



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)

(於中華人民共和國註冊成立之股份有限公司)

(Stock Code 股份代號：8286)

2020

First Quarterly 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.*

FINANCIAL RESULTS

The board of directors (the “**Board**”) of Shanxi Changcheng Microlight Equipment Co. Ltd. (the “**Company**”) announces the unaudited results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the three months ended 31 March 2020, together with the comparative figures for the corresponding period in 2019, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2020

		For the three months ended 31 March	
		2020	2019
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
Revenue	4	(27)	10,272
Cost of sales		<u>26</u>	<u>(5,878)</u>
Gross (loss)/profit		(1)	4,394
Other income, gains and losses		741	108
Selling and distribution costs		(2)	(163)
Administrative and other operating expenses		(3,467)	(3,873)
Finance costs	5	(925)	(1,966)
Share of loss of an associate		<u>-</u>	<u>(25)</u>
Loss before tax		(3,654)	(1,525)
Income tax expense	6	<u>-</u>	<u>-</u>
Loss and total comprehensive loss for the period		<u>(3,654)</u>	<u>(1,525)</u>
Attributable to:			
– Owners of the Company		(3,654)	(1,525)
– Non-controlling interests		<u>-</u>	<u>-</u>
		<u>(3,654)</u>	<u>(1,525)</u>
Loss per share (RMB)			
– Basic and diluted	7	<u>(0.012)</u>	<u>(0.005)</u>

NOTES TO THE ACCOUNTS

1. CORPORATE INFORMATION

Shanxi Changcheng Microlight Equipment Co. Ltd. was incorporated in the Mainland of 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.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. The unaudited condensed 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 (the "**GEM Listing Rules**").

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

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

In the current period, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. 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.

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.

4. 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.

5. FINANCE COSTS

	For the three months ended 31 March	
	2020	2019
	RMB'000	RMB'000
Interest on bank borrowing	216	383
Interest on other borrowings	583	1,457
Interest on amounts due to shareholders	126	126
	<u>925</u>	<u>1,966</u>

6. INCOME TAX EXPENSE

	For the three months ended 31 March	
	2020	2019
	RMB'000	RMB'000
Current PRC Enterprise income tax		
– Charge for the period	–	–
Deferred tax	–	–
	<u>–</u>	<u>–</u>
Total tax charge	<u>–</u>	<u>–</u>

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 ended 31 March 2020 (for the three months ended 31 March 2019: RMBNil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

7. 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 ended 31 March 2020 of approximately RMB3,654,000 (for the three months ended 31 March 2019: RMB1,525,000) and 308,860,000 (2019: 308,860,000) shares in issue during the period. There were no diluted potential ordinary shares in issue during the three months ended 31 March 2019 and 2020.

8. DIVIDEND

The Board of the Company does not recommend the payment of any dividend for the three months ended 31 March 2020 (for the three months ended 31 March 2019: Nil).

9. MOVEMENT OF RESERVES

	Attributable to owners of the Company					Total	Non-controlling interests	Total equity
	Issued capital	Capital surplus	Statutory surplus reserves	Other reserves	Accumulated losses			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	30,886	18,561	11,853	-	(100,164)	(38,864)	(29)	(38,893)
Total comprehensive loss for the period	-	-	-	-	(1,525)	(1,525)	-	(1,525)
At 31 March 2019	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>-</u>	<u>(101,689)</u>	<u>(40,389)</u>	<u>(29)</u>	<u>(40,418)</u>
At 1 January 2020	30,886	18,561	11,853	977	(101,371)	(39,094)	(25)	(39,119)
Total comprehensive loss for the period	-	-	-	-	(3,654)	(3,654)	-	(3,654)
At 31 March 2020	<u>30,886</u>	<u>18,561</u>	<u>11,853</u>	<u>977</u>	<u>(105,025)</u>	<u>(42,748)</u>	<u>(25)</u>	<u>(42,773)</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Financial Position and Going Concern

As at 31 March 2020, the Group had net current liabilities and net liabilities of approximately RMB52,727,000 and RMB42,773,000 respectively. 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.

On 11 July 2019, Taiyuan Changcheng Optics Electronics Industrial Company Limited ("**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 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 with the Company in relation to the Shareholders' Loan A.

On 30 July 2019, the Lenders have entered into another loan agreement 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.

The key terms of the Shareholders' Loan A and the Shareholders' Loan B are summarized and disclosed in the Company's announcement dated 31 July 2019. According to the update from the Lenders, the drawdown date of the Shareholders' Loan A and Shareholders' Loan B will be postponed to a time to be fixed with the Company.

Impact of Novel Coronavirus Pandemic

The Group's head office and all production plants and facilities are located in Taiyuan City, Shanxi Province, China. Since the novel coronavirus pandemic ("**Epidemic**") began in the early of 2020, various hygiene prevention and control measures ("**Hygiene Prevention and Control Measures**") and resumption of work and production control measures ("**Resumption of Work Control Measures**") have been implemented throughout China. Due to continuing impact of the Epidemic and the continuous implementation of the Hygiene Prevention and Control Measures and Resumption of Work Control Measures during the first quarter of 2020, the Group's production plants have been temporarily ceased production since the early of 2020. The Group's production and operation have been severely affected, leading to a significant decline in the sales and financial results performance of the Group for the first quarter of 2020.

Financial Review

Turnover of the Group for the three months ended 31 March 2020 was approximately negative RMB27,000 (for the three months ended 31 March 2019: RMB10,272,000). The Group reported sales of fiber optic inverters and sales return of fiber optic inverters for the three months ended 31 March 2020 in the amount of approximately RMB596,000 and RMB623,000 respectively. As the amount of sales return of the current period is larger than the amount of sales of the current period, the sales amount of the current period is presented as a negative number.

Details of the total sales to external customers by product and the percentage of total revenue by product for the three months ended 31 March 2019 and 2020 are set out as below:

	For the three months ended 31 March			
	2020		2019	
	RMB'000	%	<i>RMB'000</i>	%
Fiber optic inverters	-27	100	2,523	25
Fiber optic straight plates	-	-	2,077	20
Fiber optic face plates	-	-	83	1
Fiber optic tapers	-	-	482	5
Microchannel plates	-	-	5,107	49
	-27	100	10,272	100

Cost of sales of the Group for the three months ended 31 March 2020 was approximately negative RMB26,000 (for the three months ended 31 March 2019: RMB5,878,000). The Group reported cost of sales of fiber optic inverters and cost of sales return of fiber optic inverters for the three months ended 31 March 2020 in the amount of approximately RMB580,000 and RMB606,000 respectively. As the amount of cost of sales return of the current period is larger than the amount of cost of sales of the current period, the cost of sales amount of the current period is presented as a negative number.

Administrative and other operating expenses of the Group for the three months ended 31 March 2020 was approximately RMB3,467,000 (for the three months ended 31 March 2019: RMB3,873,000), representing a decrease of approximately RMB406,000 as compared to that of the previous financial period.

The Group reported finance costs in the amount of approximately RMB925,000 for the three months ended 31 March 2020 (for the three months ended 31 March 2019: RMB1,966,000). Details of the finance costs are disclosed in note 5 to the accounts.

The loss after tax for the three months ended 31 March 2020 of the Group was approximately RMB3,654,000 (for the three months ended 31 March 2019: RMB1,525,000).

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 31 March 2020, the amount due to Taiyuan Changcheng was approximately RMB18,828,000. 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 31 March 2020, the amount due to Beijing Gensir was approximately RMB669,000.

The Group obtained financial assistance from two connected persons (the “**Connected Persons**”). As at 31 March 2020, the amount due to Connected Persons was approximately RMB641,000.

For the three months ended 31 March 2020, the total interest charged by Taiyuan Changcheng, Beijing Gensir and Connected Persons was approximately RMB122,000, RMB5,000 and RMB6,000 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 31 March 2020, the Group had an outstanding bank borrowing in the amount of RMB13,000,000. The term of the bank borrowing is three years commencing on 30 December 2019. The bank borrowing is secured by the Group's certain buildings and production plants located at No. 7 Dianzi Street, Demonstration Zone, Shanxi, the PRC.

As at 31 March 2020, the Group had outstanding other borrowings in the amount of approximately RMB71,943,000.

Financial Assistance to Related Parties

As at 31 March 2020, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000. As at 31 March 2020, the amount of approximately RMB593,000 was fully impaired.

As at 31 March 2020, 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 31 March 2020, the amount of approximately RMB47,000 was fully impaired.

Pledge of Assets

As at 31 March 2020, the Group's certain buildings and production plants located at No. 7 Dianzi Street, Demonstration Zone, Shanxi, the PRC were pledged to a bank as securities for the borrowing facilities granted to the Group.

As at 31 March 2020, the Group's plant and machinery and motor vehicles with carrying value of approximately RMB486,000 and RMBNil respectively were pledged to Taiyuan Changcheng as securities for the borrowing facilities granted to the Group.

OTHER INFORMATION

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

As at 31 March 2020, 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 31 March 2020, 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 March 2020, 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 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%

Name	Nature and capacity in the shareholding of the Company	Number and type of domestic shares /H shares	Approximate percentage of holding of the domestic shares of the Company*	Approximate percentage of holding of the H shares of the Company*	Approximate percentage of holding of the total share capital of the Company*
Liu Gui Ying	Family interest	34,000,000 domestic shares (Note 3)	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 4)	12.52%	-	8.06%
Qiu Gui Qin	Family interest	24,900,000 domestic shares (Note 4)	12.52%	-	8.06%

* 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 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.

Save as disclosed above, the directors of the Company are not aware of other person who, as at 31 March 2020, 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 three months ended 31 March 2020.

Share Option Scheme

The Group do not have share option scheme.

Directors' and Supervisors' Rights to Acquire H Shares

During the three months ended 31 March 2020, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 31 March 2020, 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 31 March 2020 or at any time during the three months ended 31 March 2020.

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 three months ended 31 March 2020.

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 system 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 Guoliang respectively. Mr. Xu Yongfeng has been appointed as the chairman of the audit committee. The audit committee has reviewed the unaudited results of the Group for the three months ended 31 March 2020.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wu Bo

Chairman

Taiyuan City, Shanxi Province, the PRC, 15 May 2020

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 Guoliang and Mr. Wu Bo; and three independent non-executive directors, namely Mr. Xu Yongfeng, Mr. Wang Weizhong and Mr. Rong Fei.