



THE STOCK EXCHANGE OF HONG KONG LIMITED

(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

18 September 2012

The GEM Listing Committee of The Stock Exchange of Hong Kong Limited (the “GEM Listing Committee”) censures:

- (1) Shanxi Changcheng Microlight Equipment Co. Ltd. (the “Company”) (stock code: 8286) for its breach of GLR 20.04 and 20.63 of the Rules Governing the Listing of Securities on The Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GLR”);**
- (2) Mr Wang Gen Hai (“Mr GH Wang”), former Executive Director, resigned on 17 July 2009, for his breach of GLR 5.01(4), 5.01(6) and 5.20 and his Director’s Declaration and Undertaking given to the Exchange in the form set out in Appendix 6, Form B to the GLR, for failing to use his best endeavours to procure the Company’s GLR compliance and to comply with the GLR to the best of his ability (the “Director’s Undertaking”);**
- (3) Mr Zhang Xiu Sheng (“Mr Zhang”), former Executive Director, resigned on 8 August 2011, for his breach of GLR 5.01(6) and 5.20 and the Director’s Undertaking;**
- (4) Mr Li Kang Sheng (“Mr KS Li”), former Executive Director, resigned on 17 July 2009, for his breach of GLR 5.01(6) and the Director’s Undertaking;**
- (5) Mr Tian Qun Xu (“Mr Tian”), Executive Director, for his breach of GLR 5.01(6) and the Director’s Undertaking;**
- (6) Mr Lin Yin Ping (“Mr Lin”), former Non-Executive Director, resigned on 27 May 2011, for his breach of GLR 5.01(6) and the Director’s Undertaking;**
- (7) Mr Ni Guo Qiang (“Mr Ni”), Independent Non-Executive Director, for his breach of GLR 5.01(6) and the Director’s Undertaking;**
- (8) Mr Li Li Cai (“Mr LC Li”), Independent Non-Executive Director, for his breach of GLR 5.01(6) and the Director’s Undertaking;**
- (9) Mr Shen Ming Hong (“Mr Shen”), former Independent Non-Executive Director, resigned on 27 May 2011, for his breach of GLR 5.01(6) and the Director’s Undertaking; and**

- (10) **Ms Chen Yue Jie (“Ms Chen”), former Independent Non-Executive Director, resigned on 27 May 2011, for her breach of GLR 5.01(6) and the Director’s Undertaking.**

The GEM Listing Committee further criticises Mr Wang Wen Sheng (“Mr WS Wang”) for his breach of GLR 5.01(6) the Director’s Director’s Undertaking.

(Mr GH Wang, Mr Zhang, Mr KS Li, Mr Tian, Mr Lin, Mr Ni, Mr LC Li, Mr Shen, Ms Chen and Mr WS Wang together, the “**Relevant Directors**”.)

On 14 August 2012, the GEM Listing Committee conducted a hearing into the conduct of the Company and of each of the Relevant Directors in relation to their obligations under the GLR and the Director’s Undertaking.

Findings of fact by the GEM Listing Committee

The GEM Listing Committee considered the written and/or oral submissions of the relevant parties and made the following findings of fact.

The Company, listed in 2004, was at the material time, principally engaged in the design, research, development, manufacture and sale of image transmission fibre optic products in the PRC.

By announcement of 26 April 2010 (the “**Announcement**”), the Company disclosed that:

- (1) As disclosed in the financial statements in the FY2004 to FY2009 Annual Reports, the Company provided financial assistance to Taiyuan Changcheng Optics Electronics Industrial Corporation (“**TCO**”), Taiyuan Tanghai Automatic Control Company Limited (“**TTA**”) and Taiyuan Huamei Medical Equipments Company Limited (“**THM**”) (collectively, the “**Connected Persons**”).
- (2) TCO, TTA and THM were all connected persons of the Company.
- (3) The outstanding balance of the advances/loans provided as of the respective year end dates were:

(RMB’000)	TCO	TTA	THM
As at 31.12.04	226	-	-
As at 31.12.05	1,777	38	-
As at 31.12.06	5,139	75	-
As at 31.12.07	7,899	128	18
As at 31.12.08	5,809	359	3,311
As at 31.12.09	8,130	1,030	4,100

- (4) The advances/loans to the Connected Persons were unsecured, interest-free and repayable on demand.
- (5) A Board meeting was held in March 2010 to approve and ratify the financial assistance provided in FY2009.
- (6) The Company ceased provision of financial assistance to the Connected Persons.

- (7) The Company admitted breaches of GLR 20.04, GLR 20.63 (with respect to the financial assistance provided to TCO and THM) and GLR 20.66 (with respect to the financial assistance provided to TTA).

No announcement was published and no independent shareholders' approval was obtained for the financial assistance to the Connected Persons over the years.

The Company's Annual Reports and Results from FY2004 to FY2009 contained disclosure as follows:

- (1) In the Report of the Directors: TCO and TTA were substantial shareholders of the Company.
- (2) In the Notes to the Financial Statements under "*Balances with Shareholders*" or "*Due from Shareholders*" or "*Due from a Related Company*": (a) the outstanding balance of the advances/loans to each of the Connected Persons as at year end; (b) the maximum amounts of the advances/loans outstanding from each of the Connected Persons during the year; (c) TCO and TTA were shareholders of the Company and THM, a related company; and (d) the amounts due from shareholders are unsecured, interest-free and repayable on demand.

There were also repeated statements in the Company's FY2005 to FY2009 Annual Reports of review of internal controls by the Board or that the Board was responsible for reviewing the Company's internal controls. Each of these Annual Reports was signed off by the Directors of the Company with a responsibility statement that the Directors were responsible for the accuracy of the content and statements in the Annual Report.

No written agreements were entered into in relation to the Company's provision of financial assistance to the Connected Persons, other than the following:

	Date	Borrower	Loan Amount (RMB)	Terms	Signed by
1.	30.5.2006	TCO	1,600,000	7 mths, interest free	GH Wang
2.	5.7.2006	TCO	860,000	6 mths, interest free	GH Wang
3.	15.5.2007	TCO	2,641,877	105 days, interest free	GH Wang
4.	1.4.2008	THM	3,000,000	18 mths, interest free	GH Wang
5.	27.8.2009	TCO	2,000,000	1 yr, interest free	WS Wang

Except for Mr WS Wang and Mr Zhang, who were appointed Executive Directors of the Company on 17 July 2009, all the other Relevant Directors were appointed to their office upon the Company's IPO. The four Independent Non-Executive Directors (the "INEDs"), Mr Ni, Mr LC Li, Mr Shen and Ms Chen, were also appointed Audit Committee members upon the Company's IPO.

The Company's submissions

The Company and the Relevant Directors (other than Mr GH Wang who had not responded to the Listing Division's enquiries) submitted that:

- (1) Mr GH Wang arranged and approved the advances/loans to the Connected Persons provided prior to 17 July 2009.

- (2) Loans/advances to the Connected Persons made after 17 July 2009 to 31 December 2009 were approved by Mr WS Wang. Mr Zhang agreed to the loan of RMB2m provided by the Company to TCO on 27 August 2009.
- (3) Other than Mr GH Wang, all the other Relevant Directors: (a) became aware of the financial assistance to the Connected Persons made over the years (until 17 July 2009) only around March 2010; and (b) were not involved in and had no knowledge of the financial assistance at all relevant time.
- (4) As of 31 December 2011, there remained an outstanding sum of RMB592,871 due from TTA and RMB4,283,396 due from THM respectively.
- (5) The Company admitted its breach of GLR 20.04 and 20.63.

GLR requirements

GLR 20.04 requires written agreements to be entered into for connected transactions.

Under GLR 20.65 and GLR 20.66, connected transactions may be exempted from the independent shareholders' approval requirement if, among other requirements, the financial assistance is provided by a listed issuer in the ordinary and usual course of business and/or on normal commercial terms. Financial assistance not exempted under these rules is subject to the reporting, announcement and prior independent shareholders' approval requirements under GLR 20.63.

Findings of breach by the GEM Listing Committee

Having considered and attached appropriate weight to all the written and/or oral submissions received from the Listing Division, the Company and the Relevant Directors (other than Mr GH Wang), the GEM Listing Committee made the following findings of breach.

Company

The Company's granting of advance and loans to the Connected Persons were connected transactions governed by Chapter 20 of the GLR:

- (1) TCO, TTA and THM were connected persons of the Company.
- (2) The provision of the advances/loans to the Connected Persons constituted the Company's financial assistance to the Connected Persons and in turn connected transactions of the Company under GLR 20.10(4) and 20.13(2).

Breach of GLR 20.04

Only five written agreements were entered into between the Company and TCO/THM. They did not cover all advances/loans from the Company to TCO and THM between FY2004 to FY2009. No written agreements were entered into at all in relation to the Company's advances/loans to TTA. The Company therefore breached GLR 20.04 which required written agreements to be entered into for connected transactions. The Company admitted a breach of GLR 20.04.

Breach of GLR 20.63

The advance/loans to the Connected Persons were not provided in the ordinary and usual course of business of the Company. As they were interest free and without security, they were also not provided on normal commercial terms. The GEM Listing Committee found that the advances and loans were not exempt under GLR 20.65 or 20.66; and were therefore subject to the reporting, announcement and independent shareholders' approval requirements under GLR 20.63. The Company breached GLR 20.63 by failing to comply with these requirements:

- (1) No prior independent shareholders' approval was obtained in relation to the advance/loans.
- (2) The Announcement disclosing the advances/loans was published only on 26 April 2010 with delay as follows:
 - (a) with respect to the advance/loans to TCO, since 31 December 2004 (the first financial year end date in which the financial assistance was provided): 5 years and 5 months;
 - (b) with respect to the advance/loans to TTA, since 31 December 2005: 4 years and 4 months; and
 - (c) with respect to the advance/loans to THM, since 31 December 2007: 2 years and 5 months.
- (3) The reporting requirement was not complied with. Disclosure in the Company's FY2004 to FY2009 Annual Reports fell short of that required under GLR 20.45.

Internal Controls

The Company admitted that it did not have internal controls in relation to Chapter 20 of the GLR. The Company submitted that its internal controls to procure GLR compliance during FY2004 and FY2009 consisted of: (i) the engagement of a Compliance Adviser from FY2004 to FY2006, (ii) the appointment of a Compliance Officer, (iii) the establishment of a Board of Directors and an Audit Committee; and (iv) the establishment and implementation of an internal policy titled "*Internal Controls – Capital and Fund Flow*".

The GEM Listing Committee shared the Listing Division's view that the steps at (i) to (iii) were all required by the GLR and did not constitute internal controls to procure the Company's GLR compliance. The internal policy titled "*Internal Controls – Capital and Fund Flow*" governed the use and payment of corporate funds and did not contain any provision that catered for the Company's GLR compliance.

The GEM Listing Committee therefore concluded that the Company did not have in place any meaningful, let alone adequate and effective, internal controls to ensure the Company's compliance with the GLR.

Relevant Directors

GLR 5.01 provides that the board of directors of an issuer is collectively responsible for its management and operations and requires that every Director must, in the performance of his duties as a director, to, among other requirements,

- (1) avoid actual and potential conflicts of interest and duty; and
- (2) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the issuer.

Each Director had provided the Director's Undertaking to the Exchange.

Mr GH Wang's breach of GLR 5.01(4), 5.01(6) and 5.20 and the Director's Undertaking

From FY2004 until 17 July 2009, Mr GH Wang was the Chairman and an executive director of the Company, legal representative of TCO and THM, and a director of TTA. Mr GH Wang had an actual conflict of interest in the Company's provision of financial assistance to the Connected Persons. Notwithstanding such conflict, he approved all or some of the Company's financial assistance to the Connected Persons from FY 2004 to 17 July 2009 without, it was alleged, seeking the Board's approval or involvement of any other Directors of the Company. As noted above, of the five written agreements produced by the Company, Mr GH Wang signed four of them in relation to the Company's granting of financial assistance to the Connected Persons before 17 July 2009. The Committee concluded that Mr GH Wang breached GLR 5.01(4) which required that a director must "*avoid actual and potential conflicts of interest and duty*".

The GEM Listing Committee also concluded that, as a director of the Company at the relevant time, Mr GH Wang breached GLR 5.01(6) as:

- (1) Mr GH Wang caused the Company to provide financial assistance on terms not beneficial to the Company, and not in the interest of the Company as a whole;
- (2) he failed to avoid and properly address his conflict of interest in relation to the Company's financial assistance to the Connected Persons;
- (3) having knowledge and involvement in the Company's financial assistance to the Connected Persons, he did not take steps to ensure that the Company's complied with the GLR in relation to the granting of financial assistance; and
- (4) he failed to take steps to ensure the Company had adequate internal controls in place to ensure the Company's GLR compliance.

As the Company's Compliance Officer from IPO until 17 July 2009, Mr GH Wang was also required under GLR 5.20 to advise or assist the Board in implementing procedures in the Company to ensure GLR compliance. There was no evidence or submission that, during the period, he had done so. The GEM Listing Committee found that Mr GH Wang breached GLR 5.20.

The GEM Listing Committee further concluded that, by reason of his breach of GLR 5.01(4), 5.01(6) and 5.20, his failure to prevent the Company's GLR breach and his failure to ensure the Company had adequate internal controls in place to ensure GLR compliance, Mr GH Wang also breached the Director's Undertaking.

The GEM Listing Committee found that the manner in which Mr GH Wang treated the assets of the Company, without any apparent regard for the fact that there are rules which govern how listed companies are run and the responsibilities that the Directors undertake to assume on their appointment, was cavalier and cynical in the extreme.

Mr Zhang's breach of GLR 5.01(6) and 5.20 and the Director's Undertaking

Mr Zhang agreed to the Company's provision of financial assistance from 17 July to 31 December 2009 at least on one occasion and on terms not beneficial to the Company and not in the interest of the Company as a whole. Having knowledge and involvement in the Company's financial assistance at the relevant time, he did not take steps to ensure that the Company's complied with the GLR in relation to the granting of financial assistance. He also failed to take steps to ensure the Company had adequate internal controls in place to ensure the Company's GLR compliance.

Mr Zhang had been the Company's Compliance Officer since 17 July 2009. There was no evidence or submission that he had taken any steps in advising and assisting the Board in implementing procedures to ensure the Company's GLR compliance as required under GLR 5.20. Mr Zhang acknowledged in his submission that he was too busy with hand-over and overlooked the need to implement measures to establish, maintain or review the effectiveness of the Company's internal controls.

The GEM Listing Committee therefore concluded that, as a director of the Company, Mr Zhang breached GLR 5.01(6) and 5.20 and the Director's Undertaking.

Mr WS Wang's breach of GLR 5.01(6) and the Director's Undertaking

Mr WS Wang approved the Company's advance/loans to the Connected Persons granted after 17 July 2009 to 31 December 2009 which, as noted above, were granted on terms not beneficial to the Company and not in the interest of the Company as a whole. Likewise, having knowledge and involvement in the Company's financial assistance at the relevant time, he did not take steps to ensure the Company's compliance with the GLR in relation to the granting of financial assistance. Mr WS Wang also failed to take steps to ensure the Company had adequate internal controls in place to ensure the Company's GLR compliance.

The GEM Listing Committee therefore concluded that, as a director of the Company, Mr WS Wang breached GLR 5.01(6) and the Director's Undertaking.

Breach of GLR 5.01(6) and the Director's Undertaking by Mr KS Li, Mr Tian, Mr Lin, Mr Ni, Mr LC Li, Mr Shen and Ms Chen

Each of the Directors identified above had been long serving members of the Board, appointed since IPO. Mr Tian, Mr Lin, Mr Ni, Mr LC Li, Mr Shen and Ms Chen should have reviewed six Annual Reports of the Company from FY2004 to FY2009. Mr KS Li should have reviewed five Annual Reports from FY2004 to FY2008. Had these Directors proactively and carefully reviewed and considered the Company's financial reports, they should/would have noted and identified the financial assistance made to the Connected Persons, and considered their GLR implications to ensure the Company's GLR compliance. This in turn would have assisted in preventing the Company's breaches over the years or enabled earlier detection and disclosure of the breaches.

However, these Directors submitted that they were not aware of the financial assistance to the Connected Persons over the years until 2010. The GEM Listing Committee was satisfied that these Directors had not proactively and carefully reviewed the Annual Reports, noted the financial assistance disclosed in the Annual Reports five/six years in a row and considered related compliance issues.

The Board was responsible for the Company's internal controls. As noted above, it was a finding of the GEM Listing Committee that the Company did not have adequate internal controls to ensure the Company's GLR compliance. There were repeated statements in the Company's FY2005 to FY2009 Annual Reports of the Board's review of internal controls or that the Board was responsible for reviewing the Company's internal controls. In addition, the four INEDs were also members of the Audit Committee mandated with the duty to *"review the Company's internal controls"* and *"to discuss internal controls with the Company's management to ensure it has fulfilled its duty of putting an effective internal control system in place"*.

However, no details or evidence had been produced as to the review of internal controls by the Board or the Audit Committee over the years. The Company admitted that the Audit Committee did not discuss the Company's internal controls.

The GEM Listing Committee therefore found that these Directors breached GLR 5.01(6) and their respective Director's Undertaking by reason of:

- (1) their failure to proactively review the Company's Annual Reports to ensure the Company's GLR compliance; and
- (2) their failure to establish or maintain adequate internal controls in the Company to ensure GLR compliance.

The GEM Listing Committee regarded the breaches by the Company and the Relevant Directors as serious, warranting imposition of public sanctions.

- (1) The breaches of Chapter 20 of the GLR persisted and remained undetected for years until 2010. Although some disclosures were made in the Company's FY2004 to FY2009 Annual Reports, such disclosures were generic and did not comply with the specific requirements of the GLR.

- (2) Shareholders of the Company have been deprived for years of their rights to vote and decide on the transactions before they were conducted.
- (3) The terms of the financial assistance had no commercial benefit to the Company at all. As a result of the provision of the financial assistance, the Company had been deprived of the use of the funds during the term of the financial assistance which remained outstanding for years and which had still not been totally repaid. The Company was, as a result, exposed to and continued to be exposed to the credit risk of not being repaid in full.
- (4) The Company had been listed since 2004 and there had been no observable internal controls on compliance with the GLR in existence throughout and there was nothing to demonstrate that the Relevant Directors had conducted any internal control review or taken any other steps to ensure the Company had adequate internal controls in place.
- (5) Other than Mr GH Wang, Mr Zhang and Mr WS Wang, all the other Relevant Directors had been in office for periods of time sufficient to identify compliance issues and to create adequate reporting and monitoring internal controls by which the alleged activities of Mr GH Wang could be brought to their attention for rectification and through which the Company's GLR compliance could be procured. There was nothing to demonstrate that they had done so.
- (6) Full repayment of all financial assistance had not been achieved.

Mr GH Wang and Mr KS Li made no attempt to ensure that the Division has an up to date correspondence address for them and the Relevant Directors (except for Mr Lin and Mr WS Wang) made no effort to file any written submissions with the GEM Listing Committee, in one of the most extreme cases of systemic abuse that the GEM Listing Committee has seen.

Sanctions

The GEM Listing Committee was therefore highly critical of and decided to:

- (1) impose a public censure on:
 - (a) the Company for its breach of GLR 20.04 and 20.63;
 - (b) Mr GH Wang for his breach of GLR 5.01(4), 5.01(6) and 5.20 and his Director's Undertaking;
 - (c) Mr Zhang for his breach of GLR 5.01(6) and 5.20 and his Director's Undertaking; and
 - (d) Mr KS Li, Mr Tian, Mr Lin, Mr Ni, Mr LC Li, Mr Shen and Ms Chen for their respective breaches of GLR 5.01(6) and the Director's Undertaking.
- (2) impose a public statement which involves criticism on Mr WS Wang for his breach of GLR 5.01(6) and the Director's Undertaking.

It is the view of the GEM Listing Committee that the total dereliction of responsibilities exhibited by the Relevant Directors who are being publicly censured is such that the GEM Listing Committee believes that they should not be allowed to have management or Board roles in any Hong Kong listed company.

As regards Mr WS Wang, who is being publicly criticised, the GEM Listing Committee notes that the breaches that occurred with Mr WS Wang's knowledge in the second half of 2009 arose because of the need to keep the Company operating smoothly and, as such Mr WS Wang believed that he was acting in the interests of all shareholders. The GEM Listing Committee believes that Mr WS Wang has taken steps to ensure that the Company will not be in breach of the GEM Listing Rules in future and is diligently working to ensure that the Company operates in compliance with its listing obligations.

Further, the GEM Listing Committee directed that:

- (1) The Company:
 - (a) (i) retain an independent professional adviser satisfactory to the Listing Division (the "**Adviser**") to conduct a thorough review of and make recommendations to improve the Company's internal controls to ensure compliance with the GLR within two weeks from the publication of this News Release; and (ii) provide the Listing Division with the Adviser's written report containing such recommendations within two months from the publication of this News Release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Adviser;
 - (b) furnish the Listing Division with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months; and
 - (c) appoint an independent professional adviser satisfactory to the Listing Division on an ongoing basis for consultation on GLR compliance (the "**Compliance Adviser**") for a period for two years within two weeks from the publication of this News Release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Compliance Adviser. The Compliance Adviser shall be accountable to the Audit Committee of the Company.
- (2) Each of Mr Tian, Mr WS Wang, Mr Ni and Mr LC Li, who are current directors of the Company, to undergo 24 hours of training on GLR compliance, director's duties and corporate governance matters covering topics to be discussed and determined by the Listing Division to be given by the Hong Kong Institute of Chartered Secretaries, the Hong Kong Institute of Directors or other course providers approved by the Listing Division. Such training to be completed within 90 days from the publication of this News Release. The Company is to provide the Listing Division with the training provider's written certification of full compliance with this training requirement by these Directors within two weeks after full compliance.

- (3) The Company to publish an announcement to confirm full compliance with each of the directions set out in (1) and (2) above within two weeks after the respective fulfillment of each of the directions. The Company is to submit drafts of the announcements for the Listing Division's comment and may only publish the announcements after the Listing Division has confirmed it has no further comment on them. The last announcement required to be published under this requirement is to include the confirmation that all directions at (1) and (2) above have been complied with.
- (4) The Company to submit monthly report(s) to the Listing Division on or before the 10th day of each month on the amount of the outstanding financial assistance to the Connected Persons as at the end of the previous month until full repayment has been made; and the Exchange may publish one or more announcements to inform the market of the status of the outstanding financial assistance from the Connected Persons.

For the avoidance of doubt, the Exchange confirms that the above sanctions and directions apply only to the Company and the Relevant Directors and not to any other past or present member of the Company's Board of Directors.