



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)

Interim Report 2016

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

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

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

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

FINANCIAL RESULTS

The board of directors (the “Board”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) announce the unaudited consolidated results of the Company and its subsidiary (collectively referred to as the “Group”) for the six months ended 30 June 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income For the six months ended 30 June 2016

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	2	3,556	15,475	7,953	26,953
Cost of sales		(3,646)	(12,821)	(6,622)	(22,171)
Gross (loss)/profit		(90)	2,654	1,331	4,782
Other income, gains and losses		243	302	668	543
Selling and distribution costs		(455)	(1,702)	(707)	(1,997)
Administrative and other operating expenses		(2,875)	(3,018)	(5,415)	(6,624)
Finance costs		(2,106)	(293)	(2,367)	(566)
Share of loss of an associate		(81)	(31)	(127)	(55)
Loss before tax	4	(5,364)	(2,088)	(6,617)	(3,917)
Income tax	5	—	—	—	—
Loss and other comprehensive loss		(5,364)	(2,088)	(6,617)	(3,917)
Loss and total comprehensive loss for the period attributable to:					
Owners of the Company		(5,360)	(2,083)	(6,612)	(3,905)
Non-controlling interests		(4)	(5)	(5)	(12)
		(5,364)	(2,088)	(6,617)	(3,917)
Loss per share (RMB):					
— Basic and diluted	6	(0.017)	(0.006)	(0.021)	(0.012)

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		79,721	82,161
Land use right		11,267	11,413
Interests in associates		362	537
Total non-current assets		91,350	94,111
CURRENT ASSETS			
Inventories		32,433	24,161
Trade receivables	8	14,195	14,537
Prepayments, deposits and other receivables		2,063	1,597
Amount due from a shareholder		593	593
Amount due from a former related company		4,283	4,283
Cash and cash equivalents		931	542
Total current assets		54,498	45,713
CURRENT LIABILITIES			
Trade payables	9	12,885	10,647
Accruals and other payables		45,191	36,108
Amount due to a shareholder		16,275	14,400
Bank borrowing		13,920	14,000
Total current liabilities		88,271	75,155
NET CURRENT LIABILITIES		(33,773)	(29,442)
TOTAL ASSETS LESS CURRENT LIABILITIES		57,577	64,669

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred government grants		11,668	12,143
Total non-current liabilities		11,668	12,143
NET ASSETS			
EQUITY			
Equity attributable to owners of the Company			
Share capital		30,886	30,886
Reserves		15,006	21,618
		45,892	52,504
Non-controlling interests		17	22
TOTAL EQUITY		45,909	52,526

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Capital surplus	Statutory surplus reserve	Retained earnings	Total equity		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	30,886	18,561	11,853	6,059	67,359	64	67,423
Total comprehensive loss for the period	—	—	—	(3,905)	(3,905)	(12)	(3,917)
At 30 June 2015	30,886	18,561	11,853	2,154	63,454	52	63,506
At 1 January 2016	30,886	18,561	11,853	(8,796)	52,504	22	52,526
Total comprehensive loss for the period	—	—	—	(6,612)	(6,612)	(5)	(6,617)
At 30 June 2016	30,886	18,561	11,853	(15,408)	45,892	17	45,909

Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016 RMB'000	2015 RMB'000
Net cash flows (used in)/generated from operating activities	(3)	2,579
Net cash flows used in investing activities	(45)	(1,296)
Net cash flows generated from/(used in) financing activities	437	(566)
Increase in cash and cash equivalents	389	717
Cash and cash equivalents at 1 January	542	1,233
Cash and cash equivalents at 30 June	931	1,950

NOTES TO THE ACCOUNTS

1. Basis of preparation

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("GEM Listing Rules").

These consolidated financial statements have been prepared under the historical cost convention, except for certain financial assets and liabilities that are measured at fair values.

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

2. Revenue

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

3. 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, and microchannel plates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the directors of the Company, being the chief operating decision maker ("CODM"), for purposes of resource allocation and performance assessment. The measures of loss and of total assets and liabilities are consistent with the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position which are reported internally to the CODM. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

(i) Information about products

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

	For the six months ended 30 June			
	2016		2015	
	RMB'000	%	RMB'000	%
Fiber optic inverters (Note 1)	(1,457)	(18)	16,705	62
Fiber optic straight plates	3,707	46	3,483	13
Fiber optic face plates	150	2	635	2
Fiber optic tapers	302	4	1,063	4
Microchannel plates	4,682	7	4,957	18
Others	569	59	110	1
	7,953	100	26,953	100

Note 1: Sale return during the six months ended 30 June 2016 was amounting to approximately RMB3,186,000 which comprise of: (i) fiber optic inverters approximately RMB2,924,000; (ii) fiber optic straight plates approximately RMB9,000; (iii) fiber optic face plates approximately RMB201,000; and (iv) fiber optic tapers approximately RMB52,000. As the sales of fiber optic inverters were smaller than its sale return during the period, therefore the net sales of fiber optic inverters is reported as negative RMB1,457,000.

(ii) *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:

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
The PRC	3,540	3,356
Hong Kong/Taiwan	5,373	1,524
Europe/Other countries (Note 2)	(960)	22,073
	7,953	26,953

Note 2: Sale return from Europe/Other countries customers during the six months ended 30 June 2016 was amounting to approximately RMB3,186,000. As the sales to Europe/Other countries customers were smaller than its sale return during the period, therefore the net sales to Europe/Other countries customers is reported as negative RMB960,000.

(iii) *Information about major customers*

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Customer A	4,612	7,281
Customer B	2,147	6,311
Customer C	—	5,790

4. Loss before tax

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Loss before tax is arrived at after charging:		
Cost of inventories sold	6,622	22,171
Depreciation of property, plant and equipment	2,525	2,637
Amortisation of land use right	146	146

5. Income tax

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current PRC Enterprise Income Tax	—	—
Deferred tax	—	—
Total tax charge	—	—

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 six months ended 30 June 2016 and 2015. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

6. Loss per share

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and six months ended 30 June 2016 of approximately RMB5,360,000 and RMB6,612,000 respectively (For the three months and six months ended 30 June 2015: RMB2,083,000 and RMB3,905,000 respectively) and 308,860,000 (2015: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the six months ended 30 June 2016 and 2015.

7. Dividend

The Board does not recommend the payment of a dividend for the six months ended 30 June 2016 (For the six months ended 30 June 2015: Nil).

8. Trade receivables

An aged analysis of the trade receivables is as follows:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
0–90 days	7,301	7,579
91–180 days	5,047	6,052
181–365 days	1,114	906
Over 365 days	733	—
	14,195	14,537

The trading terms with customers are largely on credit. The credit period is generally 90 days.

9. Trade payables

An aged analysis of the trade payables is as follows:

	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
0–90 days	4,300	4,258
91–180 days	825	2,210
181–365 days	4,480	2,189
Over 365 days	3,280	1,990
	12,885	10,647

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

The Group currently produces five 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 six months ended 30 June 2016 and 2015 are set out in notes (3) above.

Financial Review

Turnover of the Group for the six months ended 30 June 2016 was approximately RMB7,953,000 (For the six months ended 30 June 2015: RMB26,953,000), representing a decrease of approximately 70% as compared to that of the previous financial period. The decrease in the sales for the six months ended 30 June 2016 was mainly due to decrease in customers' order and sale return. As some of the products were unable to pass the quality check by its customers, therefore those unable to pass the quality check were returned to the Company by its customers. During the six months ended 30 June 2016, the total sale return was amounting to approximately RMB3,186,000.

Cost of sales of the Group for the six months ended 30 June 2016 was approximately RMB6,622,000 (For the six months ended 30 June 2015: RMB22,171,000), representing a decrease of approximately 70% as compared to that of the previous financial period.

The gross profit margin the six months ended 30 June 2016 was 16.7% (For the six months ended 30 June 2015: 17.7%).

Administrative and other operating expenses of the Group for the six months ended 30 June 2016 was approximately of RMB5,415,000 (For the six months ended 30 June 2015: RMB6,624,000), representing a decrease of approximately RMB1,209,000 as compared to that of the previous financial period.

Finance costs of the Group for the six months ended 30 June 2016 was approximately of RMB2,367,000 (For the six months ended 30 June 2015: RMB566,000), representing an increase of approximately RMB1,801,000 as compared to that of the previous financial period.

The loss after tax for the six months ended 30 June 2016 of the Group was approximately RMB6,617,000 (For the six months ended 30 June 2015: RMB3,917,000).

Going Concern

As at 30 June 2016, the Group's current liabilities exceeded its current assets by approximately RMB33,773,000. In addition, the Group had an outstanding bank loan amounting to RMB13,920,000 which will be due for repayment within the next twelve months and an amount due to a shareholder amounting to RMB16,275,000 which is repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

- negotiate with the Company's banker in advance for renewal of the bank loan amounting to RMB13,920,000 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 seek further financial support from its shareholders, if appropriate.

Financial Support

As the Group incurred net losses since 2011, the Group had obtained financial support from its banker and its shareholder. As at 30 June 2016, the Group had an outstanding bank loan amounting to RMB13,920,000 and amount due to Taiyuan Changcheng Optics Electronics Industrial Corporation (“Taiyuan Changcheng”), a substantial shareholder of the Company, amounting to RMB16,275,000 (including interest amount approximately RMB1,875,000).

Interest Charged by Taiyuan Changcheng

The Company obtained financial support from Taiyuan Changcheng since the late of 2011. As at 31 December 2011, 2012, 2013, 2014, 2015 and 30 June 2016, the financial support provided by Taiyuan Changcheng to the Company was RMB500,000, RMB12,400,000, RMB14,400,000, RMB14,400,000, RMB14,400,000 and RMB14,400,000 respectively.

Both of Taiyuan Changcheng and the Company agreed that Taiyuan Changcheng should charge interest on the certain financial support provided to the Company. The interest charged to the Company were RMB222,133, RMB338,387, RMB594,000, RMB504,900 and RMB215,325 for the years ended 31 December 2012, 2013, 2014, 2015 and for the six months ended 30 June 2016 respectively. The total interest accrued in the profit and loss accounts for the six months ended 30 June 2016 was RMB1,874,745. The directors of the Company believe that the interest charged by Taiyuan Changcheng is based on normal commercial terms or better.

Financial Assistance to Related Parties

As at 30 June 2016, the amount due from a shareholder — Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (31 December 2015: RMB593,000).

As at 30 June 2016, the amount due from a former related company — Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) was approximately RMB4,283,000 (31 December 2015: RMB4,283,000).

Liquidity and Financial Resources

As at 30 June 2016, the total assets of the Group increased by approximately RMB6,024,000 to approximately RMB145,848,000 as compared to approximately RMB139,824,000 as at the end of the previous financial year, representing an increase of approximately 4%.

As at 30 June 2016, the total liabilities of the Group increased by approximately RMB12,641,000 to approximately RMB99,939,000 as compared to approximately RMB87,298,000 as at the end of the previous financial year, representing an increase of approximately 14%.

As at 30 June 2016, the total equity of the Group decreased by approximately RMB6,617,000 to approximately RMB45,909,000 as compared to approximately RMB52,526,000 as at the end of the previous financial year, representing a decrease of approximately 13%.

Gearing Ratio

As at 30 June 2016, the gearing ratio of the Group (defined as net debt divided by total share capital plus net debt) was approximately 66% (31 December 2015: 44%).

Significant Investment Held

As at 30 June 2016, the Group held interest in associates with the carrying amount of approximately RMB362,000 (31 December 2015: RMB537,000).

Acquisition and Disposal of Subsidiaries

The Group had no other acquisition and disposal of subsidiaries during the six months ended 30 June 2016.

Pledge of Assets

As at 30 June 2016, the Group's land with the carrying value of approximately RMB11,267,000 (31 December 2015: RMB11,413,000) was pledged to a bank as securities for the borrowing facilities of the Group.

Contingent Liabilities

As at 30 June 2016, 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 30 June 2016, the Group had approximately 538 full-time employees. The Group remunerates its employees based on their experience, performance and value, which they contribute to the Group.

OTHER INFORMATION

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

As at 30 June 2016, 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:

- Part of these domestic shares (57,300,000 domestic shares) are 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) 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 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 30 June 2016, none of the directors or supervisors of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 30 June 2016, so far as the directors of the Company are aware, persons other than directors or supervisors of the Company who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Domestic Shares:					
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Note 1)	41.34%	—	26.61%

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*
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%

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*
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:

- Part of these domestic shares (57,300,000 domestic shares) are registered in the name of Beijing Gensir Venture Capital Management Limited ("Beijing Gensir"). Beijing Gensir is owned as to 100% by Zhang Shao Hui. The rest of these domestic shares (24,900,000) 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.
- 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 of the Company are not aware of other person who, as at 30 June 2016, 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 six months ended 30 June 2016, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2016, none of the directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares of the Company or had exercised any such right during the period.

Directors' and Supervisors' Interest in Contracts

The directors of the Company believe that, 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 supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the six months ended 30 June 2016 or at any time during the period.

Competing Interests

The directors of the Company believe that none of the directors, supervisors and the management shareholders of the Company nor any of their respective associates (as defined under the GEM Listing Rules) have engaged in any business which competes or may compete with the business of the Group during the six months ended 30 June 2016.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2016.

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 unaudited consolidated financial statements of the Group for the six months ended 30 June 2016.

Corporate Governance Practice

In the opinion of the Board, the Company has complied with the code provisions set out in the Code of Corporate Governance Practices (the “CG Code”) except for the following:

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. 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 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 supervisors 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.

The CG Code stipulates that the roles of chairman and chief executive officer should be separate. However, the roles of chairman and 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 familiar with the Group's operation.

Securities Transactions by Directors

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules throughout the six months ended 30 June 2016. 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.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wang Wen Sheng

Chairman

Taiyuan City, Shanxi Province, the PRC, 12 August 2016

As at the date of this report, the Board comprises nine directors, of which three are executive directors, namely Mr. Wang Wen Sheng, Mr. Tian Qun Xu and Mr. Guo Xu Zhi; two non-executive directors, namely Mr. Zhang Shao Hui and Mr. Yuan Guo Liang; and four independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, Mr. Duan Zhong and Ms. Zhang Zhi Hong.