



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)

Third Quarterly 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 three months and nine months ended 30 September 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 three months and nine months ended 30 September 2016

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2016 RMB'000	2015 RMB'000	2016 RMB'000	2015 RMB'000
Revenue	2	4,923	9,721	12,876	36,674
Cost of sales		(3,995)	(8,577)	(10,617)	(30,748)
Gross profit		928	1,144	2,259	5,926
Other income, gains and losses		347	942	1,015	1,485
Selling and distribution costs		(444)	(513)	(1,151)	(2,510)
Administrative and other operating expenses		(3,152)	(3,874)	(8,567)	(10,498)
Finance costs		(383)	(253)	(2,750)	(819)
Share of loss of an associate		(84)	(34)	(211)	(89)
Loss before tax		(2,788)	(2,588)	(9,405)	(6,505)
Income tax	3	—	—	—	—
Loss and other comprehensive loss		(2,788)	(2,588)	(9,405)	(6,505)
Loss and total comprehensive loss attributable to:					
Owners of the Company		(2,788)	(2,583)	(9,400)	(6,488)
Non-controlling interests		—	(5)	(5)	(17)
		(2,788)	(2,588)	(9,405)	(6,505)
Loss per share (RMB):					
— Basic and diluted	4	(0.009)	(0.008)	(0.030)	(0.021)

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. Income tax

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	2016	2015
	RMB'000	RMB'000	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 three months and nine months ended 30 September 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.

4. 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 nine months ended 30 September 2016 of approximately RMB2,788,000 and RMB9,400,000 respectively (For the three months and nine months ended 30 September 2015: RMB2,583,000 and RMB6,488,000 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 nine months ended 30 September 2016 and 2015.

5. Dividend

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

6. Reserve

	Attributable to owners of the Company						Total equity
	Share capital	Capital surplus	Statutory surplus reserve	Retained earnings	Total	Non-controlling interests	
	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	—	—	—	(6,488)	(6,488)	(17)	(6,505)
At 30 September 2015	30,886	18,561	11,853	(429)	60,871	47	60,918
At 1 January 2016	30,886	18,561	11,853	(8,796)	52,504	22	52,526
Total comprehensive loss for the period	—	—	—	(9,400)	(9,400)	(5)	(9,405)
At 30 September 2016	30,886	18,561	11,853	(18,196)	43,104	17	43,121

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 nine months ended 30 September 2016 and 2015 are set out below:

	For the nine months ended 30 September			
	2016		2015	
	RMB'000	%	RMB'000	%
Fiber optic inverters (Note 1)	(928)	(7)	20,698	56
Fiber optic straight plates	5,007	39	6,090	17
Fiber optic face plates	379	3	1,058	3
Fiber optic tapers	152	1	1,966	5
Microchannel plates	7,447	58	6,793	19
Others	819	6	69	—
	12,876	100	36,674	100

Note 1: Sale return of fiber optic inverters during the nine months ended 30 September 2016 was amounting to approximately RMB2,938,000. 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 a negative figure.

Financial Review

Turnover of the Group for the nine months ended 30 September 2016 was approximately RMB12,876,000 (For the nine months ended 30 September 2015: RMB36,674,000), representing a decrease of approximately 65% as compared to that of the previous financial period. The decrease in the sales for the nine months ended 30 September 2016 was mainly due to decrease in customers' order and sale return. As some of 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.

Cost of sales of the Group for the nine months ended 30 September 2016 was approximately RMB10,617,000 (For the nine months ended 30 September 2015: RMB30,748,000), representing a decrease of approximately 65% as compared to that of the previous financial period.

The gross profit margin of the Group for the nine months ended 30 September 2016 was 17.5% (For the nine months ended 30 September 2015: 16.2%).

Administrative and other operating expenses of the Group for the nine months ended 30 September 2016 was approximately of RMB8,567,000 (For the nine months ended 30 September 2015: RMB10,498,000), representing a decrease of approximately RMB 1,931,000 as compared to that of the previous financial period.

The loss after tax of the Group for the nine months ended 30 September 2016 was approximately RMB9,405,000 (For the nine months ended 30 September 2015: RMB6,505,000).

Going Concern

As at 30 September 2016, the Group's current liabilities exceeded its current assets. 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 RMB16,382,408 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:

- strengthen the management of overdue trade receivable;
- implement measures to improve gross profit margin of the Group's products;

- implement stringent cost control measures;
- consider seeking further financial support from its shareholders, and
- consider raising additional working capital by issuing of domestic shares.

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 September 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 RMB16,382,408 (including interest amounting to RMB1,982,408).

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 and 30 September 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.

In June 2015, Taiyuan Changcheng informed the shareholder representatives of the Company that interest will be charged for the certain financial support provided to the Company. In June 2016, 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 RMB322,988 for the years ended 31 December 2012, 2013, 2014, 2015 and for the nine months ended 30 September 2016 respectively. The total interest accrued in the profit and loss accounts for the nine months ended 30 September 2016 was RMB1,982,408. 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 September 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 September 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).

OTHER INFORMATION

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

As at 30 September 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 (Notes 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) 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.

- 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.
- 3,645,000 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 September 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 September 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%

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*
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) 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.
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 purpose 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 September 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 nine months ended 30 September 2016, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 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 nine months ended 30 September 2016.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wang Wen Sheng

Chairman

Taiyuan City, Shanxi Province, the PRC, 14 November 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.