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 2015

* For identification only

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

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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

Auditor

Zhonghui Anda CPA Limited
Certified Public Accountants
Unit 701, Citicorp Centre
18 Whitfield Road
Causeway Bay, 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 RMB43,282,000 and recorded loss after tax approximately RMB14,897,000 for the year ended 31 December 2015.

On behalf of the board of directors, I would like to express my sincere gratitude to our staff members for their contribution and extend my appreciation to the shareholders and investors for their support.

Yours sincerely,

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 15 June 2016

Management Discussion and Analysis

Business Review

The Company continued to be principally engaged in design, research, development, manufacture, and sale of image transmission fibre optic products. The subsidiary of the Company continued to be engaged in wholesale of household water purifiers.

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

The Group currently produces five major 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 2015 and 2014 are set out in notes to the consolidated financial statements.

Financial Review

Turnover of the Group for the year ended 31 December 2015 was approximately RMB43,282,000 (2014: RMB51,466,000), representing a decrease of approximately 16% as compared to that of the previous financial year.

Cost of sales of the Group for the year ended 31 December 2015 was approximately RMB35,339,000 (2014: RMB39,269,000), representing a decrease of approximately 10% as compared to that of the previous financial year.

The gross profit margin for the year ended 31 December 2015 was 18% (2014: 24%).

Administrative expenses of the Group for the year ended 31 December 2015 was approximately RMB12,026,000 (2014: RMB15,443,000), representing a decrease of approximately RMB3,417,000 as compared to that of the previous financial year.

Other operating expenses of the Group for the year ended 31 December 2015 was approximately RMB8,975,000 (2014: RMB5,574,000). The other operating expenses mainly include (i) research and development costs approximately RMB1,970,000 (2014: RMB2,315,000) and (ii) impairment of inventory approximately RMB6,727,000 (2014: RMB2,744,000).

The loss after tax for the year ended 31 December 2015 of the Group was approximately RMB14,897,000 (2014: RMB11,332,000).

Financial Support

As the Group incurred net losses since 2011, the Group obtained financial support from its banker and its shareholder. As at 31 December 2015, the Group had outstanding bank loan amounting to RMB14,000,000 and amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng"), a shareholder of the Company, amounting to RMB14,400,000.

Disagreement of Interest Charged by Taiyuan Changcheng

The Company obtained financial support from its substantial shareholder — Taiyuan Changcheng since the late of 2011. As at 31 December 2011, 2012, 2013, 2014, 2015, the amount due to Taiyuan Changcheng was RMB500,000, RMB12,400,000, RMB14,400,000, RMB14,400,000, and RMB14,400,000 respectively.

In June 2015, Taiyuan Changcheng informed the shareholder representative of the Company that interest will be charged for certain amount of financial assistance provided to the Company. The estimated interest was approximately RMB222,000, RMB334,000, and RMB594,000 for the years of 2012, 2013, and 2014 respectively. The estimated interest for the year ended 31 December 2015 was approximately RMB594,000. The total interest was approximately RMB1,744,000.

The management of the Company disagreed with the interest charged by Taiyuan Changcheng. The interest approximately RMB1,744,000 was not accrued in the profit and loss accounts of the Company as the management of the Company understand that the financial assistance provided by Taiyuan Changcheng was on an interest-free basis. The management of the Company is in negotiation with Taiyuan Changcheng.

Going Concern

The Group incurred net losses since 2011. As at 31 December 2015, the Group's current liabilities exceeded its current assets by approximately RMB29,442,000. In addition, the Group had an outstanding bank loan amounting to RMB14,000,000 which will 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.

Beijing Gensir Venture Capital Management Limited, a substantial shareholder of the Company, will provide financial assistance to the Company when necessary.

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 renewal of the bank loan amounting to RMB14,000,000 which will be due for repayment within the next twelve months;

— 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 seeking further financial support from its shareholders, if appropriate.

Financial Assistance to Related Parties

As at 31 December 2015, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2014: RMB593,000) and the amount due from a former related company — Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) was approximately RMB4,283,000 (2014: RMB4,283,000).

Liquidity and Financial Resources

As at 31 December 2015, the total assets of the Group decreased by approximately RMB2,978,000 to approximately RMB139,824,000 as compared to approximately RMB142,802,000 as at the end of the previous financial year, representing a decrease of approximately 2%.

As at 31 December 2015, the total liabilities of the Group increased by approximately RMB11,919,000 to approximately RMB87,298,000 as compared to approximately RMB75,379,000 as at the end of the previous financial year, representing an increase of approximately 16%.

As at 31 December 2015, the total equity of the Group decreased by approximately RMB14,897,000 to approximately RMB52,526,000 as compared to approximately RMB67,423,000 as at the end of the previous financial year.

Gearing Ratio

As at 31 December 2015, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 59% (2014: 48%).

Significant Investment Held

As at 31 December 2015, the Group held interests in associates with the carrying amount of approximately RMB537,000 (2014: RMBNil).

Acquisition and Disposal of Subsidiaries

The Group had no acquisition and disposal of subsidiaries during the year ended 31 December 2015.

Pledge of Assets

As at 31 December 2015, the Group's land and plant and machinery with the carrying value of approximately RMB11,413,000 and RMB1,154,000 respectively (2014: RMB11,706,000 and RMBNil) were pledged to a bank as securities for the borrowing facilities of the Group.

Contingent Liabilities

As at 31 December 2015, 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 2015, the Group had approximately 541 (2014: 635) full-time employees. For the year ended 31 December 2015, the Group reported staff costs of approximately RMB23,599,000 (2014: RMB29,054,000). The Group remunerates its employees based on their experience, performance and value, which they contribute to the Group.

Biographical Details of Directors, Supervisors and Senior Management

Executive Directors

Mr. WANG Wen Sheng (王文生), aged 50, was appointed as the executive director of the Company in July 2009. Mr. Wang is also the chairman of the board of directors 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. Wang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. GUO Xu Zhi (高旭志), aged 52, was appointed as the executive director of the Company in 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. Guo does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. TIAN Qun Xu (田群戌), aged 77, was appointed as the executive director of the Company in November 2003. 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.

Mr. Tian does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

Non-Executive Directors

Mr. ZHANG Shao Hui (張少輝), aged 46, was appointed as the non-executive director of the Company in May 2011. Mr. Zhang 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. Zhang is the substantial shareholder of the Company. Save as disclosed above, Mr. Zhang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. YUAN Guo Liang (袁國良), aged 54, was appointed as the non-executive director of the Company in May 2011. Mr. Yuan is currently 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.

Mr. Yuan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Independent Non-Executive Directors

Mr. NI Guo Qiang (倪國強), aged 70, was appointed as the independent non-executive director of the Company in November 2003. Mr. Ni 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. Ni does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. LI Li Cai (黎禮才), aged 75, was appointed as the independent non-executive director of the Company in November 2003. Mr. Li 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. Li does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Biographical Details of Directors, Supervisors and Senior Management (Continued)

Mr. DUAN Zhong (段忠), aged 64, was appointed as the independent non-executive director of the Company in May 2011. Mr. Duang 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.

Mr. Duan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Ms. ZHANG Zhi Hong (張志紅), aged 44, was appointed as the independent non-executive director of the Company in May 2011. Ms. Zhang 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.

Ms. Zhang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Supervisors

Ms. HAN Xiao Ou (韓曉歐), aged 37, was appointed as a shareholder representative supervisor of the Company in May 2011. Ms. Han is currently the chairman of labour union of the Company. Ms. Han graduated from the Shanxi Normal University.

Ms. Han does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Ms. LV Jun Li (呂晉莉), aged 50, was appointed a supervisor of the Company in June 2012. Ms. Lv graduated from Shanxi Provincial Committee Party College majoring in economic management.

Ms. Lv does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. SUN Wei (孫煒), aged 48, was appointed a supervisor of the Company in June 2012. Mr. Sun is currently the officers of Industrial, Transport and Construction Workers Committee under Taiyuan General Workers Union.

Mr. Sun does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. XIANG Hui (相輝), aged 42, was appointed a supervisor of the Company in June 2012. Mr. Xiang is currently the deputy secretary of the Committee Office of Taiyuan, Shanxi Province.

Mr. Xiang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Senior Management

Ms. HE Ling Xian (和玲仙), aged 65, 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. Ms. He resigned as the chief financial controller of the Company effective from 1 April 2016.

Mr. Song Zhenglai (宋政來), aged 40, joined the Company as the chief financial controller in May 2016. Mr. Song acted as the head of financial department of Chanlin Engine Group Company; the chief financial controller in Shenzhen Zhonghang Night Vision Company; the general manager of Jilin Lianxin Optics Company; the general manager of Changchun Jiefang Automobile Chassis Company; and currently acts as the general manager of Jilin East Asia Industrial Company. Mr. Song graduated from Changchun University School of Economics and Management majoring in foreign accounting.

Mr. SHEN Jian (申健), aged 42, 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 51, 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 51, is the vice general manager of production of the Company. Prior to joining the Company, Mr. Zhang was the engineer of Taiyuan Wireless Electronic Number Four Factory. Mr. Zhang graduated from the North University of China.

Ms. WANG Ling Ling (王玲玲), aged 50, 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 2015.

Principal Activities

The Company continued to be principally engaged in design, research, development, manufacture, and sale of image transmission fibre optic products. The subsidiary of the Company continued to be engaged in wholesale of household water purifiers.

Segment Information

Details of the Group's segmental information for the year ended 31 December 2015 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 2015 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 2015 (2014: RMBNil).

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.

Business Review and Financial Review

Details of business review and financial review of the Group for the year ended 31 December 2015 are set out in the section headed "Management Discussion and Analysis" of this annual report.

Reserves

Movements in the reserves of the Group and the Company during for the year ended 31 December 2015 are set out in the accompanying consolidated financial statements and notes to the consolidated financial statements.

As at 31 December 2015, the Company had reserves RMBNil (2014: RMB6,059,000) available for dividend distribution to shareholders.

Share Capital

There were no movements in the Company's issued share capital during the year ended 31 December 2015.

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 2015.

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 2015, the Group reported employer's pension scheme contributions of approximately RMB8,648,000 (2014: RMB7,112,000).

Major Customers and Suppliers

During the year ended 31 December 2015, the Group's largest customer and the five largest customers accounted for approximately 29% (2014: 38%) and 89% (2014: 91%) respectively, of the Group's total turnover.

During the year ended 31 December 2015, the Group's largest supplier and the five largest suppliers accounted for approximately 21% (2014: 22%) and 55% (2014: 72%) 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 2015.

Directors and Supervisors

The directors who held office during the year ended 31 December 2015 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 2015 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 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 of directors of the Company 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. Mr. Wang Wen Sheng has not been re-elected for appointment as the director of the Company upon the end of three-year period since his last appointment. Each of Mr. Wang Wen Sheng; 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 the 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 Ms. Han Xiao Ou as the shareholder representative supervisor of the Company. Therefore, Ms. 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. Ms. Han Xiao Ou continues to act as the shareholder representative supervisor of the Company.

Each of Ms. Lv Jun Li; Mr. Sun Wei; and Mr. Xiang Hui have not been re-elected for appointment as the supervisor of the Company upon the end of three-year period since their last appointment. Ms. Lv Jun Li; Mr. Sun Wei; and Mr. Xiang Hui continue to act as the supervisors 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 "Biographical Details of the 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 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 2015, the 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 2015, 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 2015, so far as the Directors are aware, persons other than the 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 2015, 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 2015, none of the Directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 2015, 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.

Contracts of Significance

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 or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the year ended 31 December 2015 or at any time during the year ended 31 December 2015.

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 2015.

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 2015.

Auditors

During the year of 2015, HLB Hodgson Impey Cheng Limited resigned as auditors of the Company and Zhonghui Anda CPA Limited ("Zhonghui") was appointed by the board of directors of the Company to fill up the casual vacancy so arising. Zhonghui will retire at the forthcoming annual general meeting of the Company and, being eligible offer themselves for re-appointment. A resolution for the re-appointment of Zhonghui as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

Corporate Governance

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" of this annual report.

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

Wang Wen Sheng
Chairman

Taiyuan City, Shanxi Province, the PRC, 15 June 2016

Corporate Governance Report

Corporate Governance Practices

The board of directors (the "Board") of the Company is always committed to maintaining high standards of corporate governance. The Company has complied with the code provision set out in the Code of Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. In the opinion of the Board, the Company has complied with the code provision except for: (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; (2) eight directors of the Company have not been re-elected for appointment upon the end of three-year period since their last appointment; and (3) Mr. Yuan Guo Liang and Mr. Ni Guo Qiang were unable to attend the annual general meeting of the Company dated 10 June 2015.

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 2015. 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.

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. Mr. Wang Wen Sheng has not been re-elected for appointment as the director of the Company upon the end of three-year period since his last appointment. Each of Mr. Wang Wen Sheng; 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 the 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 2015, 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 of the Company dated 10 June 2015, all the directors of the Company (except for Mr. Yuan Guo Liang and Mr. Ni Guo Qiang) attended the meeting.

Board Meeting

The Board met five times during the year ended 31 December 2015 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	4/5	80%

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 five times during the year ended 31 December 2015 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Ms. Zhang Zhi Hong	4/5	80%
Mr. Li Li Cai	4/5	80%
Mr. Ni Guo Qiang	5/5	100%

During the year ended 31 December 2015, 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 2015 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 Group'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 Group.

(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 one time during the year ended 31 December 2015 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Li Li Cai	1/1	100%
Ms. Zhang Zhi Hong	1/1	100%
Mr. Wu Yan Ge	1/1	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	15
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. Wang Wen Sheng, Mr. Duan Zhong, and Mr. Ni Guo Qiang. Mr. Wang 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 Group's corporate strategy.

(b) To identify individuals suitably qualified to become members of the Board 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 2015 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 2015 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 2015 are set out in the section headed "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 2015. 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$33,000.

Auditors

During the year of 2015, HLB Hodgson Impey Cheng Limited resigned as auditors of the Company and Zhonghui Anda CPA Limited ("Zhonghui") was appointed by the board of directors of the Company to fill up the casual vacancy so arising. The accounts for the year ended 31 December 2015 were audited by Zhonghui whose term of office will expire upon the forthcoming annual general meeting. The audit committee has recommended to the Board that Zhonghui be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

Shareholders' Rights

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

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

Enquiries put to the Board

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

Investor relations

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

Independent Auditor's Report

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ZHONGHUI

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 32 to 81, which comprise the consolidated statement of financial position as at 31 December 2015, 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 (the "Directors") 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.

AUDITOR'S 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 below, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

1. Amount due from a shareholder/a former related company

Included in current assets on the consolidated statement of financial position as at 31 December 2015 were amount due from a shareholder and a former related company of approximately RMB593,000 (2014: RMB593,000) and RMB4,283,000 (2014: 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 2015 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 2015 and 2014. Accordingly, we were unable to assess whether the carrying amounts of the aforesaid receivables as at 31 December 2015 and 2014 were fairly stated and whether any impairment loss should be recognised.

2. Amount due to a shareholder

Included in the consolidated statement of financial position as at 31 December 2015 was an amount due to a shareholder of approximately RMB14,400,000 (2014: 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 2015 and 2014 was free from material misstatement and the related disclosures have been properly recorded and reflected in the consolidated financial statements of the Company.

Any adjustments that might have been found to be necessary in respect of the carrying amounts above would have a consequential significant effect on the net assets of the Group as at 31 December 2015 and 2014 and the losses for the years then ended, and the related disclosures in these consolidated financial statements.

MATERIAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

As disclosed in note 2 to the consolidated financial statements, the Group incurred a net loss of approximately RMB14,897,000 during the year ended 31 December 2015 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB29,442,000. In addition, the Group had an outstanding bank loan amounting to RMB14,000,000 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 as described in note 2 to the consolidated financial statements. 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 statement 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 evidence, we were unable to ascertain whether the assumptions made by the Directors in the preparation of the consolidated financial statements on a going concern basis were appropriate.

DISCLAIMER OF OPINION

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs and the material uncertainty relating to the going concern basis as described above, 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. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Wan Ho Yuen
Practising Certificate Number P04309

Hong Kong, 15 June 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	Notes	**2015** **RMB'000**	2014 RMB'000
REVENUE	8	**43,282**	51,466
Cost of sales		**(35,339)**	(39,269)
Gross profit		**7,943**	12,197
Other income, gains and losses	9	**3,441**	783
Selling and distribution costs		**(3,794)**	(1,460)
Administrative expenses		**(12,026)**	(15,443)
Other operating expenses		**(8,975)**	(5,574)
Share of loss of an associate		**(163)**	—
Finance costs	10	**(1,323)**	(1,835)
LOSS BEFORE TAX	11	**(14,897)**	(11,332)
Income tax expense	13	**—**	—
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(14,897)**	(11,332)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(14,855)**	(11,306)
Non-controlling interests		**(42)**	(26)
		(14,897)	(11,332)
LOSS PER SHARE (RMB)	14		
— Basic and diluted		**(0.048)**	(0.037)

Consolidated Statement of Financial Position

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**82,161**	84,373
Land use right	17	**11,413**	11,706
Interests in associates	19	**537**	—
		94,111	96,079
CURRENT ASSETS			
Inventories	20	**24,161**	22,539
Trade receivables	21	**14,537**	15,996
Prepayments, deposits and other receivables		**1,597**	2,079
Amount due from a shareholder	22	**593**	593
Amount due from a former related company	23	**4,283**	4,283
Cash and cash equivalents	24	**542**	1,233
		45,713	46,723
CURRENT LIABILITIES			
Trade payables	25	**10,647**	8,399
Accruals and other payables	26	**36,108**	24,387
Amount due to a shareholder	27	**14,400**	14,400
Bank borrowing	28	**14,000**	15,000
		75,155	62,186
NET CURRENT LIABILITIES		**(29,442)**	(15,463)
TOTAL ASSETS LESS CURRENT LIABILITIES		**64,669**	80,616
NON-CURRENT LIABILITIES			
Deferred government grants	29	**12,143**	13,193
NET ASSETS		**52,526**	67,423

Consolidated Statement of Financial Position (Continued)

As at 31 December 2015

	Notes	**2015** **RMB'000**	2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**30,886**	30,886
Reserves	31	**21,618**	36,473
		52,504	67,359
Non-controlling interests		**22**	64
TOTAL EQUITY		**52,526**	67,423

The consolidated financial statements on pages 32 to 81 were approved and authorised for issue by the board of directors on 15 June 2016 and are signed on its behalf by:

Wang Wen Sheng
Director

Tian Qun Xu
Director

Consolidated Statement of Changes in Equity

As at 31 December 2015

	Attributable to owners of the Company						
	Issued capital RMB'000	Capital surplus* RMB'000	Statutory surplus reserve* RMB'000	Retained earnings* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 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 loss 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
At 1 January 2015	**30,886**	**18,561**	**11,853**	**6,059**	**67,359**	**64**	**67,423**
Total comprehensive loss for the year	**—**	**—**	**—**	**(14,855)**	**(14,855)**	**(42)**	**(14,897)**
At 31 December 2015	**30,886**	**18,561**	**11,853**	**(8,796)**	**52,504**	**22**	**52,526**

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(14,897)	(11,332)
Adjustments for:		
Interest expense	1,323	1,835
Depreciation	5,051	5,744
Amortisation of land use right	293	293
Amortisation of deferred government grants	(1,055)	(1,117)
Loss on disposal of property, plant and equipment	—	1,618
Interest income	(2)	(134)
Impairment of inventories	6,727	2,744
Impairment of trade receivables	—	330
Reversal of impairment of trade receivables	(803)	(150)
Impairment of other receivables	—	120
Reversal of impairment of other receivables	(865)	(622)
Impairment of investment in associates	152	—
Share of loss of an associate	163	—
	(3,913)	(671)
Change in inventories	(8,349)	(3,456)
Change in trade receivables	2,262	(518)
Change in prepayments, deposits and other receivables	1,347	808
Change in trade payables	2,248	(70)
Change in accruals and other payables	11,721	(1,779)
Net cash flows generated from/(used in) operating activities	5,316	(5,686)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,839)	(2,922)
Government grants received	5	—
Interest received	2	134
Advance to an associate	(152)	—
Investment in an associate	(700)	—
Net cash flows used in investing activities	(3,684)	(2,788)

Consolidated Statement of Cash Flows (Continued)

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowing	**14,000**	30,000
Repayment of bank and other borrowing	**(15,000)**	(32,000)
Capital contribution by non-controlling interest	**—**	90
Interest paid	**(1,323)**	(1,835)
Net cash flows used in financing activities	**(2,323)**	(3,745)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(691)**	(12,219)
Cash and cash equivalents at beginning of year	**1,233**	13,452
Cash and cash equivalents at end of year	**542**	1,233
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**542**	1,233

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL INFORMATION

Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company") was incorporated in 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 principal activities of its subsidiary are set out in note 18 to the consolidated financial statements.

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

2. GOING CONCERN BASIS

In preparing the consolidated financial statements, the Directors have given consideration to the future liquidity of the Group in light of a net loss of approximately RMB14,897,000 during the year ended 31 December 2015 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB29,442,000. In addition, the Group had an outstanding bank loan amounting to RMB14,000,000 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 are of the opinion that there are good track records or relationship with its banker which enhance the Group's ability to renew the current bank loan upon expiry.

In addition, the Directors have been taking active steps to improve the liquidity position of the Group. These steps include (i) strengthening 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 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.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2015. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise its judgments in the process of applying the accounting policies. The areas involving critical judgments and areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 5 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

(b) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Associates (Continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in RMB, which is the Company's presentation currency and functional currency.

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

— Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

— Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

— All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their cost less their residual values over the estimated useful lives on a straight-line basis. The estimated useful lives are as follows:

Medium term leasehold buildings	50 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	5–10 years
Motor vehicles	5 years

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

(e) Leases

Operating leases

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

(f) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(g) Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

(i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(j) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

(k) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(l) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(i) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(ii) Interest income is recognised on a time-proportion basis using the effective interest method.

(iii) Rental income is recognised on a straight-line basis over the lease term.

(iv) Services fee income is recognised when the services are rendered.

(v) A government grant and subsidy for value-added tax are recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are 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, until such time as 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 eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

(p) Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Government grants relating to the purchase of assets are deducted from the carrying amount of the assets. The grant is recognised in profit or loss over the life of a depreciable asset by way of a reduced depreciation charge.

(q) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control 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 Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

(i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities 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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(t) Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. 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.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(v) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4 to the consolidated financial statements, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Key sources of estimation uncertainty

The followings are 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.

(a) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade and notes receivables, deposits and prepayments

Impairment of trade and notes receivables, deposits and prepayments is made based on an assessment of the recoverability of trade and notes receivables, deposits and prepayments. The assessment of impairment of receivables, deposits and prepayments involves the use of estimates and judgments. An estimate for doubtful debts is made when collection of the full amount is no longer probable, as supported by objective evidence using available contemporary and historical information to evaluate the exposure. Bad debts are written off as incurred. Where the actual outcome or expectation in the future is different from the original estimates, such differences will affect the carrying amount of trade and notes receivables, deposits and prepayments and thus the impairment loss in the period in which such estimate is changed.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expense. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer taste and competitor actions. The Group will reassess the estimates by the end of each reporting period.

(d) Income taxes

The Group is mainly subject to various taxes in the PRC including Enterprise Income Tax. Significant judgment 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.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

During the reporting period, the capital structure of the Group consist of debt which includes interest-bearing loans and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The Group's overall strategy remains unchanged from prior periods.

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 2014 and 2015.

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2015 amounted to approximately RMB52,504,000 (2014: RMB67,359,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

6. CAPITAL RISK 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:

	2015 RMB'000	2014 RMB'000
Trade payables	10,647	8,399
Accruals and other payables	36,108	24,387
Amount due to a shareholder	14,400	14,400
Bank borrowing	14,000	15,000
Less: Cash and cash equivalents	(542)	(1,233)
Net debt	74,613	60,953
Equity attributable to owners of the Company	52,504	67,359
Capital and net debt	127,117	128,312
Gearing ratio	59%	48%

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The financial instruments of the Group mainly include cash and cash equivalents, trade and notes receivables, other receivables, trade and bills payables, other payables and other loans.

The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board regularly reviews these risks and they are summarised below.

(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 US 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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Foreign currency risk (Continued)

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	
	2015	2014	**2015**	2014
	RMB'000	RMB'000	**RMB'000**	RMB'000
USD	**–**	36	**7,273**	6,007
Euro	**–**	–	**–**	1,947

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.

	2015	2014
	RMB'000	RMB'000
5% strengthening/weakening of RMB against		
USD	**(364/364)**	(299/299)
Euro	**(Nil)/Nil**	(97/97)

(b) Interest rate risk

The Group'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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Interest rate risk (Continued)

The following table demonstrates the sensitivity to a reasonably possible change in the People's Bank of China best lending rate, with all other variables held constant, of the Group's loss before tax.

	Increase/ (Decrease) in loss before tax RMB'000
2015	
Increase in 100 basis points	**140**
Decrease in 100 basis points	**(140)**
2014	
Increase in 100 basis points	150
Decrease in 100 basis points	(150)

(c) Credit risk

The carrying amount of the cash and bank balances and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets. 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. 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.

At 31 December 2015, the Group has a certain concentration of credit risk of approximately RMB4,888,000 (2014: RMB7,733,000) and RMB10,104,000 (2014: RMB12,760,000) out of total trade receivables of approximately RMB14,537,000 (2014: RMB15,996,000) as at 31 December 2015, which was arising from the Group's largest debtor and the three (2014: three) largest debtors respectively.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

The maturity profile of the Company's financial liabilities as at the end of reporting period, based on the contracted undiscounted payments, was as follows:

2015	**On demand RMB'000**	**Less than 1 year RMB'000**	**Over 1 year RMB'000**	**Total contractual undiscounted cash flow RMB'000**	**Total carrying amount RMB'000**
Trade payables	**6,389**	**4,258**	**—**	**10,647**	**10,647**
Accruals and other payables	**—**	**36,108**	**—**	**36,108**	**36,108**
Amount due to a shareholder	**14,400**	**—**	**—**	**14,400**	**14,400**
Bank borrowing	**—**	**14,837**	**—**	**14,837**	**14,000**
	20,789	**55,203**	**—**	**75,992**	**75,155**

2014	On demand RMB'000	Less than 1 year RMB'000	Over 1 year RMB'000	Total contractual undiscounted cash flow RMB'000	Total carrying amount RMB'000
Trade payables	—	8,399	—	8,399	8,399
Accruals and other payables	3,108	21,279	—	24,387	24,387
Amount due to a shareholder	14,400	—	—	14,400	14,400
Bank borrowing	—	15,488	—	15,488	15,000
	17,508	45,166	—	62,674	62,186

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Categories of financial instruments

	At 31 December 2015 RMB'000	2014 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)		
— Trade receivables	**14,537**	15,996
— Financial assets included in prepayments, deposits and other receivables	**1,131**	994
— Amount due from an associate	**226**	74
— Amount due from a shareholder	**593**	593
— Amount due from a former related company	**4,283**	4,283
— Cash and cash equivalents	**542**	1,233
	21,312	23,173
Financial liabilities:		
Financial liabilities at amortised cost		
— Trade payables	**10,647**	8,399
— Financial liabilities included in accruals and other payables	**36,108**	24,387
— Amount due to a shareholder	**14,400**	14,400
— Bank borrowing	**14,000**	15,000
	75,155	62,186

(f) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

8. REVENUE AND OPERATING 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, 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

(a) 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:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters	**21,009**	**49**	30,202	59
Fiber optic straight plates	**8,253**	**19**	9,461	18
Fiber optic face plates	**1,031**	**2**	806	2
Fiber optic tapers	**2,706**	**6**	3,857	7
Microchannel plates	**10,211**	**24**	7,069	13
Water purifier	**2**	**0**	71	1
Fiber rods	**70**	**0**	—	0
	43,282	**100**	51,466	100

(b) 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:

	2015	2014
	RMB'000	RMB'000
The PRC	**7,718**	7,438
Hong Kong	**13,949**	17,438
Europe	**10,581**	26,516
Russia	**11,034**	74
	43,282	51,466

8. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

Entity-wide disclosures (Continued)

(c) Information about major customers

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

	2015 RMB'000	2014 RMB'000
Customer A	9,044	19,353
Customer B	11,007	9,068
Customer C	12,536	8,732
Customer D	4,454	5,169

9. OTHER INCOME, GAINS AND LOSSES

	2015 RMB'000	2014 RMB'000
Amortisation of deferred government grants	1,055	1,117
Bank interest income	2	134
Loss on disposal of property, plant and equipment	—	(1,618)
Rental income	78	—
Reversal of impairment of other receivable	865	622
Reversal of impairment of trade receivable	803	150
Foreign exchange gain	618	—
Others	20	378
	3,441	783

10. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest on bank loan	1,323	1,835

11. LOSS BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Auditors' remuneration	419	396
Cost of inventories sold	35,339	39,269
Staff costs (including directors' remuneration):		
Wages and salaries	14,951	21,942
Pension scheme contributions	8,648	7,112
	23,599	29,054
Depreciation of items of property, plant and equipment	5,051	5,744
Amortisation of land use right	293	293
Loss on disposal of property, plant and equipment	–	1,618
Net foreign exchange loss	–	111
Research and development costs	1,970	2,315
Impairment of investment in associates	152	87
Impairment of inventories	6,727	2,744
Impairment of trade receivables	–	330
Reversal of impairment of trade receivables	(803)	(150)
Impairment of other receivables	–	120
Reversal of impairment of other receivables	(865)	(622)

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

(a) Directors' and Chief Executive's Emoluments

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

	2015	2014
	RMB'000	RMB'000
Fees	**338**	344
Other emoluments		
Salaries, allowances and benefits in kind	**267**	268
Pension scheme contributions	**29**	21
	634	633

The emoluments of each director and the chief executive, on a named basis, are set out below:

	For the year ended 31 December 2015			
	Fees	**Salaries, allowances and other benefits**	**Pension scheme contributions**	**Total emoluments**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Executive directors:				
Wang Wen Sheng	**48**	**154**	**29**	**231**
Tian Qun Xu	**26**	**113**	**–**	**139**
Guo Xu Zhi	**36**	**–**	**–**	**36**
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**
	338	**267**	**29**	**634**

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(a) Directors' and Chief Executive's Emoluments (Continued)

	For the year ended 31 December 2014			
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Total emoluments RMB'000
Executive directors:				
Wang Wen Sheng	48	154	21	223
Tian Qun Xu	26	114	—	140
Guo Xu Zhi	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
	344	268	21	633

\# Independent non-executive directors

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

(b) Supervisors' Remuneration

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

	2015 RMB'000	2014 RMB'000
Fees	**—**	—
Other emoluments		
Salaries, allowances and benefits in kind	**92**	101
Pension scheme contributions	**18**	17
	110	118

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(b) Supervisors' Remuneration (Continued)

The emoluments of each supervisor, on a named basis, are set out below:

	For the year ended 31 December 2015			
	Fees RMB'000	**Salaries, allowances and other benefits RMB'000**	**Pension scheme contributions RMB'000**	**Total emoluments RMB'000**
Han Xiao Ou	**—**	**60**	**12**	**72**
Lv Jun Li	**—**	**22**	**6**	**28**
Sun Wei	**—**	**5**	**—**	**5**
Xiang Hui	**—**	**5**	**—**	**5**
	—	**92**	**18**	**110**

	For the year ended 31 December 2014			
	Fees RMB'000	Salaries, allowances and other benefits RMB'000	Pension scheme contributions RMB'000	Total emoluments RMB'000
Han Xiao Ou	—	67	12	79
Lv Jun Li	—	24	5	29
Sun Wei	—	5	—	5
Xiang Hui	—	5	—	5
	—	101	17	118

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.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS (Continued)

(c) Five Highest Paid Individual Emoluments

Two (2014: two) of the five highest paid individuals of the Group were the directors whose emolument is set out in the above. For the year ended 31 December 2015, the remaining three (2014: three) employees' emoluments of the Company were as follows:

	2015 **RMB'000**	2014 RMB'000
Salaries, allowances and benefits in kind	**185**	210
Pension scheme contributions	**37**	53
	222	263

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	
	2015	2014
Nil — RMB1,000,000	**3**	3
	3	3

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.

13. INCOME TAX EXPENSE

	2015 **RMB'000**	2014 RMB'000
Current PRC Enterprise income tax		
— Charge for the year	**—**	—
Deferred tax	**—**	—
Total tax charge for the year	**—**	—

13. INCOME TAX EXPENSE (Continued)

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 2015 (2014: RMBNil). 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% over 3 years, beginning on 15 October 2015. For the year ended 31 December 2015, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2014: 15%).

The income tax expenses for the year can be reconciled to the loss for the year multiplied by applicable tax rate as follows:

	2015 **RMB'000**	2014 RMB'000
Loss before tax	**(14,897)**	(11,322)
Tax calculated at the domestic tax rate of 15% (2014: 15%)	**(2,235)**	(1,700)
Tax effect of revenue not taxable for tax purposes	**(250)**	(168)
Tax effect of expenses not deductible for tax purposes	**1,077**	1,117
Tax effect of tax losses not recognised	**1,408**	751
Income tax expenses	**–**	–

As at 31 December 2015, the Group has estimated unused tax losses of approximately RMB14,474,000 (2014: RMB5,089,000) 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 RMB14,474,000 at 31 December 2015 (2014: RMB5,089,000) is due to expire within one to five years for offsetting against future taxable profits of the Group in which the losses arise.

14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB14,855,000 (2014: RMB11,306,000) and 308,860,000 (2014: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2014 and 2015.

15. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2015 and 2014.

16. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture and fixtures RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2015							
COST:							
At 1 January 2015	66,314	34	42,702	1,806	330	15,711	126,897
Additions	–	–	2,401	–	78	360	2,839
At 31 December 2015	66,314	34	45,103	1,806	408	16,071	129,736
ACCUMULATED DEPRECIATION:							
At 1 January 2015	17,209	14	23,326	1,659	316	–	42,524
Provided during the year	1,196	3	3,640	132	80	–	5,051
At 31 December 2015	18,405	17	26,966	1,791	396	–	47,575
CARRYING AMOUNT:							
At 31 December 2015	47,909	17	18,137	15	12	16,071	82,161

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

	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
As at 31 December 2014							
COST:							
At 1 January 2014	65,584	34	49,582	3,208	1,172	15,874	135,454
Additions	—	—	951	4	—	1,967	2,922
Disposal	—	—	(9,231)	(1,406)	(842)	—	(11,479)
Transferred from construction in progress	730	—	1,400	—	—	(2,130)	—
At 31 December 2014	66,314	34	42,702	1,806	330	15,711	126,897
ACCUMULATED DEPRECIATION:							
At 1 January 2014	15,917	11	26,864	2,757	1,092	—	46,641
Provided during the year	1,292	3	4,075	308	66	—	5,744
Disposal	—	—	(7,613)	(1,406)	(842)	—	(9,861)
At 31 December 2014	17,209	14	23,326	1,659	316	—	42,524
CARRYING AMOUNT:							
At 31 December 2014	49,105	20	19,376	147	14	15,711	84,373

As at 31 December 2015, certain plant and machinery at carrying amount of approximately RMB1,154,000 has been pledged to a bank to secure bank loan to the Group (note 28).

17. LAND USE RIGHT

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

	2015 RMB'000	2014 RMB'000
COST:		
At 1 January	**14,634**	14,634
At 31 December	**14,634**	14,634
ACCUMULATED AMORTISATION		
At 1 January	**2,928**	2,635
Amortisation for the year	**293**	293
At 31 December	**3,221**	2,928
CARRYING AMOUNT:		
At 31 December	**11,413**	11,706

As at 31 December 2014 and 2015, 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 28).

18. SUBSIDIARIES

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

Company name	Place of incorporation/ registration	Nominal value of issued and paid-up share/ registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Shanxi Changcheng Huiqing Environmental Technology Company Limited* ("Changcheng Huiqing")	PRC	RMB1,000,000#	55%	Wholesale of household water purifiers

* The English names are for identification only

\# The registered capital is RMB1,000,000 of which RMB200,000 has been paid as at 31 December 2014 and 2015.

The Group had no subsidiary which has material non-controlling interests for the year ended 31 December 2014 and 2015.

19. INTERESTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Unlisted investments in PRC		
Share of net assets	3,115	2,578
Due from an associate	226	74
	3,341	2,652
Impairment losses	(2,804)	(2,652)
	537	–

19. INTERESTS IN ASSOCIATES (Continued)

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

Company name	Place of incorporation/ registration	Nominal value of issued and paid-up share/ registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Shanxi Huayuan Transport Optical Technology and Engineering Company Limited* ("Huayuan Transport")	PRC	RMB11,000,000	36.36%	Development of fibre optic intelligent transport system business in the PRC
Taiyuan Changcheng Luojiguang Optical Technology Company Limited* ("Changcheng Luojiguang")	PRC	RMB2,000,000#	35.00%	Manufacturing, processing, research and development and sales of electronic components and optical subcomponents

* The English names are for identification only

\# Changcheng Luojiguang was established in the PRC with limited liability on 18 December 2014. The registered capital of Changcheng Luajiguang is RMB2,000,000 of which none has been paid by the Group as at 31 December 2014. During the year, the Company paid RMB700,000 to Changcheng Luojiguang for initial share capital.

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

As at 31 December 2015, the Group recognised impairment losses of approximately RMB2,804,000 (2014: RMB2,652,000) in respect of the interest in the associates mainly due to uncertainties surrounding the industry in which the associates operate.

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.

19. INTERESTS IN ASSOCIATES (Continued)

The following table shows, in aggregate, the Group's share of the amounts of all individually immaterial associates that are accounted for using the equity method.

	2015 RMB'000	2014 RMB'000
At 31 December		
Carrying amounts of interests	537	–
Year ended 31 December		
Loss from continuing operations	376	61
Other comprehensive loss	–	–
Total comprehensive loss	376	61

The Group has discontinued the recognition of its share of results of the associate Huayuan Transport because the share of losses of the associate exceeded the Group's interest in the associate. As at 31 December 2015, the cumulatively unrecognised share of losses of the associate is approximately RMB1,595,000 (2014: RMB345,000).

20. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	1,318	1,430
Work in progress	9,403	11,968
Finished goods	13,440	9,141
	24,161	22,539

21. TRADE RECEIVABLES

	2015	2014
	RMB'000	RMB'000
Trade receivables	**15,413**	17,675
Less: impairment losses	**(876)**	(1,679)
	14,537	15,996

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:

	2015	2014
	RMB'000	RMB'000
Within 90 days	**7,579**	11,760
91 days to 180 days	**6,052**	2,045
181 days to 1 year	**906**	590
Over 1 year	**—**	1,601
	14,537	15,996

The trading terms with customers are largely on credit. The credit period is generally 90 days (2014: 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 impairment of trade receivables are as follows:

	2015	2014
	RMB'000	RMB'000
At 1 January	**1,679**	1,499
Impairment losses recognised	**—**	330
Reversal of impairment losses recognised	**(803)**	(150)
At 31 December	**876**	1,679

21. TRADE RECEIVABLES (Continued)

Included in the above impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB876,000 (2014: RMB1,679,000). 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.

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

	2015	2014
	RMB'000	RMB'000
Neither past due nor impaired	**7,579**	11,760
Less than 9 months past due	**6,958**	2,635
Over 9 months past due	**—**	1,601
	14,537	15,996

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 are of the opinion that no impairment loss 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.

22. AMOUNT DUE FROM A SHAREHOLDER

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

Name	**Maximum outstanding during the year RMB'000**	**2015 RMB'000**	2014 RMB'000
Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai")	**593**	**593**	593

A director, Mr. Zhang Shao Hui, has significant influence over the Taiyuan Tanghai.

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

23. AMOUNT DUE FROM A FORMER RELATED COMPANY

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

Name	Maximum outstanding during the year RMB'000	2015 RMB'000	2014 RMB'000
Shanxi Jindi Yucheng Medical Equipments Company Limited ("Shanxi Jindi")	4,283	4,283	4,283

A director, Mr. Guo Xu Zhi, has significant influence over the Shanxi Jindi.

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")) is a subsidiary of Taiyuan Changcheng Optics Electronics Industrial Corporation, a substantial shareholder of the Company. The amount due is unsecured, interest-free and repayable on demand.

24. CASH AND CASH EQUIVALENTS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	542	1,233

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, 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.

25. TRADE PAYABLES

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

	2015	2014
	RMB'000	RMB'000
0–90 days	**4,258**	3,990
91–180 days	**2,210**	2,067
181–365 days	**2,189**	1,088
Over 365 days	**1,990**	1,254
	10,647	8,399

26. ACCRUALS AND OTHER PAYABLES

	2015	2014
	RMB'000	RMB'000
Accrued salaries and other payables	**27,397**	17,512
Accrued expenses	**4,135**	3,865
Receipt in advance	**4,354**	2,638
Others	**222**	372
	36,108	24,387

27. AMOUNT DUE TO A SHAREHOLDER

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

28. BANK BORROWING

	2015 Maturity	2015 RMB'000	2014 Maturity	2014 RMB'000
Bank loan (note (i))	**2016**	**14,000**	2015	15,000
		14,000		15,000

(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 17) and plant and machinery (note 16) (2014: land use right). As at 31 December 2015, 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 150% (2014: 130%). During the year, the actual interest rate was charged in a range of 6.53% to 9.46% (2014: 7.28%) p.a..

29. DEFERRED GOVERNMENT GRANTS

	2015 RMB'000	2014 RMB'000
COST:		
At 1 January	**23,500**	23,500
Additions	**5**	—
At 31 December	**23,505**	23,500
ACCUMULATED AMORTISATION		
At 1 January	**10,307**	9,190
Amortisation for the year	**1,055**	1,117
At 31 December	**11,362**	10,307
CARRYING AMOUNT:		
At 31 December	**12,143**	13,193

30. SHARE CAPITAL

	2015 RMB'000	2014 RMB'000
Authorised, issued and fully paid:		
198,860,000 (2014: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2014: 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.

31. RESERVES

Group

(a) Capital surplus

The capital surplus of the Group represents the excess of the issue price over the nominal value of the Company's shares issued at a premium.

(b) 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.

31. RESERVES (Continued)

Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2015 are as follows:

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 1 January 2014	18,561	11,853	17,365	47,779
Total comprehensive loss for the year	—	—	(11,296)	(11,296)
At 31 December 2014 and 1 January 2015	18,561	11,853	6,069	36,483
Total comprehensive loss for the year	—	—	(14,843)	(14,843)
At 31 December 2015	**18,561**	**11,853**	**(8,774)**	**21,640**

32. CAPITAL COMMITMENTS

The Group's capital commitments at the end of the reporting period are as follows:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for		
— Buildings	**7,156**	7,516
— Plant and machinery	**—**	1,431
	7,156	8,947

33. RELATED PARTY TRANSACTIONS

(a) Key management compensation

The compensation of key management personnel is disclosed in note 12 to the consolidated financial statements.

(b) Rental income received from an associate of approximately RMB78,000 (2014: RMBNil) were credited to the profit or loss for the year included under other income and gains.

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	82,158	84,370
Land use right	11,413	11,706
Investments in a subsidiary	69	87
Interests in associates	537	—
	94,177	96,163
CURRENT ASSETS		
Inventories	24,158	22,471
Trade receivables	14,537	15,977
Prepayments, deposits and other receivables	1,514	2,015
Amount due from a shareholder	593	593
Amount due from a former related company	4,283	4,283
Cash and cash equivalents	542	1,225
	45,627	46,564
CURRENT LIABILITIES		
Trade payables	10,647	8,399
Accruals and other payables	36,088	24,366
Amount due to a shareholder	14,400	14,400
Bank and cash borrowing	14,000	15,000
	75,135	62,165
NET CURRENT LIABILITIES	(29,508)	(15,601)
TOTAL ASSETS LESS CURRENT LIABILITIES	64,669	80,562
NON-CURRENT LIABILITIES		
Deferred government grants	12,143	13,193
NET ASSETS	52,526	67,369
EQUITY		
Share capital	30,886	30,886
Reserves	21,640	36,483
TOTAL EQUITY	52,526	67,369

35. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 15 June 2016.

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 2015.

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**43,282**	51,466	62,758	48,113	55,333
Operating loss	**(13,574)**	(9,497)	(1,163)	(25,499)	(10,275)
Finance costs	**(1,323)**	(1,835)	(1,067)	(907)	(1,043)
Loss before tax	**(14,897)**	(11,332)	(2,230)	(26,406)	(11,318)
Income tax credit	**—**	—	—	—	277
Loss for the year	**(14,897)**	(11,332)	(2,230)	(26,406)	(11,041)
Attributable to:					
Owners of the Company	**(14,855)**	(11,306)	(2,230)	(26,406)	(11,041)
Non-controlling interests	**(42)**	(26)	—	—	—
	(14,897)	(11,332)	(2,230)	(26,406)	(11,041)

	At 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**139,824**	142,802	159,010	143,905	154,195
Total liabilities	**(87,298)**	(75,379)	(80,345)	(63,010)	(46,894)
Non-controlling interests	**(22)**	(64)	—	—	—
Total equity attributable to owners of the Company	**52,504**	67,359	78,665	80,895	107,301