



Shanxi Changcheng Microlight Equipment Co. Ltd. *

山西長城微光器材股份有限公司

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

Third Quarterly Report

2017

* For identification only

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

FINANCIAL RESULTS

The board of directors (the “**Board**”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “**Company**”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months and nine months ended 30 September 2017, together with the comparative figures for the corresponding period in 2016, as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months and nine months ended 30 September 2017

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2017 RMB'000	2016 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	2	5,042	4,923	13,203	12,876
Cost of sales		(3,867)	(3,995)	(9,965)	(10,617)
Gross profit		1,175	928	3,238	2,259
Other income, gains and losses		234	347	747	1,015
Selling and distribution costs		(294)	(444)	(662)	(1,151)
Administrative and other operating expenses		(5,287)	(3,152)	(15,609)	(8,567)
Finance costs		(797)	(383)	(2,239)	(2,750)
Share of loss of an associate		(41)	(84)	(111)	(211)
Loss before tax		(5,010)	(2,788)	(14,636)	(9,405)
Income tax	3	-	-	-	-
Loss and other comprehensive loss for the period		(5,010)	(2,788)	(14,636)	(9,405)
Loss and total comprehensive loss for the period attributable to:					
Owners of the Company		(5,010)	(2,788)	(14,636)	(9,400)
Non-controlling interests		-	-	-	(5)
		(5,010)	(2,788)	(14,636)	(9,405)
Loss per share (RMB)					
- Basic and diluted	4	(0.016)	(0.009)	(0.047)	(0.030)

NOTES TO THE ACCOUNTS

1. BASIS OF PREPARATION

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

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

2. REVENUE

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

3. INCOME TAX

	For the three months ended 30 September		For the nine months ended 30 September	
	2017	2016	2017	2016
	RMB'000	<i>RMB'000</i>	RMB'000	<i>RMB'000</i>
Current PRC Enterprise income tax				
– Charge for the period	-	-	-	-
Deferred tax	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total tax charge for the period	<hr/>	<hr/>	<hr/>	<hr/>

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for the three months and nine months ended 30 September 2017 (for the three months and nine months ended 30 September 2016: RMBNil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

4. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company for the three months and nine months ended 30 September 2017 of approximately RMB5,010,000 and RMB14,636,000 respectively (for the three months and nine months ended 30 September 2016: RMB2,788,000 and RMB9,400,000 respectively) and 308,860,000 (2016: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the nine months ended 30 September 2016 and 2017.

5. DIVIDEND

The board of directors of the Company does not recommend the payment of a dividend for the nine months ended 30 September 2016 and 2017.

6. RESERVE

	Attributable to owners of the Company				Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus	Statutory surplus reserves	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2016	30,886	18,561	11,853	(8,796)	52,504	22	52,526
Total comprehensive loss for the period	-	-	-	(9,400)	(9,400)	(5)	(9,405)
At 30 September 2016	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>(18,196)</u>	<u>43,104</u>	<u>17</u>	<u>43,121</u>
At 1 January 2017	30,886	18,561	11,853	(42,392)	18,908	16	18,924
Total comprehensive loss for the period	-	-	-	(14,636)	(14,636)	-	(14,636)
At 30 September 2017	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>(57,028)</u>	<u>4,272</u>	<u>16</u>	<u>4,288</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Company continued to be principally engaged in design, research, development, manufacture, and sale of image transmission optic products. A subsidiary of the Company continued to be engaged in wholesale of household water purifiers. The newly registered two subsidiaries in the year of 2016 have not commencement of business.

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

Details of the total sales to external customers by product and the percentage of total revenue by product for the nine months ended 30 September 2016 and 2017 are set out below:

	For the nine months ended 30 September			
	2017		2016	
	RMB'000	%	RMB'000	%
Fiber optic inverters (<i>note</i>)	831	6	(928)	(7)
Fiber optic straight plates	2,854	22	5,007	39
Fiber optic face plates	401	3	379	3
Fiber optic tapers	1,093	8	152	1
Microchannel plates	6,500	49	7,447	58
Others	1,524	12	819	6
	<u>13,203</u>	<u>100</u>	<u>12,876</u>	<u>100</u>

Note: Sale return of fiber optic inverters during the nine months ended 30 September 2016 was amounting to approximately RMB2,938,000. As the sales of fiber optic inverters were smaller than its sale return during the reporting period, therefore the net sales was reported as a negative figure.

Financial Review

Turnover of the Group for the nine months ended 30 September 2017 was approximately RMB13,203,000 (for the nine months ended 30 September 2016: RMB12,876,000), representing an increase of approximately 3% as compared to that of the previous financial period.

Cost of sales of the Group for the nine months ended 30 September 2017 was approximately RMB9,965,000 (for the nine months ended 30 September 2016: RMB10,617,000), representing a decrease of approximately 6% as compared to that of the previous financial period.

As customers' requirement on the product quality has been increasing and there were sales return from time to time in recent years, the Group assesses the value of inventories at the end each reporting period. The Group assessed the value of inventories as at 30 September 2017 and made impairment amounting to RMBNil (for the year ended 31 December 2016: RMB19,735,000). The impairment of approximately RMB19,735,000 includes those (i) finished goods with aging are over one year and they are considered slow-moving items; (ii) finished goods returned by customers due to failed quality and they are no longer to be used for reproduction; and (iii) work in progress with aging are over one year and they are produced for specific type of products with no alternative usage. In addition, the Group has implemented measures to improve its production process in order to enhancing the quality of its products and meeting customers' requirement on the product quality during the nine months ended 30 September 2017.

Administrative and other operating expenses of the Group for the nine months ended 30 September 2017 was approximately RMB15,609,000 (for the nine months ended 30 September 2016: RMB8,567,000), representing an increase of approximately RMB7,042,000 as compared to that of the previous financial period. As the Group reduced production scale during the nine months ended 30 September 2017, certain amount of labor costs (including pension scheme contributions and welfare expenses) are charged to the profit and loss as administrative expenses instead of the cost of inventory as manufacturing costs. Hence, the labor and staff costs included in the administrative expenses during the nine months ended 30 September 2017 increased by approximately RMB7,525,000 as compared to that of the previous financial period.

The Group reported finance costs amounting to approximately RMB2,239,000 for the nine months ended 30 September 2017 (for the nine months ended 30 September 2016: RMB2,750,000), representing a decrease of approximately RMB511,000 as compared to that of the previous financial period. The decrease in finance costs was mainly due to approximately RMB1,659,000 interest on the amount due to a shareholder related to previous years was charged in the previous financial period. The finance costs for the nine months ended 30 September 2017 comprises interest on bank loan RMB1,021,815; interest on the amount due to shareholders RMB401,807; interest on other loans RMB768,993; and interest on discounted bills RMB46,102.

The loss after tax for the nine months ended 30 September 2017 of the Group was approximately RMB14,636,000 (for the nine months ended 30 September 2016: RMB9,405,000).

Going Concern

As at 30 September 2017, the Group's current liabilities exceeded its current assets. In addition, as at 30 September 2017, the Group had a bank loan amounting to RMB13,920,000; other loan amounting to RMB11,124,000; amount due to shareholders amounting to RMB18,441,877, and amount due to a connected person RMB500,000. 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;
- reduce production scale in line with sale results;
- 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 from Taiyuan Changcheng, Beijing Gensir, and Connected Person, and Connected Transactions

The Group obtained financial assistance from Taiyuan Changcheng Optics Electronics Industrial Corporation ("**Taiyuan Changcheng**") since the late of 2011. As at 31 December 2011, 2012, 2013, 2014, 2015, 2016, and 30 September 2017, the amount due to Taiyuan Changcheng was RMB500,000, RMB12,400,000, RMB14,400,000, RMB14,400,000, RMB14,400,000, RMB16,490,070 (including interest portion RMB2,090,070), and RMB18,190,971 (including interest portion RMB2,490,971) respectively.

The Group obtained financial assistance from Beijing Gensir Venture Capital Management Limited ("**Beijing Gensir**") during the nine months ended 30 September 2017. As at 30 September 2017, the amount due to Beijing Gensir was RMB250,906 (including interest portion RMB906).

The Group obtained financial assistance from a connected person during the nine months ended 30 September 2017. As at 30 September 2017, the amount due to a connected person was amounting to RMB500,000.

For the nine months ended 30 September 2017, total interest charged by Taiyuan Changcheng and Beijing Gensir was RMB400,901 and RMB906 respectively. The directors of the Company believe that the interest charged by Taiyuan Changcheng and Beijing Gensir are based on normal commercial terms or better. The financial assistance and interest expense are exempted from connected transaction requirements.

Bank Loan and Other Loan

As at 30 September 2017, the Group 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 Group's land located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC and certain plant and machinery at carrying amount of approximately RMB615,000.

As at 30 September 2017, the Group had outstanding other loan amounting to RMB11,124,000 which is repayable on 31 December 2017. The other loan was mainly used in purchase of production raw materials and payment of labor costs.

Financial Assistance to Related Parties

As at 30 September 2017, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (as at 31 December 2016: 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 (as at 31 December 2016: RMB4,283,000).

OTHER INFORMATION

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

As at 30 September 2017, the directors or supervisors of the Company who had interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in the shares and underlying shares of the Company

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Zhang Shao Hui	Interest in a controlled corporation	82,200,000 domestic shares (Notes 1 and 2)	41.34%	–	26.61%
Yuan Guo Liang	Personal Interest and family Interest	3,895,000 H shares (Note 3)	–	3.54%	1.26%

* Shareholding percentages have been rounded to the nearest two decimal places.

Notes:

1. Part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir Venture Capital Management Limited ("**Beijing Gensir**"). Beijing Gensir is owned as to 100% by Zhang Shao Hui. As Zhang Shao Hui is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Beijing Gensir, for the purpose of the SFO, Zhang Shao Hui is deemed to be interested in the entire 57,300,000 domestic shares held by Beijing Gensir.
2. Part of these domestic shares (24,900,000 domestic shares) is registered in the name of Taiyuan Tanghai Automatic Control Company Limited ("**Taiyuan Tanghai**"). Taiyuan Tanghai is owned as to approximately 36.37% by Beijing Gensir. As Beijing Gensir is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the propose of the SFO, Zhang Shao Hui is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.
3. 3,645,000 H shares are registered in the name of Yuan Guo Liang and 250,000 H shares are registered in the name of his spouse.

Save as disclosed above, as at 30 September 2017, none of the directors or supervisors of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 30 September 2017, so far as the directors of the Company are aware, persons other than directors or supervisors of the Company who had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO, were as follows:

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares/H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Domestic Shares:					
Beijing Gensir Venture Capital Management Limited	Registered and beneficial owner of the domestic shares and interest in a controlled corporation	82,200,000 domestic shares (Note 1)	41.34%	–	26.61%
Taiyuan Changcheng Optics Electronics Industrial Corporation	Registered and beneficial owner of the domestic shares	80,160,000 domestic shares	40.31%	–	25.95%
Liaoning Shuguang Industrial Group Company Limited	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	17.10%	–	11.01%
Li Jin Dian	Interest in a controlled corporation	34,000,000 domestic shares (Note 2)	17.10%	–	11.01%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 2)	17.10%	–	11.01%
Taiyuan Tanghai Automatic Control Company Limited	Registered and beneficial owner of the domestic shares	24,900,000 domestic shares	12.52%	–	8.06%
Liu Jiang	Interest in a controlled corporation	24,900,000 domestic shares (Note 3)	12.52%	–	8.06%
Qiu Gui Qin	Family interest	24,900,000 domestic shares (Note 3)	12.52%	–	8.06%
H Shares:					
Kwong Tat Finance Limited	Registered and beneficial owner of H shares	33,975,000 H shares (Note 4)	–	30.89%	11.00%
Cai Zheng	Interest in a controlled corporation	33,975,000 H shares (Note 4)	–	30.89%	11.00%

* Shareholding percentages have been rounded to the nearest two decimal places.

Notes:

1. Part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir Venture Capital Management Limited ("**Beijing Gensir**"). Beijing Gensir is owned as to 100% by Zhang Shao Hui. The rest of these domestic shares (24,900,000 domestic shares) are registered in the name of Taiyuan Tanghai Automatic Control Company Limited ("**Taiyuan Tanghai**"). Taiyuan Tanghai is owned as to approximately 36.37% by Beijing Gensir. As Beijing Gensir is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the purpose of the SFO, Beijing Gensir is deemed to be interested in the entire 57,300,000 domestic shares held by Beijing Gensir and 24,900,000 domestic shares held by Taiyuan Tanghai.
2. These 34,000,000 domestic shares are registered in the name of Liaoning Shuguang Industrial Group Company Limited ("**Liaoning Shuguang**"). Liaoning Shuguang is owned as to approximately 48.11% by Li Jin Dian. As Li Jin Dian is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Liaoning Shuguang, for the purpose of the SFO, Li Jin Dian is deemed to be interested in the entire 34,000,000 domestic shares held by Liaoning Shuguang. Liu Gui Ying, as the spouse of Li Jin Dian, is taken to be interested in the shares held by Li Jin Dian by virtue of Part XV of the SFO.
3. These 24,900,000 domestic shares are registered in the name of Taiyuan Tanghai. Taiyuan Tanghai is owned as to approximately 47.29% by Liu Jiang. As Liu Jiang is entitled to exercise or control the exercise of one-third or more of the voting power at the general meeting of Taiyuan Tanghai, for the propose of the SFO, Liu Jiang is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai. Qiu Gui Qin, as the spouse of Liu Jiang, is taken to be interested in the shares held by Liu Jiang by virtue of Part XV of the SFO.
4. These 33,975,000 H shares are registered in the name of Kwong Tat Finance Limited. For the purpose of the SFO, Cai Zheng is deemed to be interested in the 33,975,000 H shares held by Kwong Tat Finance Limited.

Save as disclosed above, the directors of the Company are not aware of other person who, as at 30 September 2017, had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The Group do not have share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the nine months ended 30 September 2017, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 September 2017, none of the directors or supervisors of the Company nor their spouses or children under the age of 18 had any right to acquire H shares of the Company or had exercised any such right during the period.

Contracts of Significance

The directors of the Company believe that no contracts of significance in relation to the business of the Group to which the Company or any of its subsidiaries was a party, and in which a director or supervisor of the Company had a material interest, whether directly or indirectly, subsisted at 30 September 2017 or at any time during the nine months ended 30 September 2017.

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 might compete with the business of the Group during the nine months ended 30 September 2017.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the nine months ended 30 September 2017.

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 systems of the Group. The audit committee comprises three independent non-executive directors, namely Mr. Ni Guo Qiang, Mr. Li Li Cai, and Ms. Zhang Zhi Hong. Ms. Zhang Zhi Hong has been appointed as the chairman of the audit committee. The audit committee has reviewed the unaudited consolidated results of the Group for the nine months ended 30 September 2017.

Event after the Reporting Period

Reference is made to the announcement of the Company dated 23 October 2017 relating to the revised notice of extraordinary general meeting (“**EGM**”). The EGM will be held on 30 November 2017 for the purpose of considering, and if thought fit, passing the resolutions relating to the election and re-election of directors and election of supervisors.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wang Wen Sheng

Chairman

Taiyuan City, Shanxi Province, the PRC, 13 November 2017

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