reserves	29	**36,473**	47,779
Equity attributable to owners of the Company		**67,359**	78,665
Non-controlling interest		**64**	—
TOTAL EQUITY		**67,423**	78,665

Wang Wen Sheng
Director

Tian Qun Xu
Director

Statement of Financial Position

As at 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**84,370**	88,813
Land use right	14	**11,706**	11,999
Interest in a subsidiary	15	**87**	—
Interests in associates	16	**—**	—
Total non-current assets		**96,163**	100,812
CURRENT ASSETS			
Inventories	17	**22,471**	21,827
Trade receivables	18	**15,977**	15,658
Prepayments, deposits and other receivables	19	**2,015**	2,385
Due from a shareholder	20	**593**	593
Due from a former related company	21	**4,283**	4,283
Cash and cash equivalents	22	**1,225**	13,452
Total current assets		**46,564**	58,198
CURRENT LIABILITIES			
Trade payables	23	**8,399**	8,469
Accrued liabilities, deposits received and other payables	24	**24,366**	26,166
Due to a shareholder	25	**14,400**	14,400
Bank and other borrowing	26	**15,000**	17,000
Total current liabilities		**62,165**	66,035
NET CURRENT LIABILITIES		**(15,601)**	(7,837)
TOTAL ASSETS LESS CURRENT LIABILITIES		**80,562**	92,975
NON-CURRENT LIABILITIES			
Deferred government grants	27	**13,193**	14,310
NET ASSETS		**67,369**	78,665

	Notes	2014 RMB'000	2013 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**30,886**	30,886
Reserves	29	**36,483**	47,779
TOTAL EQUITY		**67,369**	78,665

Wang Wen Sheng
Director

Tian Qun Xu
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2014

	Equity attributable to owners of the Company						
	Share capital RMB'000 (Note 28)	Capital surplus* RMB'000 (Note 29)	Statutory surplus reserve* RMB'000 (Note 29)	Retained earnings* RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
At 1 January 2013	30,886	18,561	11,574	19,874	80,895	—	80,895
Total comprehensive expense for the year	—	—	—	(2,230)	(2,230)	—	(2,230)
Transfer from retained earnings to statutory surplus reserve	—	—	279	(279)	—	—	—
At 31 December 2013 and 1 January 2014	**30,886**	**18,561**	**11,853**	**17,365**	**78,665**	**—**	**78,665**
Capital contribution by non-controlling interest	**—**	**—**	**—**	**—**	**—**	**90**	**90**
Total comprehensive expense for the year	**—**	**—**	**—**	**(11,306)**	**(11,306)**	**(26)**	**(11,332)**
At 31 December 2014	**30,886**	**18,561**	**11,853**	**6,059**	**67,359**	**64**	**67,423**

* These reserve accounts comprise the reserves of approximately RMB36,473,000 (2013: RMB47,779,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		**(11,332)**	(2,230)
Adjustments for:			
Interest expense	7	**1,835**	1,067
Depreciation	13	**5,744**	5,919
Amortisation of land use right	14	**293**	293
Amortisation of deferred government grants	27	**(1,117)**	(1,794)
Loss on disposal of items of property, plant and equipment	5	**1,618**	—
Interest income	5	**(134)**	(2)
Impairment of inventories	6	**2,744**	400
Impairment loss of trade receivables	6	**330**	1,415
Reversal of impairment loss of trade receivables	6	**(150)**	(755)
Impairment loss of other receivables	6	**120**	622
Reversal of impairment loss of other receivables		**(622)**	—
		(671)	4,935
(Increase)/decrease in inventories		**(3,456)**	1,005
Increase in trade receivables		**(518)**	(7,766)
Decrease/(increase) in prepayments, deposits and other receivables		**808**	(768)
(Decrease)/increase in trade payables		**(70)**	687
(Decrease)/increase in accrued liabilities, deposits received and other payables		**(1,779)**	10,592
Net cash flows (used in)/generated from operating activities		**(5,686)**	8,685
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(2,922)**	(2,973)
Government grants received	27	**—**	850
Interest received		**134**	2
Net cash flows used in investing activities		**(2,788)**	(2,121)

	Notes	2014 RMB'000	2013 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Advances from a shareholder		—	2,000
Proceeds from bank and other borrowing		30,000	17,000
Repayment of bank and other borrowing		(32,000)	(12,000)
Capital contribution by non-controlling interest		90	—
Interest paid		(1,835)	(1,067)
Net cash flows (used in)/generated from financing activities		(3,745)	5,933
Net (decrease)/increase in cash and cash equivalents		(12,219)	12,497
Cash and cash equivalents at beginning of year		13,452	955
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,233	13,452
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	22	1,233	13,452

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 and its subsidiary (collectively the “Group”) included design, research, development, manufacture and sale of image transmission fibre optic products.

The consolidated financial statements for the year ended 31 December 2014 were approved for issue by the board of directors on 30 March 2015.

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange. These consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities that are measured at fair values at the end of each reporting period, as explained in the accounting policies in note 2.3 below. These consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group in light of a net loss of approximately RMB11,332,000 and net operating cash outflow of approximately RMB5,686,000 during the year ended 31 December 2014 and, as of that date, the Group’s current liabilities exceeded its current assets by approximately RMB15,463,000. In addition, the Group had an outstanding bank loan amounting to RMB15,000,000 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 Group’s ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

2.1 BASIS OF PREPARATION (Continued)

Going concern (Continued)

In addition, the directors have been taking active steps to improve the liquidity position of the Group. These steps include (i) strengthen the management of overdue trade receivables; (ii) implementing measures to improve gross profit margin of the Group's products; and (iii) implementing stringent cost control measures.

Provided that these measures can successfully improve the liquidity position of the Group, the directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the consolidated financial statements have been prepared on a going concern basis. Should the Group 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 consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2014. The financial statements of the subsidiary are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiary are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards and new interpretation for the first time for the current year's consolidated financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	*Investment Entities*
Amendments to HKAS 32	*Offsetting Financial Assets and Financial Liabilities*
Amendments to HKAS 36	*Recoverable Amount Disclosures for Non-Financial Assets*
Amendments to HKAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
HK(IFRIC)-Int 21	*Levies*
Amendment to HKFRS 13 included in *Annual Improvements 2010–2012 Cycle*	*Short-term Receivables and Payables*
Amendment to HKFRS 1 included in *Annual Improvements 2011–2013 Cycle*	*Meaning of Effective HKFRSs*

Except for the amendment to HKFRS 1 which is only relevant to an entity's first HKFRS financial statements, the nature and the impact of each amendment and interpretation is described below:

(a) 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 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 amendments have had no impact on the Group as the Company does not qualify as an investment entity as defined in HKFRS 10.

(b) 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 have had no impact on the Group as the Group does not have any offsetting arrangement.

(c) The HKAS 39 Amendments provide an exception to the requirement of discontinuing hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly, novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. For continuance of hedge accounting under this exception, all of the following criteria must be met: (i) the novations must arise as a consequence of laws or regulations, or the introduction of laws or regulations; (ii) the parties to the hedging instrument agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties; and (iii) the novations do not result in changes to the terms of the original derivative other than changes directly attributable to the change in counterparty to achieve clearing. The amendments have had no impact on the Group as the Group has not novated any derivatives during the current and prior years.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(d) HK(IFRIC)-Int 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be recognised before the specified minimum threshold is reached. The interpretation has had no impact on the Group as the Group applied, in prior years, the recognition principles under HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* which for the levies incurred by the Group are consistent with the requirements of HK(IFRIC)-Int 21.

(e) The HKFRS 13 Amendment clarifies that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. The amendment has had no impact on the Group.

New and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted

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

HKFRS 9	*Financial Instruments*[4]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[2]
Amendments to HKAS 1	*Disclosure Initiative*[2]
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[2]
HKFRS 14	*Regulatory Deferral Accounts*[5]
HKFRS 15	*Revenue from Contracts with Customers*[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities Applying the Consolidation Exception*[2]
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[2]
Amendments to HKAS 16 and HKAS 41	*Agriculture: Bearer Plants*[2]
Amendments to HKAS 19	*Defined Benefit Plans: Employee Contributions*[1]
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*[2]
Annual Improvements 2010–2012 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2011–2013 Cycle	Amendments to a number of HKFRSs[1]
Annual Improvements 2012–2014 Cycle	Amendments to a number of HKFRSs[2]

1 Effective for annual periods beginning on or after 1 July 2014
2 Effective for annual periods beginning on or after 1 January 2016
3 Effective for annual periods beginning on or after 1 January 2017
4 Effective for annual periods beginning on or after 1 January 2018
5 Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

In addition, the Hong Kong Companies Ordinance (Cap. 622) will affect the presentation and disclosure of certain information in the consolidated financial statements for the year ending 31 December 2015. The Group is in the process of making an assessment of the impact of these changes.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

New and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects that the adoption of HKFRS 9 will have an impact on the classification and measurement of the Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects to adopt the amendments from 1 January 2016.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. The Group expects to adopt HKFRS 15 on 1 January 2017 and is currently assessing the impact of HKFRS 15 upon adoption.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

New and revised HKFRSs and new disclosure requirements under the Hong Kong Companies Ordinance not yet adopted (Continued)

The *Annual Improvements to HKFRSs 2010–2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. The Group expects to adopt the amendments from 1 January 2015. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendment most applicable to the Group are as follows:

HKFRS 8 Operating Segments: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;
(b) rights arising from other contractual arrangements; and
(c) the Group's voting rights and potential voting rights.

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's interest in a subsidiary that are not classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are stated at cost less any impairment losses.

Investments in associates

An associate is an entity in which the Group 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

The Group's interests in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of the associates are included in the consolidated statement of profit or loss and other comprehensive income. In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of the associate is included as part of the Group's interests in the associates.

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 Group 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.

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 Group. 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 Group 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value measurement (Continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated 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 consolidated financial statements on a recurring basis, the Group 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 consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income in the period in which it arises (only if there are revalued assets in the consolidated 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group 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 Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

(i) the entity and the Group 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 Group 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 Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Property, plant and equipment 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 *Non-current Assets Held for Sale and Discontinued Operations*. 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss and other 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 Group 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 profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs (Continued)

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 Group, 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 consolidated statement of profit or loss and other 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 Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the consolidated statement of profit or loss and other 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. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets 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 Group 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the consolidated statement of profit or loss and other comprehensive income. The loss arising from impairment is recognised in the consolidated statement of profit or loss and other 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 Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group 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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group 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 Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group 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 Group 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 Group 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 consolidated statement of profit or loss and other 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 Group.

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 the consolidated statement of profit or loss and other comprehensive income.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (Continued)

Initial recognition and measurement (Continued)

The Group'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 borrowing.

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 consolidated statement of profit or loss and other 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 the consolidated statement of profit or loss and other 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 consolidated statement of profit or loss and other comprehensive income.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

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 consolidated 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 Group's cash management.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents (Continued)

For the purpose of the consolidated and company statements 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 consolidated statement of profit or loss and other 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 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 Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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 consolidated statement of profit or loss and other 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group 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 Group 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 Group are required to participate in a central pension scheme operated by the local municipal. The Group is required to contribute a certain percentage of its basic salaries to the central pension scheme. The contributions are charged to the consolidated statement of profit or loss and other 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.

Foreign currencies

These consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective 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 consolidated statement of profit or loss and other comprehensive income.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment and write off of receivables and advances

The policy for the impairment of receivables and advances of the Group 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 Group were to deteriorate, resulting in an impairment of their ability to make payments, additional provision for impairment may be required.

When the Group's management determines the debtors are uncollectible, they are written off against the allowance account for the debtors.

Depreciation and amortisation

The Group depreciates the property, plant and equipment and amortises the prepaid land lease payments in accordance with the accounting policies stated in note 2.3. The estimated useful lives reflect the management's estimate of the periods that the Group 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.

Income tax

The Group 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 Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made.

Impairment of non-financial assets (other than goodwill)

The Group 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.

4. SEGMENT INFORMATION

The Group'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 directors of the Company, 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 consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position which are reported internally to the CODM. 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:

	2014		2013	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**30,202**	**59**	43,445	69
Fiber optic straight plates	**9,461**	**18**	7,199	11
Fiber optic face plates	**806**	**2**	1,217	2
Fiber optic tapers	**3,857**	**7**	6,570	11
Microchannel plates	**7,069**	**13**	4,327	7
Water purifier	**71**	**1**	—	—
	51,466	**100**	62,758	100

Geographical information

The Group principally operates in the PRC and the Group's non-current assets are all located in Shanxi, the PRC.

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

	2014	2013
	RMB'000	RMB'000
The PRC	**7,438**	11,192
Hong Kong	**17,438**	7,699
Europe	**26,516**	43,799
Others	**74**	68
	51,466	62,758

4. SEGMENT INFORMATION (Continued)

Entity-wide disclosures (Continued)

Information about major customers

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

	2014 RMB'000	2013 RMB'000
Customer A	**19,353**	22,376
Customer B	**9,068**	12,381
Customer C	**8,732**	N/A[1]
Customer D	**N/A[1]**	8,887

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

5. REVENUE AND OTHER INCOME, GAINS AND LOSSES

Revenue, which is also the Group'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 Group's revenue, other income, gains and losses is as follows:

	2014 RMB'000	2013 RMB'000
Revenue:		
Sale of goods	**51,466**	62,758
Other income, gains and losses:		
Amortisation of deferred government grants (note 27)	**1,117**	1,794
Bank interest income	**134**	2
Loss on disposal of items of property, plant and equipment	**(1,618)**	—
Others	**1,150**	881
	783	2,677

6. LOSS BEFORE TAX

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

	2014 RMB'000	2013 RMB'000
Auditors' remuneration	**396**	393
Cost of inventories sold	**39,269**	45,681
Employee benefit expense (including directors', chief executive's and supervisors' remuneration — note 8):		
Salaries, allowances and other benefits in kind	**21,942**	23,847
Pension scheme contributions	**7,112**	6,586
	29,054	30,433
Less: Amounts capitalised (note (i))	**(19,704)**	(21,278)
	9,350	9,155
Depreciation of property, plant and equipment (note (ii))	**5,744**	5,919
Less: Amounts capitalised (note (ii))	**(3,447)**	(4,112)
	2,297	1,807
Amortisation of land use right (included in administrative expenses)	**293**	293
Loss on disposal of items of property, plant and equipment	**1,618**	—
Net foreign exchange loss (included in administrative expenses)	**111**	578
Research and development costs (included in other operating expenses)	**2,315**	3,919
Impairment of inventories	**2,744**	400
Impairment loss of trade receivables (included in other operating expenses)	**330**	1,415
Reversal of impairment loss of trade receivables (included in other operating expenses)	**(150)**	(755)
Impairment loss of other receivables (included in administrative expenses)	**120**	622
Reversal of impairment loss of other receivables (included in administrative expenses)	**(622)**	—

Notes:

(i) Salaries and other benefits of approximately RMB19,704,000 were capitalised in inventories for the year ended 31 December 2014 (2013: RMB21,278,000).

(ii) Depreciation of property, plant and equipment of approximately RMB3,447,000 was capitalised in inventories for the year ended 31 December 2014 (2013: RMB4,112,000).

7. FINANCE COSTS

	2014 RMB'000	2013 RMB'000
Interest on bank loan, wholly repayable within five years	**1,835**	1,067

8. 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:

	2014 RMB'000	2013 RMB'000
Fees	**—**	—
Other emoluments		
Salaries, allowances and benefits in kind	**612**	606
Pension scheme contributions	**21**	10
	633	616

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (Continued)

Directors' and chief executive's remuneration (Continued)

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
2014				
Executive directors				
Wang Wen Sheng	—	202	21	223
Tian Qun Xu	—	140	—	140
Guo Xu Zhi *(appointed on 1 November 2013)*	—	42	—	42
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
	—	612	21	633
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

Independent non-executive directors

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

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (Continued)

Supervisors' remuneration

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

	2014 RMB'000	2013 RMB'000
Fees	—	—
Other emoluments		
Salaries, allowances and benefits in kind	101	101
Pension scheme contributions	17	17
	118	118

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
2014				
Han Xiao Ou	—	67	12	79
Lv Jun Li	—	24	5	29
Sun Wei	—	5	—	5
Xiang Hui	—	5	—	5
	—	101	17	118
2013				
Han Xiao Ou	—	64	11	75
Lv Jun Li	—	27	6	33
Sun Wei	—	5	—	5
Xiang Hui	—	5	—	5
	—	101	17	118

8. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (Continued)

Supervisors' remuneration (Continued)

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 Group to a director, the chief executive or a supervisor as an inducement to join, or upon joining the Group, or as compensation for loss of office.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2013: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2013: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2014 RMB'000	2013 RMB'000
Salaries, allowances and benefits in kind	210	191
Pension scheme contributions	53	30
	263	221

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	
	2014	2013
Nil to HK$1,000,000	3	2

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

10. INCOME TAX

	2014 RMB'000	2013 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 Group had no estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2014 (2013: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

According to the applicable Enterprise Income Tax Law of the PRC, the Company, which operates in the Taiyuan Economic and Technology Development Zone (太原經濟技術開發區), the PRC, and which is registered as a New and High Technical Enterprise (高新技術企業), is entitled to a concessionary Enterprise Income Tax rate of 15% for 3 years. For the year ended 31 December 2014, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2013: 15%).

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

	2014 RMB'000	2013 RMB'000
Loss before tax	(11,332)	(2,230)
Tax rate of 15% (2013: 15%)	(1,700)	(335)
Income not subject to tax	(168)	(269)
Expenses not deductible for tax	1,117	1,022
Tax losses not recognised	751	—
Tax losses utilised from previous periods	—	(418)
Income tax charge	—	—

10. INCOME TAX (Continued)

As at 31 December 2014, the Group has estimated unused tax losses of approximately RMB7,874,000 (2013: RMB2,866,000) 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 RMB7,874,000 at 31 December 2014 (2013: RMB2,866,000) is due to expire within one to five years for offsetting against future taxable profits of the Group in which the losses arise.

11. LOSS ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated loss attributable to owners of the Company for the year ended 31 December 2014 includes a loss of approximately RMB11,273,000 (2013: RMB2,230,000) which has been dealt with in the financial statements of the Company.

12. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB11,306,000 (2013: RMB2,230,000) and 308,860,000 (2013: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2013 and 2014.

13. PROPERTY, PLANT AND EQUIPMENT

Group

	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 2014							
At 1 January 2014:							
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
At 1 January 2014, net of accumulated depreciation	49,667	23	22,718	451	80	15,874	88,813
Additions	—	—	951	4	—	1,967	2,922
Transferred from construction in progress	730	—	1,400	—	—	(2,130)	—
Disposal	—	—	(1,618)	—	—	—	(1,618)
Depreciation provided during the year	(1,292)	(3)	(4,075)	(308)	(66)	—	(5,744)
At 31 December 2014, net of accumulated depreciation	49,105	20	19,376	147	14	15,711	84,373
At 31 December 2014:							
Cost	66,314	34	42,702	1,806	330	15,711	126,897
Accumulated depreciation	(17,209)	(14)	(23,326)	(1,659)	(316)	—	(42,524)
Net carrying amount	49,105	20	19,376	147	14	15,711	84,373
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

As at 31 December 2014, the Group's leasehold buildings held under medium term leases are situated in the PRC.

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

As at 31 December 2014, the Group has not yet obtained certificates of ownership in respect of certain buildings of the Group in the PRC with a net carrying amount of approximately RMB49,105,000 (2013: RMB49,667,000). The directors of the Company are of the view that the Group is lawfully and validly entitled to occupy and use the above mentioned buildings. The directors of the Company are also of the opinion that the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2014.

Company

	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 2014							
At 1 January 2014:							
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
At 1 January 2014, net of accumulated depreciation	49,667	23	22,718	451	80	15,874	88,813
Additions	—	—	951	—	—	1,967	2,918
Transferred from construction in progress	730	—	1,400	—	—	(2,130)	—
Disposal	—	—	(1,618)	—	—	—	(1,618)
Depreciation provided during the year	(1,292)	(3)	(4,075)	(307)	(66)	—	(5,743)
At 31 December 2014, net of accumulated depreciation	49,105	20	19,376	144	14	15,711	84,370
At 31 December 2014:							
Cost	66,314	34	42,702	1,802	330	15,711	126,893
Accumulated depreciation	(17,209)	(14)	(23,326)	(1,658)	(316)	—	(42,523)
Net carrying amount	49,105	20	19,376	144	14	15,711	84,370
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

14. LAND USE RIGHT

Group and Company

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

	2014 RMB'000	2013 RMB'000
At beginning of the year		
Cost	**14,634**	14,634
Accumulated amortisation	**(2,635)**	(2,342)
Net carrying amount	**11,999**	12,292
For the year ended		
Opening net carrying amount	**11,999**	12,292
Amortisation	**(293)**	(293)
Net carrying amount	**11,706**	11,999
At end of the year		
Cost	**14,634**	14,634
Accumulated amortisation	**(2,928)**	(2,635)
Net carrying amount	**11,706**	11,999

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

As at 31 December 2013 and 2014, the Group'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 Group (note 26).

15. INTEREST IN A SUBSIDIARY

Company

	2014 RMB'000	2013 RMB'000
Unlisted investment at cost	**110**	—
Impairment	**(23)**	—
	87	—

An impairment loss of RMB23,000 was recognised during the year ended 31 December 2014 for the subsidiary because the subsidiary has been loss making.

Particulars of the subsidiary at the end of the reporting period are as follows:

Name	Place of establishment and registration	Particulars of registered capital	Percentage of equity interest attributable to the Company		Principal activity
			Direct	Indirect	
山西長城匯清環保科技有限公司 (transliterated as "Shanxi Changcheng Huiqing Environmental Technology Company Limited")	PRC	RMB1,000,000*	55%	—	Wholesale of household water purifiers

* The registered capital is RMB1,000,000 of which RMB200,000 has been paid as at 31 December 2014.

The Group had no subsidiary which has material non-controlling interests for the year ended 31 December 2014.

16. INTERESTS IN ASSOCIATES

Group and Company

	2014 RMB'000	2013 RMB'000
Share of net assets	**2,578**	2,578
Due from/(to) an associate	**74**	(13)
	2,652	2,565
Less: Provision for impairment	**(2,652)**	(2,565)
	—	—

16. INTERESTS IN ASSOCIATES (Continued)

Group and Company (Continued)

Particulars of the associates at the end of the reporting period are as follows:

Name	Place of establishment 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
太原長城籮箕光電科技有限公司 (transliterated as "Taiyuan Changcheng Luojiguang Optical Technology Company Limited")	PRC	RMB2,000,000*	35%	Manufacturing, processing, research and development and sales of electronic components and optical subcomponents

* Taiyuan Changcheng Luojiguang Optical Technology Company Limited was established in the PRC with limited liability on 18 December 2014. The registered capital of Taiyuan Changcheug Luajiguang Optical Technology Company Limited is RMB2,000,000 of which none has been paid by the Group as at 31 December 2014.

The amount due from/(to) an associate is unsecured, interest-free and not repayable within one year.

As at 31 December 2014, the Group recognised a provision for impairment of approximately RMB2,652,000 (2013: RMB2,565,000) in respect of the interest in the associate Shanxi Huayuan Transport Optical Technology and Company Limited mainly due to uncertainties surrounding the industry in which the associate operates.

The associates are accounted for using the equity method in these consolidated financial statements and the associates are not considered to be individually material to the Group.

Summarised financial information in respect of the Group's associates is set out below.

16. INTERESTS IN ASSOCIATES (Continued)

	2014 RMB'000	2013 RMB'000
Share of the associates' profit for the year	–	–
Share of the associates' other comprehensive income	–	–
Share of the associates' total comprehensive income	–	–
Carrying amount of the Group's interests in associates	–	–

The Group has discontinued the recognition of its share of results of the associate Shanxi Huayuan Transport Optical Technology Company Limited because the share of losses of the associate exceeded the Group's interest in the associate. As at 31 December 2014, the cumulatively unrecognised share of losses of the associate is approximately RMB345,000 (2013: RMB284,000).

17. INVENTORIES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Raw materials	1,430	1,092	1,428	1,092
Work in progress	11,968	12,098	11,968	12,098
Finished goods	9,141	8,637	9,075	8,637
	22,539	21,827	22,471	21,827

18. TRADE RECEIVABLES

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Trade receivables	17,675	17,157	17,656	17,157
Impairment	(1,679)	(1,499)	(1,679)	(1,499)
	15,996	15,658	15,977	15,658

18. TRADE RECEIVABLES (Continued)

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
0–90 days	**11,760**	12,512	**11,741**	12,512
91–180 days	**2,045**	1,539	**2,045**	1,539
181–365 days	**590**	1,607	**590**	1,607
Over 365 days	**1,601**	—	**1,601**	—
	15,996	15,658	**15,977**	15,658

The trading terms with customers are largely on credit. The credit period is generally 90 days (2013: 90 days). The Group maintains strict control over its outstanding receivables and has credit control policy in place to minimise its credit risk. The Group has significant concentration of credit risk arising from its ordinary course of business due to its relatively small customer bases. Overdue balances are regularly reviewed by management. Trade receivables are non-interest-bearing.

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

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At 1 January	**1,499**	2,172
Impairment losses recognised (note 6)	**330**	1,415
Reversal of impairment losses recognised (note 6)	**(150)**	(755)
Amount written off as uncollectible	**—**	(1,333)
At 31 December	**1,679**	1,499

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB1,679,000 (2013: RMB1,499,000). 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 Group does not hold any collateral or other credit enhancements over these balances.

18. TRADE RECEIVABLES (Continued)

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

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**11,760**	12,341	**11,741**	12,341
Less than 9 months past due	**2,635**	3,317	**2,635**	3,317
Over 9 months past due	**1,601**	—	**1,601**	—
	15,996	15,658	**15,977**	15,658

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 Group. Based on past experience, the directors of the Company 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.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Other receivables	**1,776**	2,514	**1,720**	2,514
Less: impairment	**(865)**	(1,367)	**(865)**	(1,367)
	911	1,147	**855**	1,147
Deposits	**83**	83	**83**	83
Prepayments	**605**	508	**597**	508
Other tax recoverable	**480**	647	**480**	647
	2,079	2,385	**2,015**	2,385

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (Continued)

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

	Group and Company	
	2014	2013
	RMB'000	RMB'000
At the beginning of the year	**1,367**	745
Impairment losses recognised (note 6)	**120**	622
Reversal of impairment losses recognised (note 6)	**(622)**	—
At the end of the year	**865**	1,367

Included in the above provision for impairment of other receivables of the Group as at 31 December 2014 are provision for individually impaired other receivables of RMB865,000 (2013: RMB1,367,000) with carrying amounts before provision of RMB865,000 (2013: RMB1,367,000). The individually impaired other receivables of the Group relate to other debtors that were in financial difficulties and is not expected to be recoverable. The Group do not hold any collateral or other credit enhancement over their other receivable balances.

20. DUE FROM A SHAREHOLDER

Group and Company

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

Name	**Maximum outstanding during the year RMB'000**	**2014 RMB'000**	2013 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.

21. DUE FROM A FORMER RELATED COMPANY

Group and Company

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

Name	Maximum outstanding during the year RMB'000	2014 RMB'000	2013 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.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**1,233**	13,452	**1,225**	13,452

At the end of the reporting period, the cash and cash equivalents of the Group 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 Group 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.

23. TRADE PAYABLES

Group and Company

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

	2014	2013
	RMB'000	RMB'000
0–90 days	**3,990**	4,436
91–180 days	**2,067**	1,986
181–365 days	**1,088**	949
Over 365 days	**1,254**	1,098
	8,399	8,469

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

24. ACCRUED LIABILITIES, DEPOSITS RECEIVED AND OTHER PAYABLES

	Group		Company	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
Accrued salaries and other payables	**17,512**	13,698	**17,512**	13,698
Accrued expenses	**3,865**	4,412	**3,865**	4,412
Receipt in advance	**2,638**	550	**2,638**	550
Other payables	**372**	7,506	**351**	7,506
	24,387	26,166	**24,366**	26,166

25. DUE TO A SHAREHOLDER

Group and Company

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

26. BANK AND OTHER BORROWING

Group and Company

	2014		2013	
	Maturity	**RMB'000**	Maturity	RMB'000
Bank loan — secured (note (i))	**2015**	**15,000**	2014	12,000
Other borrowing — unsecured (note (ii))	**N/A**	**—**	2014	5,000
		15,000		17,000

	2014	2013
	RMB'000	RMB'000
Analysed into:		
Loans repayable:		
Within one year	**15,000**	17,000

Notes:

(i) The bank loan of the Group is secured by the Group's land use right located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC (note 14).

As at 31 December 2013 and 2014, the bank loan of the Group 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% (2013: 130%).

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

27. DEFERRED GOVERNMENT GRANTS

Group and Company

	RMB'000
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 1 January 2014	
Cost	23,500
Accumulated amortisation	(9,190)
Net carrying amount	14,310
Year ended 31 December 2014	
Opening net carrying amount	**14,310**
Amortisation	**(1,117)**
Closing net carrying amount	**13,193**
At 31 December 2014	
Cost	**23,500**
Accumulated amortisation	**(10,307)**
Net carrying amount	**13,193**

Note: The addition of RMB850,000 during the year ended 31 December 2013 comprised (i) subsidies of RMB500,000 granted by the Taiyuan Finance Bureau (太原市財政局) for the Group's facilities for development and research of its products, and for enhancing the Group 's production facilities; and (ii) subsidies of RMB350,000 granted by the Taiyuan Bureau of Science and Technology (太原市科學技術局) for the Group's facilities for development and research of its products.

28. SHARE CAPITAL

	2014 RMB'000	2013 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2013: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2013: 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.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

(b) Company

	Capital surplus* RMB'000	Statutory surplus reserve* RMB'000	Retained earnings* RMB'000	Total equity RMB'000
At 1 January 2013	18,561	11,574	19,874	50,009
Total comprehensive expense for the year	—	—	(2,230)	(2,230)
Transfer from retained earnings to statutory surplus reserve	—	279	(279)	—
At 31 December 2013 and 1 January 2014	**18,561**	**11,853**	**17,365**	**47,779**
Total comprehensive expense for the year	**—**	**—**	**(11,296)**	**(11,296)**
At 31 December 2014	**18,561**	**11,853**	**6,069**	**36,483**

29. RESERVES (Continued)

(c) Reserves

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.

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.

30. PLEDGE OF ASSETS

Group and Company

Details of the Group's bank loan which is secured by the assets of the Group are included in note 26 to the consolidated financial statements.

31. CAPITAL COMMITMENTS

Group and Company

In addition to the capital commitments to the registered capital of the PRC subsidiary and associate payable by the Group as detailed in notes 15 and 16, the Group had the following significant capital commitments at the end of the reporting period:

	2014 **RMB'000**	2013 RMB'000
Contracted, but not provided for		
— Buildings	**7,516**	7,969
— Plant and machinery	**1,431**	1,431
	8,947	9,400

32. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2014 RMB'000	2013 RMB'000
Short term employee benefits	713	707
Post-employment benefits	38	27
	751	734

33. 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:

	Group		Company	
	2014 RMB'000	2013 RMB'000	2014 RMB'000	2013 RMB'000
Financial assets				
Loans and receivables:				
Trade receivables	15,996	15,658	15,977	15,658
Financial assets included in prepayments, deposits and other receivables	994	1,230	938	1,230
Due from an associate	74	—	74	—
Due from a shareholder	593	593	593	593
Due from a former related company	4,283	4,283	4,283	4,283
Cash and cash equivalents	1,233	13,452	1,225	13,452
	23,173	35,216	23,090	35,216
Financial liabilities				
Financial liabilities at amortised cost:				
Trade payables	8,399	8,469	8,399	8,469
Financial liabilities included in accrued liabilities, deposits received and other payables	21,749	25,616	21,728	25,616
Due to an associate	—	13	—	13
Due to a shareholder	14,400	14,400	14,400	14,400
Bank and other borrowing	15,000	17,000	15,000	17,000
	59,548	65,498	59,527	65,498

34. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

The Group and the Company is exposed to market risk (including principally changes in interest rates and currency exchange rates), credit risk and liquidity risk. The Group 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 Group employs conservative strategies regarding its risk management. As the Group's and the Company's exposure to market risk is not significant, the Group has not used any derivatives and other instruments for hedging purposes. The Group does not hold or issue derivative financial instruments for trading purposes. There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

(a) Foreign currency risk

The Group and 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 Group 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 Group's exposure at the end of the reporting period to foreign currency risk arising from major recognised assets or liabilities denominated in currencies other than functional currencies of the relevant group entities:

	Liabilities		**Assets**	
	2014	2013	**2014**	2013
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**36**	7	**6,007**	5,792
Euro	**—**	—	**1,947**	1,360

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 Group'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 Group's loss before tax by the amount shown below. Changes in foreign exchange rates have no impact on the Group's other components of equity.

	2014	2013
	RMB'000	RMB'000
5% (strengthening)/weakening of RMB against		
USD	**(299)/299**	(289)/289
Euro	**(97)/97**	(68)/68

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.

34. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

(b) Interest rate risk

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

	Increase/ (decrease) in loss before tax RMB'000
2014	
Increase in 100 basis points	**150**
Decrease in 100 basis points	**(150)**
2013	
Increase in 100 basis points	120
Decrease in 100 basis points	(120)

(c) Credit risk

The Group's and the Company's maximum credit risk exposure of the financial assets is summarised in note 33. The credit risk on cash and cash equivalents is limited as the Group has deposited its cash principally with various banks in the PRC.

The Group 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 Group's trade and other receivables and their respective carrying amount has been disclosed in note 33. The Group 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 Group.

34. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

(d) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that the Group maintains sufficient level of cash and cash equivalents to meet its liquidity requirements and finance its operations.

The maturity profile of the Group's and the Company's financial liabilities as at the end of each reporting periods, based on the contractual undiscounted payments, was as follows:

Group and Company

	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
2014					
Trade payables	**—**	**8,399**	**—**	**8,399**	**8,399**
Accrued liabilities, deposits received and other payables	**470**	**21,279**	**—**	**21,749**	**21,749**
Due to a shareholder	**14,400**	**—**	**—**	**14,400**	**14,400**
Bank borrowing	**—**	**15,488**	**—**	**15,488**	**15,000**
	14,870	**45,166**	**—**	**60,036**	**59,548**
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 borrowing	—	17,027	—	17,027	17,000
	14,914	50,598	13	65,525	65,498

34. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

(e) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs).

During the years ended 31 December 2014 and 2013, 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 2014 and 2013, the Company did not have any assets and liabilities that are measured at the above fair value measurement hierarchy. The directors of the Company considered that the carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2014.

(f) Price risk

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

(g) Capital management

The primary objectives of the Group's capital management are to safeguard the Group'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 Group 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 Group 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 Group 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 2013 and 2014.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2014 amounted to approximately RMB67,359,000 (2013: RMB78,665,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

34. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

(g) Capital management (Continued)

The Group 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 borrowing less cash and cash equivalents. Total capital includes equity attributable to owners of the Company. The gearing ratios as at the end of the reporting period were as follows:

	2014	2013
	RMB'000	RMB'000
Trade payables	**8,399**	8,469
Accrued liabilities, deposits received and other payables	**24,387**	26,166
Due to an associate	**—**	13
Due to a shareholder	**14,400**	14,400
Bank and other borrowing	**15,000**	17,000
Less: Cash and cash equivalents	**(1,233)**	(13,452)
Net debt	**60,953**	52,596
Equity attributable to owners of the Company	**67,359**	78,665
Capital and net debt	**128,312**	131,261
Gearing ratio	**48%**	40%

Five-Year Financial Summary

The following is a summary of the audited results and of the assets and liabilities of the Group for the five years ended 31 December 2014.

	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
RESULTS					
Revenue	**51,466**	62,758	48,113	55,333	64,578
Operating (loss)/profit	**(9,497)**	(1,163)	(25,499)	(10,275)	10,967
Finance costs	**(1,835)**	(1,067)	(907)	(1,043)	(82)
(Loss)/profit before tax	**(11,332)**	(2,230)	(26,406)	(11,318)	10,885
Income tax credit/(expense)	**—**	—	—	277	(1,549)
(Loss)/profit for the year	**(11,332)**	(2,330)	(26,406)	(11,041)	9,336
Attributable to:					
Owners of the Company	**(11,306)**	(2,330)	(26,406)	(11,041)	9,336
Non-controlling interest	**(26)**	—	—	—	—
	(11,332)	(2,330)	(26,406)	(11,041)	9,336

	As at 31 December				
	2014 RMB'000	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000
ASSETS AND LIABILITIES					
Total assets	**142,802**	159,010	143,905	154,195	156,590
Total liabilities	**(75,379)**	(80,345)	(63,010)	(46,894)	(38,248)
Non-controlling interest	**(64)**	—	—	—	—
Total equity attributable to owners of the Company	**67,359**	78,665	80,895	107,301	118,342