



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)

2019

Interim Report

*For identification purpose 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.*

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS 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 condensed consolidated financial statements of Shanxi Changcheng Microlight Equipment Co. Ltd. and its subsidiaries (collectively referred to as the "**Group**") set out on pages 5 to 20, which comprise the condensed consolidated statement of financial position as at 30 June 2019, and the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended, and notes to the condensed consolidated financial statements.

We do not express an opinion on the condensed consolidated financial statements of the Group. Because of the significance of the matter 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 condensed consolidated financial statements.

BASIS FOR DISCLAIMER OF OPINION

Any adjustments to the figures as described above might have a significant consequential effect on the Group's financial performance for the six months ended 30 June 2019 and the related disclosures thereof in the condensed consolidated financial statements.

Material uncertainty related to going concern

We draw attention to note 2 to the condensed consolidated financial statements which mentions that as at 30 June 2019 the Group had net current liabilities and net liabilities of RMB59,673,000 and RMB37,311,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to RMB27,264,000 as at 30 June 2019 which would be due for repayment within the next twelve months. 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 condensed 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 condensed consolidated financial statements on a going concern basis were appropriate.

OTHER MATTER

Unaudited corresponding figures

The condensed consolidated financial statements for the period ended 30 June 2018, which form the basis for the corresponding figures presented in the current period's condensed consolidated financial statements, were not audited.

RESPONSIBILITIES OF DIRECTORS FOR THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the condensed consolidated financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") 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 CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Our responsibility is to conduct an audit of the Group's condensed 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 matter 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 condensed 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, 14 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2019 RMB'000 (Unaudited)	2018 RMB'000 (unaudited)	2019 RMB'000 (audited)	2018 RMB'000 (unaudited)
Revenue	5	14,480	7,857	24,752	11,786
Cost of sales		<u>(8,855)</u>	<u>(6,106)</u>	<u>(14,733)</u>	<u>(8,799)</u>
Gross profit		5,625	1,751	10,019	2,987
Other income, gains and losses	7	1,981	274	5,019	605
Selling and distribution costs		(206)	(244)	(369)	(373)
Administrative and other operating expenses		(4,368)	(3,660)	(8,241)	(7,553)
Finance costs	8	(1,002)	(993)	(5,782)	(2,001)
Share of loss of an associate		(15)	(28)	(40)	(132)
Profit/(Loss) before tax		2,015	(2,900)	606	(6,467)
Income tax expense	9	(1)	-	(1)	-
Profit/(Loss) and total comprehensive income/ (loss) for the period		<u>2,014</u>	<u>(2,900)</u>	<u>605</u>	<u>(6,467)</u>
Attributable to:					
– Owners of the Company		2,009	(2,899)	600	(6,466)
– Non-controlling interests		5	(1)	5	(1)
		<u>2,014</u>	<u>(2,900)</u>	<u>605</u>	<u>(6,467)</u>
Earnings/(Loss) per share (RMB)					
– Basic and diluted	10	<u>0.007</u>	<u>(0.009)</u>	<u>0.002</u>	<u>(0.021)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 RMB'000 (audited)	31 December 2018 RMB'000 (audited)
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	12	107,132	91,358
Right-of-use assets		10,388	10,534
Interests in associates		-	-
		117,520	101,892
CURRENT ASSETS			
Inventories		6,759	9,030
Trade and notes receivables	13	25,248	12,646
Prepayments, deposits and other receivables		3,706	4,000
Cash and cash equivalents		10,195	20,749
		45,908	46,425
CURRENT LIABILITIES			
Trade payables	14	8,996	9,796
Accruals and other payables		63,449	62,826
Contract liabilities		5,217	5,904
Due to shareholders		655	19,517
Bank and other borrowings		27,264	58,515
		105,581	156,558
NET CURRENT LIABILITIES		(59,673)	(110,133)
TOTAL ASSETS LESS CURRENT LIABILITIES		57,847	(8,241)

	30 June 2019 RMB'000 (audited)	31 December 2018 RMB'000 (audited)
NON-CURRENT LIABILITIES		
Deferred government grants	29,181	30,652
Due to shareholders	18,705	–
Bank and other borrowings	47,272	–
	95,158	30,652
NET LIABILITIES	(37,311)	(38,893)
EQUITY		
Equity attributable to owners of the Company		
Share capital	15 30,886	30,886
Reserves	(68,173)	(69,750)
	(37,287)	(38,864)
Non-controlling interests	(24)	(29)
TOTAL EQUITY	(37,311)	(38,893)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus*	Statutory reserves*	Other reserve*	Accumulated losses*			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>(Unaudited)</i>								
At 1 January 2018	30,886	18,561	11,853	-	(70,927)	(9,627)	(25)	(9,652)
Total comprehensive loss for the period	-	-	-	-	(6,466)	(6,466)	(1)	(6,467)
At 30 June 2018	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>-</u>	<u>(77,393)</u>	<u>(16,093)</u>	<u>(26)</u>	<u>(16,119)</u>
(Audited)								
At 1 January 2019	30,886	18,561	11,853	-	(100,164)	(38,864)	(29)	(38,893)
Total comprehensive income for the period	-	-	-	-	600	600	5	605
Gain on shareholder's loan modification	-	-	-	977	-	977	-	977
At 30 June 2019	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>977</u>	<u>(99,564)</u>	<u>(37,287)</u>	<u>(24)</u>	<u>(37,311)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(audited)	(unaudited)
Net cash flows used in operating activities	(6,971)	(2,606)
Net cash flows used in investing activities	(16,875)	(8,091)
Net cash flows generated from financing activities	13,292	10,586
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(10,554)	(111)
Cash and cash equivalents at 1 January	20,749	1,617
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	10,195	1,506
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	10,195	1,506
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Shanxi Changcheng Microlight Equipment Co. Ltd. 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 GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**").

2. GOING CONCERN BASIS

As at 30 June 2019, the Group had net current liabilities and net liabilities of approximately RMB59,673,000 and RMB37,311,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB27,264,000 as at 30 June 2019 which would be due for repayment within the next twelve months. 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 of the Company 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 borrowing upon expiry.

In addition, the directors of the Company have been taking active steps to improve the liquidity position of the Group. These steps include (i) proposing and implementing share offering plan; (ii) negotiating and implementing debts restructuring plan with shareholders, borrowers and financial institutions; (iii) negotiating and implementing loan interest reduction plan with shareholders and borrowers; and (iv) seeking financial support from shareholders and borrowers.

Provided that these measures can successfully improve the liquidity position of the Group, the directors of the Company 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 interim 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 interim financial statements.

3. BASIS OF PREPARATION

These condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “**GEM Listing Rules**”).

The principal accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those adopted in the preparation of the annual report of the Company for the year ended 31 December 2018 except as stated below:

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	2%
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These condensed consolidated financial statements do not include all the information and disclosures required in the annual report and should be read in conjunction with the annual report of the Company for the year ended 31 December 2018.

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

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

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. 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 period and prior year except as stated below.

HKFRS 16 “Leases”

On adoption of HKFRS 16, the Group recognised right-of-use assets in relation to leases which had previously been classified as “land use right” under HKAS 17 “Leases”.

HKFRS 16 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	2018
As at 31 December 2018:	<i>RMB'000</i>
Increase in right-of-use assets	10,534
Decrease in land use right	(10,534)
	<u><u> </u></u>

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

5. REVENUE

	For the six months ended 30 June 2019 RMB'000 (audited)	2018 RMB'000 (unaudited)
Manufacturing and sales of Fiber Optic Products	<u>24,752</u>	<u>11,786</u>
Revenue from contracts with customers	<u>24,752</u>	<u>11,786</u>
<u>Disaggregation of revenue from contracts with customers</u>		
	Manufacturing and sales of Fiber Optic Products RMB'000 (audited)	For the six months ended 30 June 2019 RMB'000 (audited)
Segment		
<i>Geographical markets</i>		
The PRC	11,754	11,754
Hong Kong and other Asian countries	8,851	8,851
Europe and Russia	<u>4,147</u>	<u>4,147</u>
	<u>24,752</u>	<u>24,752</u>
<i>Major products</i>		
Fiber optic inverters	10,906	10,906
Fiber optic straight plates	3,679	3,679
Fiber optic face plates	83	83
Fiber optic tapers	1,570	1,570
Microchannel plates	<u>8,514</u>	<u>8,514</u>
	<u>24,752</u>	<u>24,752</u>
<i>Timing of revenue recognition</i>		
At a point in time	24,752	24,752
Over time	<u>-</u>	<u>-</u>
	<u>24,752</u>	<u>24,752</u>

	Manufacturing and sales of Fiber Optic Products <i>RMB'000</i> (unaudited)	For the six months ended 30 June 2018 <i>RMB'000</i> (unaudited)
Segment		
<i>Geographical markets</i>		
The PRC	6,706	6,706
Hong Kong and other Asian countries	2,901	2,901
Europe and Russia	2,179	2,179
	<u>11,786</u>	<u>11,786</u>
<i>Major products</i>		
Fiber optic inverters	3,300	3,300
Fiber optic straight plates	2,806	2,806
Fiber optic face plates	126	126
Fiber optic tapers	1,786	1,786
Microchannel plates	3,737	3,737
Others	31	31
	<u>11,786</u>	<u>11,786</u>
<i>Timing of revenue recognition</i>		
At a point in time	11,786	11,786
Over time	-	-
	<u>11,786</u>	<u>11,786</u>

6. OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to profit/loss were mainly derived from its sale of fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers, fiber optic tapers billets and microchannel plates (collectively referred as to "**Fiber Optic Products**"), which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the directors of the Company, being the chief operating decision maker ("**CODM**"), for purposes of resource allocation and performance assessment. The measures of profit/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 period:

	For the six months ended 30 June			
	2019		2018	
	RMB'000	%	<i>RMB'000</i>	%
	(audited)		(unaudited)	
Fiber optic inverters	10,906	44	3,300	28
Fiber optic straight plates	3,679	15	2,806	24
Fiber optic face plates	83	0	126	1
Fiber optic tapers	1,570	7	1,786	15
Microchannel plates	8,514	34	3,737	32
Others	-	0	31	0
	24,752	100	11,786	100

(b) Geographical information

The Group principally operates in the PRC and the Group's non-current assets are all located in Shanxi, the PRC.

The following is an analysis of the Group's revenue from external customers by geographical location:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(audited)	(unaudited)
The PRC	11,754	6,706
Hong Kong and other Asian countries	8,851	2,901
Europe and Russia	4,147	2,179
	24,752	11,786

(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:

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(audited)	(unaudited)
Customer A	4,009	4,490
Customer B (Note)	N/A	3,079
Customer C (Note)	N/A	1,432
Customer D (Note)	N/A	1,183
Customer E (Note)	6,204	N/A
Customer F (Note)	4,531	N/A
Customer G (Note)	3,132	N/A

Note: The corresponding revenue did not contribute over 10% of the total sales of the Group for the relevant periods.

7. OTHER INCOME, GAINS AND LOSSES

It mainly represents gain on loan modification of approximately RMB1,159,000 and fair value gain on a new loan of approximately RMB1,771,000 for the six months ended 30 June 2019.

8. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(audited)	(unaudited)
Interest on bank borrowing	773	694
Interest on other borrowings	4,960	1,138
Interest on amounts due to shareholders	642	169
	6,375	2,001
Less: Interest wavier granted	(593)	-
	5,782	2,001

9. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(audited)	(unaudited)
Current PRC Enterprise income tax		
– Charge for the period	1	-
Deferred tax	-	-
Total tax charge	1	-

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 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 29 November 2018. For the six months ended 30 June 2019, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (for the six months ended 30 June 2018: 15%).

10. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share:

The calculation of basic earnings/(loss) per share is based on the profit attributable to owners of the Company of approximately RMB600,000 (loss attributable to owners of the Company for the six months ended 30 June 2018: RMB6,466,000) and 308,860,000 (2018: 308,860,000) shares in issue during the period.

Diluted earnings/(loss) per share:

There were no diluted potential ordinary shares in issue during the six months ended 30 June 2019 and 2018.

11. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of any dividend for each of the six months ended 30 June 2019 and 2018.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment of approximately RMB18,003,000.

13. TRADE AND NOTES RECEIVABLES

	As at 30 June 2019 RMB'000 (audited)	As at 31 December 2018 RMB'000 (audited)
Trade receivables	27,370	16,000
Less: Impairment of trade receivables	(2,788)	(3,354)
	24,582	12,646
Notes receivables	666	-
	25,248	12,646

An aging 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:

	As at 30 June 2019 RMB'000 (audited)	As at 31 December 2018 RMB'000 (audited)
Within 90 days	21,313	8,771
91 to 180 days	2,567	2,273
181 to 365 days	702	1,602
	<hr/> 24,582 <hr/>	<hr/> 12,646 <hr/>

14. TRADE PAYABLES

The aging analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	As at 30 June 2019 RMB'000 (audited)	As at 31 December 2018 RMB'000 (audited)
0 to 90 days	2,083	2,317
91 to 180 days	1,112	230
181 to 365 days	571	455
Over 365 days	5,230	6,794
	<hr/> 8,996 <hr/>	<hr/> 9,796 <hr/>

15. SHARE CAPITAL

	As at 30 June 2019 RMB'000 (audited)	As at 31 December 2018 RMB'000 (audited)
Authorised, issued and fully paid:		
198,860,000 (2018: 198,860,000) domestic shares of RMB0.10 each	19,886	19,886
110,000,000 (2018: 110,000,000) H shares of RMB0.10 each	11,000	11,000
	<u>30,886</u>	<u>30,886</u>

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.

16. CAPITAL COMMITMENTS

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

	As at 30 June 2019 RMB'000 (audited)	As at 31 December 2018 RMB'000 (audited)
Contracted, but not provided for		
– Buildings	25,360	5,129
Contracted contribution in subsidiaries	35,440	35,440
Contracted contribution in associates	329	329
	<u>61,129</u>	<u>40,898</u>

17. APPROVAL OF FINANCIAL STATEMENTS

These condensed consolidated financial statements were approved and authorised for issue by the board of directors of the Company on 14 August 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Business of the Group

Since the listing of the Company on the GEM of the Stock Exchange in 2004, the Group has been engaged in design, research, development, manufacture, and sale of image transmission fiber optic products as its principal business. Image transmission fiber optics products manufactured by the Group are image transmission devices containing a rigidly bundle of optical fibers arranged in an ordered fashion so that images can be transmitted from one end of the optical fiber bundle and displayed on the other end of the bundle. A typical image transmission fiber optic product of the Group would consist of over 10 million optical fibers.

At present, the Group produces five main products, including fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers and microchannel plates. Although fiber-optic imaging devices (fiber optic inverters, fiber optic face plates, fiber optic tapers and microchannel plates) have been increasingly used in medical imaging equipment, digital photography, physics, biochemistry and other civilian applications in recent years, they are currently mainly used in military low-light night vision devices and military low-light night vision video systems. Its customers are mainly located at China, Russia and other Asian countries.

Details of the total sales to external customers by product and the percentage of total revenue by product for the six months ended 30 June 2019 and 2018 are set out in note (5) to the condensed consolidated financial statements.

Change in Management Team and Board Composition

The Group underwent the change in certain management team members since the fourth quarter of 2018. In addition, as disclosed in the announcement of the Company dated 26 March 2019, Mr. Zhao Zhi was appointed as the Chairman of the Board and an executive director of the Company and Mr. Jiao Baoguo was appointed as an executive director of the Company. The new management team are fully committed to improving the Group's operation, production, management, research and development and market development capabilities.

Under the leading of the new management team, the Group has conducted a comprehensive and in-depth review and analysis of its business, operation and production, including internal standards of raw materials, internal standards of products, internal standards of production equipment, technical deficits in the production process, products passing rate and production labor management since the fourth quarter of 2018 and considers that it is necessary to implement production improvement measures and technology upgrade.

Image Transmission Fiber Optic Production Improvement Measures and Technology Upgrade

Since the fourth quarter of 2018, the Group have implemented various measures (the “**Operational Measures**”) to improve the business capabilities of the Group including of (i) improving image transmission fiber optic production process; (ii) implementing measures to enhance products passing rate and gross profit margin; (iii) strengthening internal management to improve operational efficiency; and (iv) implementing stringent cost control measures. As a result of the implementation of the Operational Measures, both of the products passing rate and gross profit margin have improved and the production volume has also significantly increased accordingly during the first half of 2019.

In view the image transmission fiber optic production technology upgrade, the Group received a subsidy from the industrial transformation and upgrading fund in the amount of RMB20,000,000 (the “**ITU Fund**”) from the government of Taiyuan City, Shanxi Province on 26 December 2018, which specifically supports the industrial transformation and upgrading and technological transformation project of the Group. The Group will utilise the ITU Fund to implement image transmission fiber optic production technology upgrade.

Financial Position

As at 30 June 2019, the Group had net current liabilities and net liabilities of approximately RMB59,673,000 and RMB37,311,000 respectively. To improve the financial position of the Group, the directors of the Company have implemented, including but not limited to, the following measures (the "**Financial Measures**"):

- (i) Propose and implement share offering plan during the second quarter of 2019;
- (ii) Negotiate and implement debts restructuring plan with shareholders, borrowers and financial institutions;
- (iii) Negotiate and implement loan interest reduction plan with shareholders and borrowers; and
- (iv) Seek financial support from shareholders and borrowers.

During the first quarter of 2019, the Company entered into a revised loan agreement with Taiyuan Changcheng Optics and Electronics Industrial Company Limited ("**Taiyuan Changcheng**"), a substantial shareholder of the Company, pursuant to which Taiyuan Changcheng has agreed to revise the term of existing loan to the Company in the principal amount of RMB11,200,000 to three years from 1 January 2019 to 1 January 2022 and delay the payment of interest for the years ending 31 December 2019 and 2020 to 2021. During the first quarter of 2019, the Company entered into revised loan agreements with a related company and the other borrower, pursuant to which a related company and the other borrower have agreed to revise the term of existing loans to the Company to three years from 1 January 2019 to 1 January 2022 and delay the payment of interest for the years ending 31 December 2019 and 2020 to 2021.

During the second quarter of 2019, the Company entered into an agreement (i) with Taiyuan Changcheng pursuant to which Taiyuan Changcheng has agreed to waive the interest for the year of 2019 for the loan in the amount of RMB11,200,000 and (ii) the other borrower pursuant to which the other borrower has agreed to waive the interest for the year of 2019 for the loan in the amount of RMB5,820,000.

On 11 July 2019, Taiyuan Changcheng and Beijing Gensir Venture Capital Management Limited (“**Beijing Gensir**”, which together with Taiyuan Changcheng, the “**Lenders**”), both being the substantial shareholders of the Company, have entered into a loan agreement (the “**Loan Agreement A**”) with the Company, pursuant to which the Lenders agreed to grant a term loan in the principal amount of RMB60,000,000 (“**Shareholders’ Loan A**”) to the Company for the purposes of funding of the technological transformation and upgrade plan and replenishing the Company’s general working capital. On 29 July 2019, the Lenders had further entered into a supplemental loan agreement (the “**Supplemental Agreement**”) with the Company in relation to the Shareholders’ Loan A. Pursuant to the Loan Agreement A (as supplemented by the Supplemental Agreement), the key terms of the Shareholders’ Loan A are summarised as below:

Lenders	Beijing Gensir and Taiyuan Changcheng
Borrower	The Company
Principal loan amount	RMB60,000,000
Term of the loan	Commencing from 1 October 2019 to 31 December 2024. Upon maturity, if the Company is in net current liabilities position as at 31 December 2024, the Shareholders’ Loan A will be automatically renewed for a further term of 5 years.
Interest	Nil
Use of proceeds	Funding of technological transformation and upgrade plan and replenishing the Company’s general working capital
Security of the loan	Nil
Conversion right	Upon maturity of the loan, subject to the obtaining of (i) the approval of the Shareholders at the domestic shares class meeting and H shares class meeting of the Company; and (ii) the approval from the Stock Exchange, the outstanding amount of the Shareholders’ Loan A would be converted to convertible bonds subject to the terms and conditions of the Loan Agreement A (as supplemented by the Supplemental Agreement).

In addition, on 30 July 2019, the Lenders have entered into another loan agreement (the "**Loan Agreement B**") with the Company, pursuant to which the Lenders agreed to grant a term loan in the principal amount of RMB20,000,000 ("**Shareholders' Loan B**") to the Company for the purposes of funding of the technological transformation and upgrade plan and replenishing the Company's general working capital. Pursuant to the Loan Agreement B, the key terms of the Shareholders' Loan B are summarised as below:

Lenders	Beijing Gensir and Taiyuan Changcheng
Borrower	The Company
Principal loan amount	RMB20,000,000
Term of the loan	Commencing from 1 February 2020 to 31 December 2025. Upon maturity, if the Company is in net current liabilities position as at 31 December 2025, the Shareholders' Loan B will be automatically renewed for a further term of 5 years.
Interest	Nil
Use of proceeds	Funding of technological transformation and upgrade plan and replenishing the Company's general working capital
Security of the loan	Nil
Conversion right	Upon maturity of the loan, subject to the obtaining of (i) the approval of the Shareholders at the domestic shares class meeting and H shares class meeting of the Company; and (ii) the approval from the Stock Exchange, the outstanding amount of the Shareholders' Loan B would be converted to convertible bonds subject to the terms and conditions of the Loan Agreement B.

Going Concern Issues

As at 30 June 2019, the Group had net current liabilities and net liabilities of approximately RMB59,673,000 and RMB37,311,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB27,264,000 as at 30 June 2019 which would be due for repayment within the next twelve months. 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.

Removal of the Basis for Disclaimer of Opinion in Relation to Material Uncertainty Related to Going Concern

According to the auditors of the Company (the "**Auditors**"), if (i) the Group can record net current asset position as at 31 December 2019; (ii) the Group can record net profit for the year ending 31 December 2019; and (iii) the Group can provide a cash flow forecast which have no negative cash balance at the end of each month during the cashflow forecast period from 1 January 2019 to 31 December 2020, they can remove the basis of disclaimer of opinion in relation to material uncertainty related to going concern in the auditor's report of the Group for the year ending 31 December 2019.

The Auditor further confirmed that in the event that the Company draws down the entire amount of the Shareholders' Loan A, it is expected that (i) above can be fulfilled, and with reference to the profit and cashflow forecast memorandum submitted by the Company to the Stock Exchange on 31 July 2019 which indicated that (ii) and (iii) above can be fulfilled, the basis of the disclaimer of opinion in relation to material uncertainty related to going concern in the auditors' report of the Group for the year ending 31 December 2019 can be removed accordingly.

Financial Review

Turnover of the Group for the six months ended 30 June 2019 was approximately RMB24,752,000 (for the six months ended 30 June 2018: RMB11,786,000), representing an increase of approximately 110% as compared to that of the corresponding financial period. In particular, the sales of fiber optic inverters and microchannel plates have increased by approximately RMB7,606,000 and RMB4,777,000 respectively. In sum, due to the increase in the products passing rate, the production volume has significantly increased accordingly during the first half of 2019, resulting in a significant increase in turnover.

Cost of sales of the Group for the six months ended 30 June 2019 was approximately RMB14,733,000 (for the six months ended 30 June 2018: RMB8,799,000), representing an increase of approximately 67% as compared to that of the corresponding financial period.

The gross profit margin of the Group for the six months ended 30 June 2019 was 40.48% (for the six months ended 30 June 2018: 25.34%). The increase in the gross profit margin was mainly attributable to (i) the effect of the structurally diluted fixed cost due to the increase in production volume and (ii) the increase in products passing rate leads to the decrease in production unit costs. The Board believes that due to the implementation of the Operational Measures, the gross profit margin has gradually recovered to a reasonable or better level.

The Group reported other income, gains and losses amounting to approximately RMB5,019,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB605,000), representing an increase of approximately RMB4,414,000 as compared to that of the corresponding financial period. The other income, gains and losses mainly represent gain on loan modification of approximately RMB1,159,000, fair value gain on a new loan of approximately RMB1,771,000 and amortisation of deferred government grant of approximately RMB1,472,000 for the six months ended 30 June 2019.

Administrative and other operating expenses of the Group for the six months ended 30 June 2019 was approximately RMB8,241,000 (for the six months ended 30 June 2018: RMB7,553,000), representing an increase of approximately RMB688,000 as compared to that of the corresponding financial period.

The Group reported finance costs amounting to approximately RMB5,782,000 for the six months ended 30 June 2019 (for the six months ended 30 June 2018: RMB2,001,000), representing an increase of approximately RMB3,781,000 as compared to that of the corresponding financial period. Details of finance costs are set out in note (8) to the condensed consolidated financial statements. The increase in the finance costs were mainly attributable to the effect of interest incurred due to loan modification in the amount of approximately RMB3,168,000 and increase in other borrowings.

The profit after tax for the six months ended 30 June 2019 of the Group was approximately RMB605,000 (for the six months ended 30 June 2018: the loss after tax was RMB6,467,000).

Connected Transactions and Financial Assistance from Taiyuan Changcheng, Beijing Gensir and Connected Persons

The Group obtained financial assistance from Taiyuan Changcheng, a substantial shareholder of the Company. As at 30 June 2019, the amount due to Taiyuan Changcheng was approximately RMB18,705,000. The financial assistance of RMB1,300,000 provided by Taiyuan Changcheng to the Company are secured by certain plant and machinery and motor vehicles of the Company.

The Group obtained financial assistance from Beijing Gensir, a substantial shareholder of the Company. As at 30 June 2019, the amount due to Beijing Gensir was approximately RMB655,000.

The Group obtained financial assistance from two connected persons (the "**Connected Persons**"). As at 30 June 2019, the amount due to Connected Persons was approximately RMB671,000.

For the six months ended 30 June 2019, total interest charged by Taiyuan Changcheng, Beijing Gensir and Connected Persons was approximately RMB389,000, RMB9,000 and RMB14,000 respectively. The directors of the Company consider that the interest charged by Taiyuan Changcheng, Beijing Gensir and Connected Persons are based on normal commercial terms or better. The financial assistances and interest expenses are exempted from connected transaction requirements.

Bank and Other Borrowings

As at 30 June 2019, the Group had an outstanding bank borrowing amounting to approximately RMB13,888,000 which was expired in November 2016 and was not repaid. The bank borrowing is now repayable on demand. The bank borrowing is secured by the land located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC and certain plant and machinery of the Company.

As at 30 June 2019, the Group had outstanding other borrowings amounting to approximately RMB60,648,000 (including both of non-current portion approximately RMB47,272,000 and current portion approximately RMB13,376,000). As at 30 June 2019, Beijing Gensir is the guarantor of the other borrowings in the amount of RMB6,000,000.

Financial Assistance to Related Parties

As at 30 June 2019, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000. As at 30 June 2019, the amount of approximately RMB593,000 was fully impaired.

As at 30 June 2019, 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 RMB47,000. As at 30 June 2019, the amount of approximately RMB47,000 was fully impaired.

Liquidity and Financial Resources

As at 30 June 2019, the total assets of the Group increased by approximately RMB15,111,000 to approximately RMB163,428,000 as compared to approximately RMB148,317,000 as at the end of the previous financial period, representing an increase of approximately 10%.

As at 30 June 2019, the total liabilities of the Group increased by approximately RMB13,529,000 to approximately RMB200,739,000 as compared to approximately RMB187,210,000 as at the end of the previous financial period, representing an increase of approximately 7%.

As at 30 June 2019, the total equity of the Group increased by approximately RMB1,582,000 to approximately negative RMB37,311,000 as compared to approximately negative RMB38,893,000 as at the end of the previous financial period.

Gearing Ratio

As at 30 June 2019, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 131% (as at 31 December 2018: 143%).

Significant Investment Held

As at 30 June 2019, the Group held interests in associates with the carrying value of approximately RMBNil (as at 31 December 2018: RMBNil).

Acquisition and Disposal of Subsidiaries

The Group had no acquisition and disposal of subsidiaries during the six months ended 30 June 2019.

Pledge of Assets

As at 30 June 2019, the Group's land use right and plant and machinery with carrying value of approximately RMB10,388,000 and RMB202,000 respectively (as at 31 December 2018: RMB10,534,000 and RMB284,000) were pledged to a bank as securities for the borrowing facilities of the Group.

As at 30 June 2019, the Group's plant and machinery and motor vehicles with carrying value of approximately RMB852,000 and RMBNil respectively (as at 31 December 2018: RMB1,003,000 and RMBNil) were pledged to Taiyuan Changcheng as securities for the borrowing facilities of the Group.

Contingent Liabilities

As at 30 June 2019, 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 30 June 2019, the Group had approximately 509 full-time employees. The Group remunerates its employees based on their experience, performance and value, which they contribute to the Group.

OTHER INFORMATION

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

As at 30 June 2019, 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*
Yuan Guo Liang	Personal Interest and family Interest	3,895,000 H shares (Note 1)	-	3.54%	1.26%

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

Note:

1. According to the interests filing disclosure, 3,645,000 H shares are registered in the name of Yuan Guo Liang and 250,000 H shares are registered in the name of his spouse.

Save as disclosed above, as at 30 June 2019, none of the directors or supervisors of the Company nor their respective associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules.

Substantial Shareholders

As at 30 June 2019, 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:					
Zhang Shao Hui	Interest in controlled corporations	82,200,000 domestic shares (Notes 1)	41.34%	-	26.61%
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 2)	41.34%	-	26.61%
Taiyuan Changcheng Optics Electronics Industrial Company Limited	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 3)	17.10%	-	11.01%
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 3)	17.10%	-	11.01%

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 <i>(Note 4)</i>	12.52%	–	8.06%
Qiu Gui Qin	Family interest	24,900,000 domestic shares <i>(Note 4)</i>	12.52%	–	8.06%
H Shares:					
Kwong Tat Finance Limited	Registered and beneficial owner of H shares	33,975,000 H shares <i>(Note 5)</i>	–	30.89%	11.00%
Cai Zheng	Interest in a controlled corporation	33,975,000 H shares <i>(Note 5)</i>	–	30.89%	11.00%

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

Notes:

1. According to the interests filing disclosure, part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir Venture Capital Management Limited ("**Beijing Gensir**"), a company whose issued shares were reportedly registered as to 100% in the name of 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.

According to the interests filing disclosure, 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**"), a company whose issued shares were reportedly registered as to approximately 36.37% in the name of 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, Zhang Shao Hui is deemed to be interested in the entire 24,900,000 domestic shares held by Taiyuan Tanghai.

2. According to the interests filing disclosure, part of these domestic shares (57,300,000 domestic shares) is registered in the name of Beijing Gensir, a company whose issued shares were reportedly registered as to 100% in the name of Zhang Shao Hui. The rest of these domestic shares (24,900,000 domestic shares) are registered in the name of Taiyuan Tanghai, a company whose issued shares were reportedly registered as to approximately 36.37% in the name of 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.
3. According to the interests filing disclosure, these 34,000,000 domestic shares are registered in the name of Liaoning Shuguang Industrial Group Company Limited ("**Liaoning Shuguang**"), a company whose issued shares were reportedly registered as to approximately 48.11% in the name of 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.

4. According to the interests filing disclosure, these 24,900,000 domestic shares are registered in the name of Taiyuan Tanghai, a company whose issued shares were reportedly registered as to approximately 47.29% in the name of 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.
5. According to the interests filing disclosure, these 33,975,000 H shares are registered in the name of Kwong Tat Finance Limited ("**Kwong Tat**"), a company whose issued shares were reportedly registered as to 100% in the name of Cai Zheng. For the purpose of the SFO, Cai Zheng is deemed to be interested in the 33,975,000 H shares held by Kwong Tat.

Save as disclosed above, the directors of the Company are not aware of other person who, as at 30 June 2019, 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.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of its listed securities during the six months ended 30 June 2019.

Share Option Scheme

The Group do not have share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the six months ended 30 June 2019, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 2019, 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 June 2019 or at any time during the six months ended 30 June 2019.

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 six months ended 30 June 2019.

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 system, risk management and internal control systems of the Group. The audit committee comprises two independent non-executive directors and one non-executive director, namely Mr. Xu Yongfeng, Mr. Rong Fei and Mr. Yuan Guo Liang respectively. Mr. Xu Yongfeng has been appointed as the chairman of the audit committee. The audit committee has reviewed the audited results of the Group for the six months ended 30 June 2019.

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 the Company, the Company has complied with the code provisions except for (i) no arrangement of insurance cover in respect of legal action against the directors of the Company (code provisions A1.8) due to insufficient budget provided and (ii) two non-executive directors and three independent non-executive directors of the Company did not attend the annual general meeting of the Company dated 21 June 2019 (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 six months ended 30 June 2019. Having made specific enquiry of all the directors of the Company, the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors of the Company.

Events After the Reporting Period

As disclosed in the announcement of the Company dated 31 July 2019, among others, the Board is in the opinion that the Company has fulfilled all the following resumption conditions, though the shareholders of the Company are reminded that this does not represent the views of the Stock Exchange:

- (a) publish all the outstanding financial results and address audit modifications;
- (b) announce all material information for the Shareholders and other investors to appraise the Company's position;
- (c) demonstrate its compliance with Rule 17.26 of the GEM Listing Rules; and
- (d) restore the minimum public float pursuant to Rule 11.23 (7) of the GEM Listing Rules.

As disclosed in the announcement of the Company dated 31 July 2019, among others, the Company has entered into various shareholders' loan agreements with its substantial shareholders.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Zhao Zhi

Chairman

Taiyuan City, Shanxi Province, the PRC, 14 August 2019

As at the date of this report, the board of directors comprises nine directors, of which four are executive directors, namely Mr. Zhao Zhi, Mr. Song Zhenglai, Mr. Jiao Baoguo and Ms. Wang Lingling; two non-executive directors, namely Mr. Yuan Guo Liang and Mr. Wu Bo; and three independent non-executive directors, namely Mr. Xu Yongfeng, Mr. Wang Weizhong and Mr. Rong Fei.