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 2016

* For identification only

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Zhang Shao Hui
Mr. Yuan Guo Liang

Independent Non-executive Directors

Mr. Ni Guo Qiang
Mr. Li Li Cai
Mr. Duan Zhong
Ms. Zhang Zhi Hong

SUPERVISORS

Ms. Han Xiao Ou *(Chairman)*
Ms. Lv Jun Li
Mr. Sun Wei
Mr. Xiang Hui

COMPLIANCE OFFICER

Mr. Wang Wen Sheng

AUTHORISED REPRESENTATIVES

Mr. Wang Wen Sheng
Mr. Tsang Kwok Wai

COMPANY SECRETARY

Mr. Tsang Kwok Wai

AUDIT COMMITTEE

Ms. Zhang Zhi Hong *(Chairman)*
Mr. Ni Guo Qiang
Mr. Li Li Cai

REMUNERATION COMMITTEE

Mr. Li Li Cai *(Chairman)*
Ms. Zhang Zhi Hong
Mr. Wu Yan Ge

NOMINATION COMMITTEE

Mr. Wang Wen Sheng *(Chairman)*
Mr. Ni Guo Qiang
Mr. Duan Zhong

AUDITORS

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 turnover of approximately RMB18,731,000 and recorded loss after tax of approximately RMB33,602,000 for the year ended 31 December 2016.

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, 31 March 2017

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 principal activities of its subsidiaries are set out in the notes to the consolidated financial statements.

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

The Company and its subsidiaries (together the "Group") currently produce five major products including fibre optic inverters; fibre optic straight plates; fibre optic face plates; fibre optic tapers and microchannel plates.

Details of the total sales to external customers by product and the percentage of total revenue by product for the years ended 31 December 2016 and 2015 are set out in the notes to the consolidated financial statements.

FINANCIAL REVIEW

Turnover of the Group for the year ended 31 December 2016 was approximately RMB18,731,000 (2015: RMB43,282,000), representing a decrease of approximately 57% as compared to that of the previous financial year.

Cost of sales of the Group for the year ended 31 December 2016 was approximately RMB14,243,000 (2015: RMB35,339,000), representing a decrease of approximately 60% as compared to that of the previous financial year.

The gross profit margin of the Group for the year ended 31 December 2016 was 24% (2015: 18%).

Administrative expenses of the Group for the year ended 31 December 2016 was approximately RMB13,158,000 (2015: RMB12,026,000), representing an increase of approximately RMB1,132,000 as compared to that of the previous financial year.

Other operating expenses of the Group for the year ended 31 December 2016 was approximately RMB22,665,000 (2015: RMB8,975,000). Other operating expenses mainly include (i) research and development costs approximately RMB971,000 (2015: RMB1,970,000) and (ii) impairment of inventory approximately RMB19,735,000 (2015: RMB6,727,000).

The Group reported finance costs amounting to approximately RMB3,158,000 (2015: RMB1,323,000) for the year ended 31 December 2016, representing an increase of approximately RMB1,835,000 as compared to that of the previous financial year.

Management Discussion and Analysis

The loss after tax for the year ended 31 December 2016 of the Group was approximately RMB33,602,000 (2015: RMB14,897,000).

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 2016, the Group had 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 RMB16,490,070.

BANK LOAN

As at 31 December 2016, the Company had outstanding bank loan amounting to RMB13,920,000 which was expired in November 2016 and was not repaid. The bank loan is now repayable on demand. The bank loan is secured by the Company's land use right located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC and certain plant and machinery at carrying amount of approximately RMB846,000.

INTEREST CHARGED BY TAIYUAN CHANGCHENG

The Company obtained financial assistance from its substantial shareholder – Taiyuan Changcheng since the late of 2011. As at 31 December 2011, 2012, 2013, 2014, 2015 and 2016, the amount due to Taiyuan Changcheng was RMB500,000, RMB12,400,000, RMB14,400,000, RMB14,400,000, RMB14,400,000, and RMB16,490,070 (including interest amounting to RMB2,090,070) respectively.

In June 2015, Taiyuan Changcheng informed the shareholder representatives of the Company that interest will be charged on certain financial assistance provided to the Company. The management of the Company disagreed with the interest charged by Taiyuan Changcheng. The estimated total interest of approximately RMB1,744,000 for the years ended 31 December 2012, 2013, 2014 and 2015 was not accrued in the profit and loss accounts of the Company for the year ended 31 December 2015 as the management of the Company claimed that the financial assistance provided to the Company by Taiyuan Changcheng was on an interest-free basis. The management of the Company negotiated with Taiyuan Changcheng.

In June 2016, both of Taiyuan Changcheng and the Company agreed that Taiyuan Changcheng should charge interest on certain financial assistance provided to the Company. The interest charged by Taiyuan Changcheng was agreed at amount of RMB2,090,070 for the five years ended 31 December 2012, 2013, 2014, 2015 and 2016. The total interest was accrued in the profit and loss accounts for the year ended 31 December 2016. The directors of the Company believe that the interest charged by Taiyuan Changcheng is based on normal commercial terms or better.

Management Discussion and Analysis

GOING CONCERN

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB58,771,000. In addition, the Group had an outstanding bank loan amounting to RMB13,920,000 which is repayable on demand and an amount due to a shareholder amounting to RMB16,490,070 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:

– continue to negotiate with the Company's banker for renewal of the bank loan;

– 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 to issue domestic shares and/or other fund raising measures; and

– consider seeking further financial assistance from its shareholders, if appropriate.

FINANCIAL ASSISTANCE TO RELATED PARTIES

As at 31 December 2016, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2015: 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 (2015: RMB4,283,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the total assets of the Group decreased by approximately RMB16,092,000 to approximately RMB123,732,000 as compared to approximately RMB139,824,000 as at the end of the previous financial year, representing a decrease of approximately 12%.

As at 31 December 2016, the total liabilities of the Group increased by approximately RMB17,510,000 to approximately RMB104,808,000 as compared to approximately RMB87,298,000 as at the end of the previous financial year, representing an increase of approximately 20%.

Management Discussion and Analysis

As at 31 December 2016, the total equity of the Group decreased by approximately RMB33,602,000 to approximately RMB18,924,000 as compared to approximately RMB52,526,000 as at the end of the previous financial year.

GEARING RATIO

As at 31 December 2016, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 83% (2015: 59%).

SIGNIFICANT INVESTMENT HELD

As at 31 December 2016, the Group held interests in associates with the carrying value of approximately RMB246,000 (2015: RMB537,000).

ACQUISITION AND DISPOSAL OF SUBSIDIARIES

The Group had no acquisition and disposal of subsidiaries during the year ended 31 December 2016.

PLEDGE OF ASSETS

As at 31 December 2016, the Group's land use right and plant and machinery with the carrying value of approximately RMB11,120,000 and RMB846,000 respectively (2015: RMB11,413,000 and RMB1,154,000) were pledged to a bank as securities for the borrowing facilities of the Group.

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities.

EXPOSURE OF FLUCTUATION IN EXCHANGE RATES

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets, and liabilities are principally denominated in the functional currency of the Group.

EMPLOYEE INFORMATION

As at 31 December 2016, the Group had approximately 542 (2015: 541) full-time employees. For the year ended 31 December 2016, the Group reported staff costs of approximately RMB23,751,000 (2015: RMB23,599,000). 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 51, was appointed as the executive director of the Company in July 2009. Mr. Wang is also the chairman of the board of directors of the Company. Prior to joining the Company, Mr. Wang was the vice factory director of Taiyuan First Machine Tool Plant. Mr. Wang has over 20 years of experience in the engineering industry. In 2001, Mr. Wang was elected the Thirteenth Outstanding Youth Factory Director in Taiyuan, Shanxi Province. In 2003, Mr. Wang was elected the Fourteenth Excellent Entrepreneur in Taiyuan, Shanxi Province. Mr. Wang holds a degree of Mechanical Engineering and a master degree in Materials.

Mr. GUO Xu Zhi (高旭志), aged 53, 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. TIAN Qun Xu (田群戌), aged 78, 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.

Biographical Details of Directors, Supervisors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. ZHANG Shao Hui (張少輝), aged 47, 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, 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 55, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NI Guo Qiang (倪國強), aged 71, was appointed as the independent non-executive director of the Company in November 2003. Mr. Ni is currently the professor and doctoral supervisor of the optic technology doctoral program in the Beijing Institute of Technology. Mr. Ni graduated with a doctorate degree in optical engineering from the Beijing Institute of Technology.

Mr. LI Li Cai (黎禮才), aged 76, 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. DUAN Zhong (段忠), aged 65, was appointed as the independent non-executive director of the Company in May 2011. Mr. Duan is currently the chairman of Shenzhen Engineer Association, State Council Expert for Special Allowance and professor-level senior engineer. Mr. Duan graduated from the Beijing University of Aeronautics & Astronautics.

Ms. ZHANG Zhi Hong (張志紅), aged 45, 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.

Biographical Details of Directors, Supervisors and Senior Management

SUPERVISORS

Ms. HAN Xiao Ou (韓曉歐), aged 38, 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. LV Jun Li (呂晉莉), aged 51, was appointed a supervisor of the Company in June 2012. Ms. Lv graduated from Shanxi Provincial Committee Party College majoring in economic management.

Mr. SUN Wei (孫煒), aged 49, 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. XIANG Hui (相輝), aged 43, 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.

SENIOR MANAGEMENT

Mr. SONG Zheng Lai (宋政來), aged 40, joined the Company as the chief financial controller in May 2016. Prior to joining the Company, 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 the general manager of Jilin East Asia Industrial Company. Mr. Song graduated from the Changchun University School of Economics and Management majoring in foreign accounting.

Mr. SHEN Jian (申健), aged 43, is the secretary of the board of directors of the Company. In August 2016, Mr. Shen was appointed as the acting chief executive officer of the Company. 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.

Biographical Details of Directors, Supervisors and Senior Management

Mr. WU Yan Ge (武彥革), aged 51, is the vice general manager of administrative and purchasing of the Company. 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 submit the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES

The Company continued to be principally engaged in design, research, development, manufacture, and sale of image transmission fibre optic products. The principal activities of its subsidiaries are set out in the notes to the consolidated financial statements.

SEGMENT INFORMATION

Details of the Group's segmental information for the year ended 31 December 2016 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 2016 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 2016 (2015: Nil).

FIVE-YEAR FINANCIAL SUMMARY

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

BUSINESS REVIEW AND FINANCIAL REVIEW

Details of business review and financial review of the Group for the year ended 31 December 2016 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 the year ended 31 December 2016 are set out in the accompanying consolidated financial statements and notes to the consolidated financial statements. As at 31 December 2016, the Company had reserves RMBNil (2015: RMBNil) 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 2016.

Report of the Directors

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 2016.

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 2016, the Group reported employer's pension scheme contributions of approximately RMB8,719,000 (2015: RMB8,648,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year ended 31 December 2016, the Group's largest customer and the five largest customers accounted for approximately 53% (2015: 29%) and 98% (2015: 89%) respectively, of the Group's total turnover.

During the year ended 31 December 2016, the Group's largest supplier and the five largest suppliers accounted for approximately 49% (2015: 21%) and 61% (2015: 55%) respectively, of the Group's total purchases.

To the knowledge of the directors of the Company, none of the directors or 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.

Report of the Directors

CONNECTED TRANSACTIONS

Taiyuan Changcheng Optics Electronics Industrial Corporation ("Taiyuan Changcheng") charged interest on certain financial assistance provided to the Company. The interest charged by Taiyuan Changcheng was agreed at amount of RMB2,090,070 for the five years ended 31 December 2012, 2013, 2014, 2015 and 2016. The total interest was accrued in the profit and loss accounts for the year ended 31 December 2016. The directors of the Company believe that the interest charged by Taiyuan Changcheng is based on normal commercial terms or better. The interest expense is exempted from connected transaction requirements.

DIRECTORS AND SUPERVISORS

The directors who held office during the year ended 31 December 2016 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 2016 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

Report of the Directors

The directors of the Company are appointed for a term of three years and are subject to re-election 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 did not reach an agreement in relating to the re-election of directors 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 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 as the director of the Company upon the end of three-year period since his last appointment. Mr. Guo Xu Zhi has not been re-elected as the director of the Company upon the end of three-year period since his last appointment. Each of 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 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 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 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 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.

Report of the Directors

DIRECTORS' AND SUPERVISORS' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURE OF THE COMPANY

As at 31 December 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:

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.

Report of the Directors

Save as disclosed above, as at 31 December 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 31 December 2016, so far as the directors of the Company 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%

Report of the Directors

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 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.

Report of the Directors

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 31 December 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 year ended 31 December 2016, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 December 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 year.

CONTRACTS OF SIGNIFICANCE

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 2016 or at any time during the year ended 31 December 2016.

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 of the Company believe that none of the directors, supervisors and 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 2016.

Report of the Directors

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 of the Company, 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 2016.

AUDITORS

The consolidated financial statements for the year ended 31 December 2016 were audited by Zhonghui Anda CPA Limited ("Zhonghui") whose term of office will expire upon the forthcoming annual general meeting. The audit committee has recommended to the board of directors of the Company that Zhonghui be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

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, 31 March 2017

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 of the GEM Listing Rules. In the opinion of the board of directors of the Company, the Company has complied with the code provisions except for (i) nine directors of the Company have not been re-elected upon the end of three-year period since their last appointment (code provisions A4.2) due to the shareholders of the Company did not reach an agreement relating to the re-election of directors; (ii) the notice of board meeting dated 6 June 2016 was less than 14 days notice (code provisions A1.3) due to the publication of the final results of the Group was delayed; (iii) the Company did not arrange for insurance cover in respect of legal action against the directors of the Company (code provisions A1.8) due to insufficient budget provided; and (iv) two independent non-executive directors and one non-executive director did not attend the annual general meeting of the Company dated 22 December 2016 (code provisions A6.7) due to other engagements.

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 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.

BOARD OF DIRECTORS

The board of directors of the Company is responsible for oversight of the management of the business and focuses on overall strategy development of the Company and its subsidiaries (together the "Group").

BOARD COMPOSITION

The board of directors of the Company 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.

Corporate Governance Report

The directors of the Company are appointed for a term of three years and are subject to re-election 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 did not reach an agreement in relating to the re-election of directors 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 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 as the director of the Company upon the end of three-year period since his last appointment. Mr. Guo Xu Zhi has not been re-elected as the director of the Company upon the end of three-year period since his last appointment. Each of 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 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 members of the board of directors of the Company have no financial, business, family or other material/relevant relationships among themselves 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 of directors of the Company remains informed and relevant. During the year ended 31 December 2016, 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	✓

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Wang Wen Sheng was elected as the chairman of the board of directors of the Company in 2013.

Following Mr. Wang resigned as the chief executive officer of the Company in August 2016, Mr. Shen Jian was appointed as the acting chief executive officer of the Company.

The chairman of the board of directors of the Company provides leadership for the board of directors of the Company and ensures that the board of directors of the Company works effectively and performs its responsibilities, and that all key and appropriate issues are discussed by it in a timely manner. 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 of directors of the Company and is accountable to the board of directors of the Company for the overall operation of the Group.

ANNUAL GENERAL MEETING

At the annual general meeting dated 22 December 2016, all the directors of the Company (except for Mr. Guo Xu Zhi, Mr. Yuan Guo Liang, Mr. Ni Guo Qiang and Mr. Li Li Cai) attended the meeting.

BOARD MEETING

The board of directors of the Company met ten times during the year ended 31 December 2016 and the attendance of the members is as follows:

Name of director	Number of attendance in person	% of attendance
Mr. Wang Wen Sheng	10/10	100%
Mr. Guo Xu Zhi	9/10	90%
Mr. Tian Qun Xu	10/10	100%
Mr. Zhang Shao Hui	10/10	100%
Mr. Yuan Guo Liang	10/10	100%
Mr. Ni Guo Qiang	10/10	100%
Mr. Li Li Cai	10/10	100%
Mr. Duan Zhong	10/10	100%
Ms. Zhang Zhi Hong	10/10	100%

BOARD COMMITTEES

The Company has set up three committees including audit committee, remuneration committee, and nomination committee, each committee with its specific terms of reference as set out in the CG Code.

Corporate Governance Report

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 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, risk management and internal control systems.

The audit committee met four times during the year ended 31 December 2016 and the attendance of the members is as follows:

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

During the year ended 31 December 2016, the audit committee discharged its duties by reviewing the financial matters, quarterly, interim and annual financial reports and financial statements. The audited financial statements for the year ended 31 December 2016 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 of 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 of directors of the Company 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.

Corporate Governance Report

(b) To review and approve the management's remuneration proposals with reference to 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 of directors of the Company 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 of directors of the Company 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 2016 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%

Corporate Governance Report

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	13
RMB120,001 – RMB300,000	1

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 of directors of the Company at least annually and make recommendations on any proposed changes to the board of directors of the Company to complement the Group's corporate strategy.

(b) To identify individuals suitably qualified to become members of the board of directors of the Company and select or make recommendations to the board of directors of the Company 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 of directors of the Company on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

The nomination committee met two times during the year ended 31 December 2016 and the attendance of the members is as follows:

Name of member	Number of attendance in person	% of attendance
Mr. Wang Wen Sheng	2/2	100%
Mr. Duan Zhong	2/2	100%
Mr. Ni Guo Qiang	1/2	50%

Corporate Governance Report

BOARD DIVERSITY POLICY

The Company recognises and embraces the benefits of having a diverse the board of directors and sees increasing diversity at the board of directors 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 2016 and where appropriate, recommends revision to the board of directors of the Company for consideration and approval.

ACCOUNTABILITY AND AUDIT

Financial reporting

The board of directors of the Company 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 2016 are set out in the section headed "Independent Auditor's Report" of this annual report.

Risk Management and Internal Control

The board of directors of the Company acknowledged its responsibility for the effectiveness of the Group's risk management and internal control systems. In light of the size and scale of the Group's businesses, the board of directors of the Company is delegated with the responsibility for overseeing the risk management and internal control systems of the Group on an ongoing basis and for reviewing its effectiveness. Therefore, the Group currently do not have an internal audit department. During the annual review of risk management and internal control systems of the Group, the board of directors of the Company identified that the Group has material uncertainty as a going concern.

Auditors' remuneration

The external auditors provide services to the Group during the year ended 31 December 2016. 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$32,000.

Auditors

The consolidated financial statements for the year ended 31 December 2016 were audited by Zhonghui Anda CPA Limited ("Zhonghui") whose term of office will expire upon the forthcoming annual general meeting. The audit committee has recommended to the board of directors of the Company that Zhonghui be re-appointed as the auditors of the Company at the forthcoming annual general meeting.

Corporate Governance Report

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 of directors of the Company does not release the notice of convening an EGM within 30 days from the date of receiving of such requisition, the Requisitionists are entitled to convene the EGM themselves within four months after the board of directors of the Company 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 of directors of the Company.

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

中汇
ZHONGHUI

TO THE SHAREHOLDERS OF SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD.
(Incorporated in the People's Republic of China with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Shanxi Changcheng Microlight Equipment Co. Ltd. and its subsidiaries (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 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

1. Amount due to a shareholder and interest expenses payable to a shareholder

We are unable to obtain sufficient evidence on the balance of the amount due to a shareholder as at 31 December 2015. No sufficient evidence has been received by us in respect of whether the interest expenses payable to that shareholder of approximately RMB2,090,000 charged to profit or loss were properly accounted for in the consolidated financial statements for the year ended 31 December 2016. However, we are satisfied that the amount due to a shareholder is fairly stated as at 31 December 2016.

2. Amount due from a shareholder

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to the recoverability of the amount due from a shareholder of approximately RMB593,000 (2015: RMB593,000) as at 31 December 2016. There are no other satisfactory audit procedures that we could adopt to determine whether any allowance for non-recovery of the amount should be made in the consolidated financial statements.

Independent Auditor's Report

3. Amount due from a former related company

Included in the current assets on the consolidated statement of financial position as at 31 December 2016 was amount due from a former related company of approximately RMB4,283,000 (2015: RMB4,283,000), which was unsecured and remained outstanding up to the date of this report. In addition, audit confirmations of such balances as at 31 December 2016 and 2015 have not been received from 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 2016 and 2015. Accordingly, we were unable to assess whether the carrying amounts of the aforesaid receivables as at 31 December 2016 and 2015 were fairly stated and whether any impairment loss should be recognised.

Any adjustments to the figures as described above might have a significant consequential effect on the Group's financial performance and cash flows for the year ended 31 December 2016 and 2015 and the financial position of the Group as at 31 December 2016 and 2015, and the related disclosures thereof in the consolidated financial statements.

4. Material uncertainty relating to the going concern basis

As disclosed in note 2 to the consolidated financial statements, the Group incurred a loss of approximately RMB33,602,000 during the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB58,771,000. In addition, the Group had an outstanding bank loan amounting to RMB13,920,000 which is repayable on demand and an amount due to a shareholder amounting to approximately RMB16,490,000 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.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the 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 (the "HKICPA") 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. However, because of the matters described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants

Wan Ho Yuen
Audit Engagement Director
Practising Certificate Number P04309

Hong Kong, 31 March 2017

Consolidated Statement of Profit or Loss and other Comprehensive Income

For the year ended 31 December 2016

	Notes	**2016** **RMB'000**	2015 RMB'000
REVENUE	8	**18,731**	43,282
Cost of sales		**(14,243)**	(35,339)
Gross profit		**4,488**	7,943
Other income, gains and losses	9	**2,841**	3,441
Selling and distribution costs		**(1,643)**	(3,794)
Administrative expenses		**(13,158)**	(12,026)
Other operating expenses		**(22,665)**	(8,975)
Share of loss of an associate		**(307)**	(163)
Finance costs	10	**(3,158)**	(1,323)
LOSS BEFORE TAX	11	**(33,602)**	(14,897)
Income tax expense	13	**–**	–
LOSS AND OTHER COMPREHENSIVE LOSS FOR THE YEAR		**(33,602)**	(14,897)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(33,596)**	(14,855)
Non-controlling interests		**(6)**	(42)
		(33,602)	(14,897)
LOSS PER SHARE (RMB)	14		
– Basic and diluted		**(0.109)**	(0.048)

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**77,522**	82,161
Land use right	17	**11,120**	11,413
Interests in associates	19	**246**	537
		88,888	94,111
CURRENT ASSETS			
Inventories	20	**17,224**	24,161
Trade and notes receivables	21	**11,946**	14,537
Prepayments, deposits and other receivables		**425**	1,597
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	**373**	542
		34,844	45,713
CURRENT LIABILITIES			
Trade payables	25	**12,283**	10,647
Accruals and other payables	26	**50,922**	36,108
Amount due to a shareholder	27	**16,490**	14,400
Bank borrowing	28	**13,920**	14,000
		93,615	75,155
NET CURRENT LIABILITIES		**(58,771)**	(29,442)
TOTAL ASSETS LESS CURRENT LIABILITIES		**30,117**	64,669

Consolidated Statement of Financial Position

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES			
Deferred government grants	29	**11,193**	12,143
NET ASSETS		**18,924**	52,526
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**30,886**	30,886
Reserves	31	**(11,978)**	21,618
		18,908	52,504
Non-controlling interests		**16**	22
TOTAL EQUITY		**18,924**	52,526

The consolidated financial statements on pages 32 to 81 were approved and authorised for issue by the board of directors on 31 March 2017 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 2016

	Attributable to owners of the Company						
	Issued capital RMB'000	Capital surplus* RMB'000	Statutory surplus reserve* RMB'000	Retained earnings/ (accumulated losses)* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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
At 1 January 2016	**30,886**	**18,561**	**11,853**	**(8,796)**	**52,504**	**22**	**52,526**
Total comprehensive loss for the year	**-**	**-**	**-**	**(33,596)**	**(33,596)**	**(6)**	**(33,602)**
At 31 December 2016	**30,886**	**18,561**	**11,853**	**(42,392)**	**18,908**	**16**	**18,924**

* 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 2016

	2016	2015
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(33,602)**	(14,897)
Adjustments for:		
Interest expense	**3,158**	1,323
Depreciation	**4,893**	5,051
Amortisation of land use right	**293**	293
Amortisation of deferred government grants	**(2,478)**	(1,055)
Interest income	**(3)**	(2)
Impairment of inventories	**19,735**	6,727
Impairment/(reversal of impairment) of trade and notes receivables	**1,606**	(803)
Reversal of impairment of other receivables	**–**	(865)
Impairment of investment in associates	**333**	152
Share of loss of an associate	**307**	163
Operating cash flows before working capital changes	**(5,758)**	(3,913)
Change in inventories	**(12,798)**	(8,349)
Change in trade and notes receivables	**985**	2,262
Change in prepayments, deposits and other receivables	**1,172**	1,347
Change in trade payables	**1,636**	2,248
Change in accruals and other payables	**14,814**	11,721
Net cash flows generated from operating activities	**51**	5,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(254)**	(2,839)
Government grants received	**1,528**	5
Interest received	**3**	2
Advance to an associate	**(349)**	(152)
Investment in an associate	**–**	(700)
Net cash flows generated from/(used in) investing activities	**928**	(3,684)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bank and other borrowing	–	14,000
Repayment of bank and other borrowing	(80)	(15,000)
Interest paid	(1,068)	(1,323)
Net cash flows used in financing activities	(1,148)	(2,323)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(169)	(691)
Cash and cash equivalents at beginning of year	542	1,233
Cash and cash equivalents at end of year	373	542
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	373	542

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 subsidiaries (collectively the "Group") included design, research, development, manufacture and sale of image transmission fibre optic products. The principal activities of its subsidiaries 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 RMB33,602,000 during the year ended 31 December 2016 and, as of that date, the Group's current liabilities exceeded its current assets by approximately RMB58,771,000. In addition, the Group had an outstanding bank loan amounting to RMB13,920,000 which is repayable on demand and an amount due to a shareholder amounting to approximately RMB16,490,000 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 2016. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Consolidation (Continued)

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

The gain or loss on the disposal of a subsidiaries 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 subsidiaries and (ii) the Company's share of the net assets of that subsidiaries plus any remaining goodwill relating to that subsidiaries 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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Associates (Continued)

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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Revenue recognition (Continued)

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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, subsidiaries and fellow subsidiaries 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Critical judgement in applying accounting policies

In the process of applying the accounting policies, the Directors have made the following judgement that has the most significant effect on the amounts recognized in the consolidated financial statements apart from those involving estimations, which are dealt with below.

(a) Going concern basis

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the favourable outcomes of the steps being taken by the Directors as described in notes 2 to the consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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, depreciation and impairment

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.

Property, plant and equipment are evaluated for possible impairment on a specific asset basis or in groups of similar assets, as applicable. This process requires management's estimate of the fair value with reference to valuation reports of each asset or group of assets less cost of disposal. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated statement of profit or loss and comprehensive income.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Key sources of estimation uncertainty (Continued)

(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.

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 2015 and 2016.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. CAPITAL RISK MANAGEMENT (Continued)

Management regards total equity as capital, for capital management purpose. The amount of capital as at 31 December 2016 amounted to approximately RMB18,908,000 (2015: RMB52,504,000), which the management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

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:

	2016	2015
	RMB'000	RMB'000
Trade payables	**12,283**	10,647
Accruals and other payables	**50,922**	36,108
Amount due to a shareholder	**16,490**	14,400
Bank borrowing	**13,920**	14,000
Less: Cash and cash equivalents	**(373)**	(542)
Net debt	**93,242**	74,613
Equity attributable to owners of the Company	**18,908**	52,504
Capital and net debt	**112,150**	127,117
Gearing ratio	**83%**	59%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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 has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currencies of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(b) Interest rate risk

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group does not consider that it has any significant exposure to the risk of changes in market interest rates from its bank borrowing as a reasonably possible change of 100 basis points in the interest rates would have no material impact on the Group's consolidated profit or loss for the years ended 31 December 2016 and 2015.

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

At 31 December 2016, the Group has a certain concentration of credit risk of approximately RMB3,023,000 (2015: RMB4,888,000) and RMB8,852,000 (2015: RMB10,104,000) out of total trade receivables of approximately RMB11,946,000 (2015: RMB14,537,000)as at 31 December 2016, which was arising from the Group's largest debtor and the three (2015: three) largest debtors respectively.

(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:

2016	**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	**10,754**	**1,529**	**–**	**12,283**	**12,283**
Accruals and other payables	**40,204**	**10,718**	**–**	**50,922**	**50,922**
Amount due to a shareholder	**16,490**	**–**	**–**	**16,490**	**16,490**
Bank borrowing	**13,920**	**–**	**–**	**13,920**	**13,920**
	81,368	**12,247**	**–**	**93,615**	**93,615**

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	27,397	8,711	–	36,108	36,108
Amount due to a shareholder	14,400	–	–	14,400	14,400
Bank borrowing	–	14,837	–	14,837	14,000
	48,186	27,806	–	75,992	75,155

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Categories of financial instruments

	At 31 December	
	2016	2015
	RMB'000	RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)		
– Trade and notes receivables	**11,946**	14,537
– Financial assets included in prepayments, deposits and other receivables	**219**	1,131
– Amount due from an associate	**246**	226
– Amount due from a shareholder	**593**	593
– Amount due from a former related company	**4,283**	4,283
– Cash and cash equivalents	**373**	542
	17,660	21,312
Financial liabilities:		
Financial liabilities at amortised cost		
– Trade payables	**12,283**	10,647
– Financial liabilities included in accruals and other payables	**45,331**	36,108
– Amount due to a shareholder	**16,490**	14,400
– Bank borrowing	**13,920**	14,000
	88,024	75,155

(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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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, 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:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Fiber optic inverters (Note)	**(1,129)**	**-6**	21,009	49
Fiber optic straight plates	**6,361**	**34**	8,253	19
Fiber optic face plates	**504**	**3**	1,031	2
Fiber optic tapers	**403**	**2**	2,706	6
Microchannel plates	**11,719**	**63**	10,211	24
Water purifier	**281**	**2**	2	0
Fiber rods	**–**	**0**	70	0
Others	**592**	**2**	–	0
	18,731	**100**	43,282	100

Note:

Sale return of fiber optic inverters from Europe customers during the year ended 31 December 2016 was amounting to approximately RMB3,767,000. As the sales of fiber optic inverters were smaller than its sale return during the reporting period, therefore the net sales was reported as a negative figure.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

8. REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

Entity-wide disclosures *(Continued)*

(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:

	2016	2015
	RMB'000	RMB'000
The PRC	**7,953**	7,718
Hong Kong	**10,994**	13,949
Europe (Note)	**(949)**	10,581
Russia	**733**	11,034
	18,731	43,282

Note:

Sale return of fiber optic inverters from Europe customers during the year ended 31 December 2016 was amounting to approximately RMB3,767,000. As the sales of fiber optic inverters were smaller than its sale return during the reporting period, therefore the net sales was reported as a negative figure.

(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:

	2016	2015
	RMB'000	RMB'000
Customer A	**9,855**	9,044
Customer B	**4,268**	11,007
Customer C	**2,208**	12,536
Customer D	**–**	4,454

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For the year ended 31 December 2016

9. OTHER INCOME, GAINS AND LOSSES

	2016 RMB'000	2015 RMB'000
Amortisation of deferred government grants	**2,478**	1,055
Bank interest income	**3**	2
Rental income	**26**	78
Reversal of impairment of other receivables	**–**	865
Reversal of impairment of trade and notes receivables	**–**	803
Foreign exchange gain	**329**	618
Others	**5**	20
	2,841	3,441

10. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on bank loan	**1,068**	1,323
Interest on amount due to a shareholder	**2,090**	–
	3,158	1,323

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

11. LOSS BEFORE TAX

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

	2016	2015
	RMB'000	RMB'000
Auditors' remuneration	**450**	419
Cost of inventories sold	**14,243**	35,339
Staff costs (including directors' remuneration):		
Wages and salaries	**15,032**	14,951
Pension scheme contributions	**8,719**	8,648
	23,751	23,599
Depreciation of items of property, plant and equipment	**4,893**	5,051
Amortisation of land use right	**293**	293
Net foreign exchange gain	**(329)**	(618)
Share of loss of an associate	**307**	–
Research and development costs	**971**	1,970
Impairment of investments in associates	**333**	152
Impairment of inventories	**19,735**	6,727
Impairment/(reversal of impairment) of trade receivables	**1,606**	(803)
Reversal of impairment of other receivables	**–**	(865)

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:

	2016	2015
	RMB'000	RMB'000
Fees	**338**	338
Other emoluments		
Salaries, allowances and benefits in kind	**183**	267
Pension scheme contributions	**44**	29
	565	634

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

(a) Directors' and chief executive's emoluments (Continued)

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

	For the year ended 31 December 2016			
	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	143	29	220
Tian Qun Xu	26	40	–	66
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	183	29	550

Notes to the Consolidated Financial Statements

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

(a) Directors' and chief executive's emoluments (Continued)

	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
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

Independent non-executive directors

The chief executive, 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:

	2016 **RMB'000**	2015 RMB'000
Fees	**–**	–
Other emoluments		
Salaries, allowances and benefits in kind	**79**	92
Pension scheme contributions	**13**	18
	92	110

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

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

	For the year ended 31 December 2016			
	Fees RMB'000	**Salaries, allowances and other benefits RMB'000**	**Pension scheme contributions RMB'000**	**Total emoluments RMB'000**
Han Xiao Ou	**–**	**66**	**13**	**79**
Lv Jun Li	**–**	**3**	**–**	**3**
Sun Wei	**–**	**5**	**–**	**5**
Xiang Hui	**–**	**5**	**–**	**5**
	–	**79**	**13**	**92**

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

	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

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.

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

(c) FIVE HIGHEST PAID INDIVIDUAL EMOLUMENTS

One (2015: 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 2016, the remaining four (2015: three) employees' emoluments of the Company were as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**273**	185
Pension scheme contributions	**55**	37
	328	222

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	
	2016	2015
Nil – HK$1,000,000	**4**	3
	4	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.

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13. INCOME TAX EXPENSE

	2016	2015
	RMB'000	RMB'000
Current PRC Enterprise income tax		
– Charge for the year	**–**	–
Deferred tax	**–**	–
Total tax charge for the year	**–**	–

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for the year ended 31 December 2016 (2015: RMB Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

According to the applicable Enterprise Income Tax Law of the PRC, the Company, which operates in the Taiyuan Economic and Technology Development Zone (太原經濟技術開發區), the PRC, and which is registered as a New and High Technical Enterprise (高新技術企業), is entitled to a concessionary Enterprise Income Tax rate of 15% over 3 years, beginning on 15 October 2015. For the year ended 31 December 2016, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2015: 15%).

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

	2016	2015
	RMB'000	RMB'000
Loss before tax	**(33,602)**	(14,897)
Tax calculated at the domestic tax rate of 15% (2015: 15%)	**(5,040)**	(2,235)
Tax effect of revenue not taxable for tax purposes	**(49)**	(250)
Tax effect of expenses not deductible for tax purposes	**3,251**	1,077
Tax effect of tax losses not recognised	**1,838**	1,408
Income tax expenses	**–**	–

As at 31 December 2016, the Group has estimated unused tax losses of approximately RMB16,205,000 (2015: RMB14,474,000) 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 RMB16,205,300 at 31 December 2016 (2015: 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.

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14. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB33,596,000 (2015: RMB14,855,000) and 308,860,000 (2015: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2015 and 2016.

15. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2016 and 2015.

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 2016							
COST:							
At 1 January 2016	66,314	34	45,103	1,806	408	16,071	129,736
Additions	-	-	232	-	-	22	254
At 31 December 2016	66,314	34	45,335	1,806	408	16,093	129,990
ACCUMULATED DEPRECIATION:							
At 1 January 2016	18,405	17	26,966	1,791	396	-	47,575
Provided during the year	1,292	3	3,571	15	12	-	4,893
At 31 December 2016	19,697	20	30,537	1,806	408	-	52,468
CARRYING AMOUNT:							
At 31 December 2016	46,617	14	14,798	-	-	16,093	77,522

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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 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

As at 31 December 2016, certain plant and machinery at carrying amount of approximately RMB846,000 (2015: RMB1,154,000) has been pledged to a bank to secure bank loan to the Group (note 28).

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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:

	2016	2015
	RMB'000	RMB'000
COST:		
At 1 January	**14,634**	14,634
At 31 December	**14,634**	14,634
ACCUMULATED AMORTISATION		
At 1 January	**3,221**	2,928
Amortisation for the year	**293**	293
At 31 December	**3,514**	3,221
CARRYING AMOUNT:		
At 31 December	**11,120**	11,413

As at 31 December 2015 and 2016, 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 the bank loan granted to the Group (note 28).

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18. SUBSIDIARIES

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

Company name	Place of incorporation/ registration	Fully paid share capital/ registered 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
Taiyuan Changcheng Weiguang Weitong Electronics Company Limited* ("Changcheng Weitong")	PRC	RMB15,000,000^	100%	Design, research, development, manufacture and sales of optoelectronic and chemical glass products
Taiyuan Changcheng Feibo Optoelectronic Technology Company Limited* ("Changcheng Feibo")	PRC	RMB20,000,000^	100%	Design, research development, manufacture and sales of fiber optics products 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 2015 and 2016.

^ Changcheng Weitong and Changcheng Feibo were established in the PRC with limited liability on 21 June 2016. The registered capital of Changcheng Weitong and Changcheng Feibo is RMB15,000,000 and RMB20,000,000 respectively of which none has been paid by the Group as at 31 December 2016. Chungcheng Weitong and Changcheng Feibo have not yet started operation for the year ended 31 December 2016.

The Group had no subsidiary which has material non-controlling interests for the year ended 31 December 2016 and 2015.

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19. INTERESTS IN ASSOCIATES

	2016 **RMB'000**	2015 RMB'000
Unlisted investments in PRC		
Share of net assets	**2,808**	3,115
Due from associates	**575**	226
	3,383	3,341
Impairment of investments in associates	**(3,137)**	(2,804)
	246	537

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

Company name	**Place of incorporation/ registration**	**Fully paid share capital/ registered 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

\# The registered capital is RMB2,000,000 of which RMB1,720,000 (2015: RMBNil) has been paid as at 31 December 2016.

The amounts due from associates are unsecured, interest-free and not repayable within one year.

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19. INTERESTS IN ASSOCIATES (Continued)

As at 31 December 2016, the Group recognised impairment losses of approximately RMB3,137,000 (2015: RMB2,804,000) in respect of the interest in the associates mainly due to uncertainties surrounding the industry in which the associate operates.

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

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.

	2016	2015
	RMB'000	RMB'000
At 31 December		
Carrying amounts of interests	**246**	537
Year ended 31 December		
Loss from continuing operations	**307**	376
Other comprehensive loss	**–**	–
Total comprehensive loss	**307**	376

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 2016, the cumulatively unrecognised share of losses of the associate is approximately RMB1,714,000 (2015: RMB1,595,000).

20. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	**1,199**	1,318
Work in progress	**11,561**	9,403
Finished goods	**4,464**	13,440
	17,224	24,161

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For the year ended 31 December 2016

21. TRADE AND NOTES RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**13,888**	15,413
Notes receivables	**540**	–
Less: impairment of trade receivables	**(2,482)**	(876)
	11,946	14,537

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:

	2016 RMB'000	2015 RMB'000
Within 90 days	**6,852**	7,579
91 days to 180 days	**2,900**	6,052
181 days to 1 year	**1,654**	906
	11,406	14,537

The trading terms with customers are largely on credit. The credit period is generally 90 days (2015: 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:

	2016 RMB'000	2015 RMB'000
At 1 January	**876**	1,679
Impairment losses recognised	**1,606**	–
Reversal of impairment losses recognised	**–**	(803)
At 31 December	**2,482**	876

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21. TRADE AND NOTES RECEIVABLES (Continued)

Included in the above impairment of trade receivables is a provision for individually impaired trade receivables of approximately RMB2,482,000 (2015: RMB876,000). 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:

	2016 **RMB'000**	2015 RMB'000
Neither past due nor impaired	**6,852**	7,579
Less than 9 months past due	**4,554**	6,958
	11,406	14,537

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 amount outstanding during the year** **RMB'000**	**2016** **RMB'000**	2015 RMB'000
Taiyuan Tanghai Automatic Control Company Limited ("Taiyuan Tanghai")	**593**	**593**	593

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

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For the year ended 31 December 2016

23. AMOUNT DUE FROM A FORMER RELATED COMPANY

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

Name	Maximum amount outstanding during the year RMB'000	2016 RMB'000	2015 RMB'000
Shanxi Jindi Yucheng Medical Equipments Company Limited ("Shanxi Jindi")	**4,283**	**4,283**	4,283

Shanxi Jindi (formerly known as 太原華美醫療設備有限公司 (transliterated as "Taiyuan Huamei Medical Equipments Company Limited")) is a former 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

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**373**	542

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.

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25. TRADE PAYABLES

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

	2016	2015
	RMB'000	RMB'000
0–90 days	**1,529**	4,258
91–180 days	**613**	2,210
181–365 days	**3,119**	2,189
Over 365 days	**7,022**	1,990
	12,283	10,647

26. ACCRUALS AND OTHER PAYABLES

	2016	2015
	RMB'000	RMB'000
Accrued salaries and other payables	**40,204**	27,397
Accrued expenses	**2,691**	4,135
Receipt in advance	**5,591**	4,354
Others	**2,436**	222
	50,922	36,108

27. AMOUNT DUE TO A SHAREHOLDER

The advance is unsecured, interest-bearing and repayable on demand. However, the interest rate from 1 January 2017 onwards is still subject to agreement between the Group and the shareholder.

28. BANK BORROWING

	2016		2015	
	Maturity	**RMB'000**	Maturity	RMB'000
Bank loan (Note)	**2016**	**13,920**	2015	14,000
		13,920		14,000

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28. BANK BORROWING (Continued)

Note:

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) (2015: land use right and plant and machinery). As at 31 December 2016, 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% (2015: 150%). During the year, the actual interest rate was charged in a range of 6.52% to 7.35% p.a. (2015: 6.53% to 9.46% p.a.).

29. DEFERRED GOVERNMENT GRANTS

	2016	2015
	RMB'000	RMB'000
COST:		
At 1 January	**23,505**	23,500
Additions	**1,528**	5
At 31 December	**25,033**	23,505
ACCUMULATED AMORTISATION		
At 1 January	**11,362**	10,307
Amortisation for the year	**2,478**	1,055
At 31 December	**13,840**	11,362
CARRYING AMOUNT:		
At 31 December	**11,193**	12,143

30. SHARE CAPITAL

	2016	2015
	RMB'000	RMB'000
Authorised, issued and fully paid:		
198,860,000 (2015: 198,860,000) domestic shares of RMB0.10 each	**19,886**	19,886
110,000,000 (2015: 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.

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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.

Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2016 are as follows:

	Capital surplus RMB'000	Statutory surplus reserve RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At 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 and 1 January 2016	18,561	11,853	(8,774)	21,640
Total comprehensive loss for the year	–	–	(33,587)	(33,587)
At 31 December 2016	18,561	11,853	(42,361)	(11,947)

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32. CAPITAL COMMITMENTS

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

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for		
– Buildings	**7,134**	7,516
Contracted contribution to subsidiaries (Note 18)	**35,000**	–
Contracted contribution to associates (Note 19)	**280**	–
	42,414	7,156

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 RMB26,000 (2015: RMB78,000) were credited to the profit or loss for the year included under other income and gains.

(c) Sales income received from an associate of approximately RMB592,000 (2015: RMBNil) were credited to the profit or loss for the year included under turnover.

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

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**77,520**	82,158
Land use right	**11,120**	11,413
Investments in a subsidiary	**–**	69
Interests in associates	**246**	537
	88,886	94,177
CURRENT ASSETS		
Inventories	**17,187**	24,158
Trade and notes receivables	**11,937**	14,537
Prepayments, deposits and other receivables	**403**	1,514
Amount due from a shareholder	**593**	593
Amount due from a former related company	**4,283**	4,283
Cash and cash equivalents	**275**	542
	34,678	45,627
CURRENT LIABILITIES		
Trade payables	**12,253**	10,647
Accruals and other payables	**48,931**	36,088
Amount due to a shareholder	**16,490**	14,400
Amount due to a subsidiary	**1,838**	–
Bank borrowing	**13,920**	14,000
	93,432	75,135
NET CURRENT LIABILITIES	**(58,754)**	(29,508)
TOTAL ASSETS LESS CURRENT LIABILITIES	**30,132**	64,669

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For the year ended 31 December 2016

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

	2016 RMB'000	2015 RMB'000
NON-CURRENT LIABILITIES		
Deferred government grants	**11,193**	12,143
NET ASSETS	**18,939**	52,526
EQUITY		
Share capital	**30,886**	30,886
Reserves	**(11,947)**	21,640
TOTAL EQUITY	**18,939**	52,526

35. APPROVAL OF FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 31 March 2017.

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 2016.

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue	**18,731**	43,282	51,466	62,758	48,113
Operating loss	**(30,444)**	(13,574)	(9,497)	(1,163)	(25,499)
Finance costs	**(3,158)**	(1,323)	(1,835)	(1,067)	(907)
Loss before tax	**(33,602)**	(14,897)	(11,332)	(2,230)	(26,406)
Income tax	**–**	–	–	–	–
Loss for the year	**(33,602)**	(14,897)	(11,332)	(2,230)	(26,406)
Attributable to:					
Owners of the Company	**(33,596)**	(14,855)	(11,306)	(2,230)	(26,406)
Non-controlling interests	**(6)**	(42)	(26)	–	–
	(33,602)	(14,897)	(11,332)	(2,230)	(26,406)

	At 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**123,732**	139,824	142,802	159,010	143,905
Total liabilities	**(104,808)**	(87,298)	(75,379)	(80,345)	(63,010)
Non-controlling interests	**(16)**	(22)	(64)	–	–
Total equity attributable to owners of the Company	**18,908**	52,504	67,359	78,665	80,895