



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

Interim Report

*For identification purpose only

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

*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 six months ended 30 June 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 six months ended 30 June 2020

		For the three months		For the six months	
		ended 30 June		ended 30 June	
		2020	2019	2020	2019
Notes		RMB'000	RMB'000	RMB'000	RMB'000
		(unaudited)	(unaudited)	(unaudited)	(audited)
REVENUE	5	(3,631)	14,480	(3,658)	24,752
Cost of sales		<u>2,085</u>	<u>(8,855)</u>	<u>2,111</u>	<u>(14,733)</u>
Gross (loss)/profit		(1,546)	5,625	(1,547)	10,019
Other income, gains and losses	7	874	4,911	1,615	5,019
Selling and distribution costs		(83)	(206)	(85)	(369)
Administrative and other operating expenses		(3,109)	(4,368)	(6,576)	(8,241)
FINANCE COSTS	8	(3,633)	(3,816)	(4,558)	(5,782)
Share of loss of an associate		<u>-</u>	<u>(15)</u>	<u>-</u>	<u>(40)</u>
(Loss)/profit before tax		(7,497)	2,131	(11,151)	606
Income tax expense	9	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(1)</u>

	For the three months		For the six months	
	ended 30 June		ended 30 June	
	2020	2019	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes	(unaudited)	(unaudited)	(unaudited)	(audited)
(Loss)/profit and total comprehensive (loss)/ income for the period	<u>(7,497)</u>	<u>2,130</u>	<u>(11,151)</u>	<u>605</u>
Attributable to:				
– Owners of the Company	<u>(7,497)</u>	<u>2,125</u>	<u>(11,151)</u>	<u>600</u>
– Non-controlling interests	<u>-</u>	<u>5</u>	<u>-</u>	<u>5</u>
	<u>(7,497)</u>	<u>2,130</u>	<u>(11,151)</u>	<u>605</u>
(Loss)/earnings per share (RMB)				
– Basic and diluted	<u>(0.024)</u>	<u>0.007</u>	<u>(0.036)</u>	<u>0.002</u>

10

CONDENSED CONSOLIDATED STATEMENT OF POSITION

As at 30 June 2020

		30 June 2020	31 December 2019
	<i>Notes</i>	RMB'000	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment		106,339	107,900
Right-of-use assets		10,083	10,241
Interests in associates		308	42
		116,730	118,183
CURRENT ASSETS			
Inventories		16,749	10,977
Trade receivables	13	21,554	28,952
Prepayments, deposits and other receivables		3,094	3,778
Cash and cash equivalents		761	144
		42,158	43,851
CURRENT LIABILITIES			
Trade payables	14	8,801	9,032
Accruals and other payables		70,901	69,277
Contract liabilities		5,130	5,170
Due to shareholders		674	665
Bank and other borrowings		29,959	25,128
		115,465	109,272
NET CURRENT LIABILITIES		(73,307)	(65,421)
TOTAL ASSETS LESS CURRENT LIABILITIES		43,423	52,762

		30 June 2020	31 December 2019
<i>Notes</i>		RMB'000 (unaudited)	<i>RMB'000 (audited)</i>
NON-CURRENT LIABILITIES			
Deferred government grants		25,564	27,155
Due to shareholders		18,852	18,608
Bank and other borrowings		56,208	53,049
		100,624	98,812
NET LIABILITIES		(57,201)	(46,050)
EQUITY			
Equity attributable to owners of the Company			
Share capital	15	30,886	30,886
Reserves		(88,044)	(76,893)
		(57,158)	(46,007)
Non-controlling interests		(43)	(43)
Total equity		(57,201)	(46,050)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company						Non-controlling equity	Total equity
	Issued share capital	Capital surplus*	Statutory surplus reserves*	Other reserves*	Accumulated losses*	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
(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
As 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>
(unaudited)								
At 1 January 2020	30,886	18,561	11,860	977	(108,291)	(46,007)	(43)	(46,050)
Total comprehensive loss for the period	-	-	-	-	(11,151)	(11,151)	-	(11,151)
As at 30 June 2020	<u>30,886</u>	<u>18,561</u>	<u>11,860</u>	<u>977</u>	<u>(119,442)</u>	<u>(57,158)</u>	<u>(43)</u>	<u>(57,201)</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 2020

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Net cash flows used in operating activities	(5,903)	(6,971)
Net cash flows used in investing activities	(1,723)	(16,875)
Net cash flows generated from financing activities	8,243	13,292
	<hr/>	<hr/>
Increase/(decrease) in cash and cash equivalents	617	(10,554)
Cash and cash equivalents at 1 January	144	20,749
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	761	10,195
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	761	10,195
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL 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 of Hong Kong Limited (the "**Stock Exchange**").

2. GOING CONCERN BASIS

The Group had net current liabilities and net liabilities of approximately RMB73,307,000 and RMB57,201,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB29,959,000 as at 30 June 2020 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.

In addition, the directors of the Company have intended and taken active steps to improve the liquidity position of the Group. These steps include (i) introducing new strategic investors into the private placement of new shares/bonds, and negotiating and implementing capital operation proposals with shareholders and potential investment institutions; (ii) at the operational level, the Company will revitalize the assets, develop new products and expand new markets and areas; (iii) in respect of liabilities, negotiating and implementing loan interest reduction/exemption schemes with shareholders and borrowers and 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 unaudited consolidated financial statements are consistent with those adopted in the preparation of the annual report of the Company for the year ended 31 December 2019.

These unaudited 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 Group for the year ended 31 December 2019.

The unaudited consolidated financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to 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 2020. 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.

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

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.

	For the six months ended 30 June 2020	
	RMB'000	2019
	(unaudited)	RMB'000 (audited)
Manufacturing and sales of Fiber Optic Products	(3,703)	24,752
Others	45	—
Revenue from contracts with customers	(3,658)	24,752

Disaggregation of revenue from contracts with customers

	Manufacturing and sales of Fiber Optic Products	Others	For the six months ended 30 June 2020
	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)
Segment			
<i>Geographical markets</i>			
The PRC	1,552	45	1,597
Hong Kong and other Asian countries	585	—	585
Hong Kong and other Asian countries (return)	(5,765)	—	(5,765)
Europe and Russia	10	—	10
Europe and Russia (return)	(85)	—	(85)
	(3,703)	45	(3,658)

	Manufacturing and sales of Fiber Optic Products	Others	For the six months ended 30 June 2020
	RMB'000	RMB'000	RMB'000
	(unaudited)	(unaudited)	(unaudited)
<i>Major products</i>			
Fiber optic inverters	20	-	20
Fiber optic inverters (return)	(4,674)	-	(4,674)
Fiber optic straight plates	900	-	900
Fiber optic face plates	-	-	-
Fiber optic tapers	-	-	-
Fiber optic tapers (return)	(684)	-	(684)
Microchannel plates	1,228	-	1,228
Microchannel plates (return)	(493)	-	(493)
Others	-	45	45
	<u>(3,703)</u>	<u>45</u>	<u>(3,658)</u>
<i>Timing of revenue recognition</i>			
At a point in time	(3,703)	45	(3,658)
Over time	-	-	-
	<u>(3,703)</u>	<u>45</u>	<u>(3,658)</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	4,147	4,147
	<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	8,514	8,514
	<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>24,752</u>	<u>24,752</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 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

(i) 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			
	2020		2019	
	RMB'000	%	RMB'000	%
	(unaudited)		(audited)	
Fiber optic inverters	(4,654)	127	10,906	44
Fiber optic straight plates	900	-25	3,679	15
Fiber optic face plates	-	-	83	-
Fiber optic tapers	(684)	19	1,570	7
Microchannel plates	735	-20	8,514	34
Others	45	-1	-	-
	<u>(3,658)</u>	<u>100</u>	<u>24,752</u>	<u>100</u>

Note: For the six months ended 30 June 2020, the return of fiber optic inverters, fiber optic tapers and microchannel plates amounted to approximately RMB4,674,000, RMB684,000 and RMB493,000 respectively. Net sales are reported as negative figures as sales of fiber optic inverters and fiber optic tapers were less than sales returns during the reporting period.

(ii) 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	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
The PRC	1,597	11,754
Hong Kong and other Asian countries	(5,180)	8,851
Europe and Russia	(75)	4,147
	(3,658)	24,752

(iii) 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	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Customer A	805	4,009
Customer B	585	3,132
Customer C	554	2,024

7. OTHER INCOME, GAINS AND LOSSES

Other income, gains and losses were mainly from government grants of approximately RMB1,591,000.

8. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
Interest on bank borrowing	451	773
Interest on other borrowings	3,854	4,960
Interest on amounts due to shareholders	253	642
	4,558	6,375
Less: interest wavier granted	-	(593)
	4,558	5,782

9. Income tax expense

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(audited)
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 2020 (for the six months ended 30 June 2019: RMB nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

10. (LOSS)/EARNINGS PER SHARE

(Loss)/earnings per share:

The calculation of basic (loss)/earnings per share is based on the loss attributable to owners of the Company of approximately RMB11,151,000 (for the six months ended 30 June 2019: profit attributable to owners of the Company of RMB600,000) and 308,860,000 (2019: 308,860,000) shares in issue during the period.

Diluted (loss)/earnings per share:

There were no diluted potential ordinary shares in issue during the six months ended 30 June 2020 and 2019.

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 2020 and 2019.

12. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment of approximately RMB3,456,000.

13. TRADE PAYABLES

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Trade receivables	26,143	33,541
Less: impairment of trade receivables	(4,589)	(4,589)
	21,554	28,952

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 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Within 90 days	1,771	6,043
91 to 180 days	-	16,118
181 to 365 days	19,479	6,503
Over 365 days	304	288
	21,554	28,952

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 2020 RMB'000 (unaudited)	As at 31 March 2019 RMB'000 (audited)
0 to 90 days	2,831	1,241
91 to 180 days	-	2,070
181 to 365 days	711	777
Over 365 days	5,259	4,944
	8,801	9,032

15. Share capital

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Authorised, issued and fully paid:		
198,860,000 (2019: 198,860,000) domestic shares of RMB0.10 each	19,886	19,886
110,000,000 (2019: 110,000,000) H shares of RMB0.10 each	11,000	11,000
	30,886	30,886

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be the PRC investors or foreign investors, domestic shares and H shares rank pari passu with each other.

16. CAPITAL COMMITMENTS

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

	As at 30 June 2020 RMB'000 (unaudited)	As at 31 December 2019 RMB'000 (audited)
Contracted, but not provided for		
– Buildings	18,586	20,186
Contracted contribution in subsidiaries	40,440	40,440
Contracted contribution in associates	329	329
	59,355	60,955

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 2020 and 2019 are set out in note (5) to the condensed consolidated financial statements.

Change in Management Team and Board Composition

The Group gradually underwent the change in certain management team members since the first quarter of 2020. As disclosed in the Company's announcement dated 20 January 2020, Mr. Zhao Taibing was appointed as the general manager of the Company, Mr. Chen Senbiao was appointed as the financial controller of the Company, Ms. Guo Weiwei was appointed as the secretary of the Board of the Company, Mr. Song Zhenglai was appointed as the compliance officer and authorized representative of the Company. As disclosed in the Company's announcement dated 17 February 2020, Mr. Wu Bo was appointed as the chairman of the Board of the Company. As disclosed in the Company's announcement dated 31 July 2020, Ms. Han Lei was appointed as the company secretary and authorized representative of the Company.

At the beginning of such appointment, the new management team plans to continue to promote the improvement measures and technical upgrade of the image transmission fiber optic production process, actively expands civilian customers, and broadens the market and sales channels. However, due to the outbreak of the novel coronavirus pandemic (the "**Pandemic**") since the early of 2020, which has had a greater impact on the Company's production, sales and operations, the new management team has been committed to reducing the impact of the Pandemic and bringing the Company back on track as soon as possible.

Financial Position and Going Concern Issue

As at 30 June 2020, the Group had net current liabilities and net liabilities of approximately RMB73,307,000 and RMB57,201,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB29,959,000 as at 30 June 2020 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.

In order to improve the financial position of the Group, the directors of the Company have planned and adopted, including but not limited to, the following measures (the “**Financial Measures**”):

(i) At the capital level:

Introducing new strategic investors into the private placement of new shares/bonds, and negotiating and implementing a debt restructuring plan with shareholders, borrowers and financial institutions;

(ii) At the operational level:

Revitalizing the long-term assets and planning to lease out the properties temporarily not used in the Company's business operations, so as to increase the property income; developing new products for extending the downstream of the industrial chain and strengthening the existing sales forces and introducing more capable strategic sales agencies; and taking the advantage of the technological advantages accumulated by the Company in the field of military products to expand into the field of civilian products and increase new customers and income sources; and

(iii) In respect of liabilities:

Negotiating and implementing interest reduction/exemption program with shareholders and borrowers and seeking financial support from shareholders and borrowers.

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 latest developments, shareholders encountered obstacles in raising funds due to the tightening of bank loans to enterprises, therefore, the drawdown date of the Shareholders' Loan A and Shareholders' Loan B cannot be determined for the time being. When appropriate, shareholders will negotiate and determine the time.

Impact of Novel Coronavirus Pandemic

The Group's head office and all production plants and facilities are located in Taiyuan City, Shanxi Province. Since the Pandemic 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 Pandemic and the continuous implementation of the Hygiene Prevention and Control Measures and Resumption of Work Control Measures during the first half 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 half of 2020. With the improvement of the Pandemic situation and the relaxation of government control, the entire industry has resumed production and work in the second half of the year, which will inevitably bring an increase in sales and achieve the realisation of inventory sales.

Financial Review

For the six months ended 30 June 2020, the Group's turnover was approximately negative RMB3,658,000 and included in turnover was the return expenses of negative RMB5,851,000 (for the six months ended 30 June 2019: RMB24,752,000), representing a decrease of approximately 114.78% as compared to that of the corresponding financial period.

For the six months ended 30 June 2020, the Group's cost of sales was approximately negative RMB2,111,000. Included in cost of sales was the return cost reversed of negative RMB3,620,000 (for the six months ended 30 June 2019: RMB14,733,000), representing a decrease of approximately 114.33% as compared to that of the corresponding financial period.

The gross loss of the Group for the six months ended 30 June 2020 was negative RMB1,547,000 (for the six months ended 30 June 2019: gross profit of RMB10,019,000).

As a major raw material supplier of the Group (the "**Original Supplier**") had been unable to provide raw materials for the Group in a normal way since 2019 due to technological transformation of production equipment, the Original Supplier was changed to a new supplier (the "**New Supplier**") by the Group. However, due to the unqualified product technical indicators of the New Supplier, the quality of the Company's product is unstable and the product yield is low, which have affected the normal use of customers. Affected by the Pandemic, the Company was unable to replenish the raw materials in time, and the three customers involved in the abovementioned returned products were also greatly affected due to the Pandemic control measures. The products they purchased also formed a backlog and they were unable to make payments. After communicating with customers, they agreed to return the purchased products for sales return.

In the first half of 2020, the Original Supplier has resumed the supply of raw materials, guaranteeing the product qualification rate.

In terms of returned products, while maintaining sales to military customers, the Company will actively seek for civilian customers and use the returned products for coming sales in the civilian product market to realise the resale of products.

The Group reported other income, gains and losses amounting to approximately RMB1,615,000 for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB5,019,000), representing a decrease of approximately RMB3,404,000 as compared to that of the corresponding financial period. Other income, gains and losses for the six months ended 30 June 2020 were mainly attributable to the amortization of deferred government grants of approximately RMB1,591,000.

Administrative and other operating expenses of the Group for the six months ended 30 June 2020 was approximately RMB6,576,000 (for the six months ended 30 June 2019: RMB8,241,000), representing a decrease of approximately RMB1,665,000 as compared to that of the corresponding financial period.

The Group reported finance costs amounting to approximately RMB4,558,000 for the six months ended 30 June 2020 (for the six months ended 30 June 2019: RMB5,782,000), representing a decrease of approximately RMB1,224,000 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 loss after tax for the six months ended 30 June 2020 of the Group was approximately RMB11,151,000 (for the six months ended 30 June 2019: profit after tax of RMB605,000).

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 2020, the amount due to Taiyuan Changcheng was approximately RMB18,852,000. 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 2020, the amount due to Beijing Gensir was approximately RMB674,000.

The Group obtained financial assistance from two connected persons (the “**Connected Persons**”). As at 30 June 2020, the amount due to Connected Persons was approximately RMB603,000.

For the six months ended 30 June 2020, total interest charged by Taiyuan Changcheng, Beijing Gensir and Connected Persons was approximately RMB243,000, RMB9,000 and RMB5,000 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 2020, the Group had an outstanding bank borrowing amounting to RMB12,500,000 (as at 31 December 2019: RMB13,000,000), which had been renewed in December 2019. The term of the bank borrowing is three years commencing on 30 December 2019.

As at 30 June 2020, the Group had outstanding other borrowings amounting to approximately RMB73,667,000 (including non-current portion of approximately RMB56,208,000 and current portion of approximately RMB17,459,000).

Liquidity and Financial Resources

As at 30 June 2020, the total assets of the Group decreased by approximately RMB3,146,000 to approximately RMB158,888,000 as compared to approximately RMB162,034,000 as at the end of the previous financial period, representing a decrease of approximately 2%.

As at 30 June 2020, the total liabilities of the Group increased by approximately RMB8,005,000 to approximately RMB216,089,000 as compared to approximately RMB208,084,000 as at the end of the previous financial period, representing an increase of approximately 4%.

As at 30 June 2020, the, total equity of the Group decreased by approximately RMB11,151,000 to approximately negative RMB57,201,000 as compared to approximately negative RMB46,050,000 as at the end of the previous financial period.

Gearing Ratio

As at 30 June 2020, the gearing ratio (defined as total debts divided by total assets) of the Group was approximately 136% (31 December 2019: 128%).

Significant Investment Held

As at 30 June 2020, the Group held interests in associates with the carrying value of approximately RMB308,000 (31 December 2019: RMB42,000).

Acquisition and Disposal of Subsidiaries

The Group had no acquisition and disposal of subsidiaries during the six months ended 30 June 2020.

Pledge of Assets

As at 30 June 2020, certain plant and machinery and medium term leasehold buildings at carrying amount of approximately RMB73,000 and RMB46,296,000 (31 December 2019: RMB134,000 and RMB47,137,000) respectively were pledged to secure a bank borrowing to the Group.

As at 30 June 2020, the Group's right-of-use asset located at No. 7 Dianzi Street, Demonstration Zone, Shanxi, the PRC were pledged to secure a bank borrowing to the Group.

As at 30 June 2020, plant and machinery and motor vehicles at carrying amount of approximately RMB660,000 and RMB nil (31 December 2019: RMB723,000 and RMB nil) respectively were pledged to secure the amount due to a shareholder.

Contingent Liabilities

As at 30 June 2020, 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 2020, the Group had approximately 488 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 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 Guoliang	Personal Interest and Family Interest	3,895,000 H shares (Notes 1)	–	3.54%	1.26%

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

Notes:

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

Save as disclosed above, as at 30 June 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 30 June 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 a controlled corporation	82,200,000 domestic shares (Note 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%
Beijing Yuankang Technology Co., Ltd.	Registered and beneficial owner of the domestic shares	34,000,000 domestic shares	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*
Jia Yaotian	Interest in a controlled corporation	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股 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 Beijing Yuankang Technology Co., Ltd. 北京原康科技有限公司 ("**Beijing Yuankang**"), a company whose issued shares were reportedly registered as to approximately 51% in the name of Jia Yaotian. As Jia Yaotian is entitled to exercise or control the exercise of one third or more of the voting power at the general meeting of Beijing Yuankang, for the purpose of the SFO, Jia Yaotian is deemed to be interested in the entire 34,000,000 domestic shares held by Beijing Yuankang.

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 30 June 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 six months ended 30 June 2020.

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 2020, none of the directors or supervisors of the Company was granted options to subscribe for H shares of the Company. As at 30 June 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 30 June 2020 or at any time during the six months ended 30 June 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 six months ended 30 June 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 six months ended 30 June 2020.

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 not arranged for them to take out insurance in respect of legal proceedings against the directors of the Company (Code Provision A1.8), except for the budget provided, which is not sufficient.

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 2020. 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.

By order of the Board

Shanxi Changcheng Microlight Equipment Co. Ltd.

Wu Bo

Chairman

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