山西長城微光器材股份有限公司

SHANXI CHANGCHENG MICROLIGHT EQUIPMENT CO. LTD.*

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

(Stock Code: 8286)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

This announcement, 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 announcement 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 announcement misleading.

* *For identification purpose only*

FINANCIAL RESULTS

The board of directors (the "**Board**") of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "**Company**") announces the results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016, as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
REVENUE	4	**19,121**	18,731
Cost of sales		**(15,457)**	(14,243)
Gross profit		**3,664**	4,488
Other income, gains and losses	5	**1,015**	2,841
Selling and distribution costs		**(957)**	(1,643)
Administrative expenses		**(21,601)**	(13,158)
Other operating expenses		**(6,761)**	(22,665)
Impairment of due from a shareholder		**(593)**	-
Impairment of due from a former related company		**(47)**	-
Share of loss of an associate		**(123)**	(307)
Finance costs	6	**(3,173)**	(3,158)
LOSS BEFORE TAX	7	**(28,576)**	(33,602)
Income tax expense	8	**-**	-
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(28,576)**	(33,602)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(28,535)**	(33,596)
Non-controlling interests		**(41)**	(6)
		(28,576)	(33,602)
LOSS PER SHARE (RMB)			
- Basic and diluted	9	**(0.092)**	(0.109)

Consolidated Statement of Financial Position
As at 31 December 2017

	Notes	**2017 RMB'000**	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**76,049**	77,522
Land use right		**10,827**	11,120
Interest in associates		**167**	246
		87,043	88,888
CURRENT ASSETS			
Inventories		**13,517**	17,224
Trade and notes receivables	10	**10,589**	11,946
Prepayments, deposits and other receivables		**2,302**	425
Amount due from a shareholder		**-**	593
Amount due from a former related company		**-**	4,283
Cash and cash equivalents		**1,617**	373
		28,025	34,844
CURRENT LIABILITIES			
Trade payables	11	**11,473**	12,283
Accruals and other payables		**55,574**	50,922
Amount due to shareholders		**13,780**	16,490
Bank and other borrowing		**33,460**	13,920
		114,287	93,615
NET CURRENT LIABILITIES		**(86,262)**	(58,771)
TOTAL ASSETS LESS CURRENT LIABILITIES		**781**	30,117
NON-CURRENT LIABILITIES			
Deferred government grants		**10,433**	11,193
NET (LIABILITIES)/ASSETS		**(9,652)**	18,924
EQUITY			
Equity attributable to owners of the Company			
Share capital		**30,886**	30,886
Reserves		**(40,513)**	(11,978)
		(9,627)	18,908
Non-controlling interests		**(25)**	16
TOTAL EQUITY		**(9,652)**	18,924

Consolidated Statement of Changes in Equity
For the year ended 31 December 2017

	Attributable to owners of the Company						
	Issued capital RMB'000	**Capital surplus* RMB'000**	**Statutory surplus reserves* RMB'000**	**Accumulated Losses* RMB'000**	**Total RMB'000**	**Non-controlling interests RMB'000**	**Total equity RMB'000**
At 1 January 2016	30,886	18,561	11,853	(8,796)	52,504	22	52,526
Total comprehensive loss for the year	-	-	-	(33,596)	(33,596)	(6)	(33,602)
At 31 December 2016	30,886	18,561	11,853	(42,392)	18,908	16	18,924
At 1 January 2017	**30,886**	**18,561**	**11,853**	**(42,392)**	**18,908**	**16**	**18,924**
Total comprehensive loss for the year	**-**	**-**	**-**	**(28,535)**	**(28,535)**	**(41)**	**(28,576)**
At 31 December 2017	**30,886**	**18,561**	**11,853**	**(70,927)**	**(9,627)**	**(25)**	**(9,652)**

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

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 Growth Enterprise Market of the Stock Exchange.

2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of RMB28,535,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities and net liabilities of RMB86,262,000 and RMB9,652,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to RMB33,460,000 which would be due for repayment within the next twelve months and amounts due to shareholders amounting to RMB13,780,000 which are repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Group intends to maintain its strong business relationship with its banker to maintain its continuing support. The Directors are of the opinion that there are good track records or relationship with its banker which enhance the Group's ability to renew the current Bank borrowing upon expiry.

In addition, the Directors have been taking active steps to improve the liquidity position of the Group. These steps include (i) strengthening the management of overdue trade receivables; (ii) implementing measures to improve gross profit margin of the Group's products; and (iii) implementing stringent cost control measures.

Provided that these measures can successfully improve the liquidity position of the Group, the Directors 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 consolidated 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 consolidated financial statements.

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

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2017. 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 year and prior years.

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 AND OPERATING SEGMENT INFORMATION

The Group's revenue and contribution to loss were mainly derived from its sale of fiber optic inverters, fiber optic straight plates, fiber optic face plates, fiber optic tapers, fiber optic tapers billets and microchannel plates, which is regarded as a single reportable segment in a manner consistent with the way in which information is reported internally to the Directors, being the chief operating decision maker ("**CODM**"), for purposes of resource allocation and performance assessment. The measures of loss and of total assets and liabilities are consistent with the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position which are reported internally to the CODM. Accordingly, no segment analysis is presented other than entity-wide disclosures.

Entity-wide disclosures

(a) Information about products

The following table sets forth the total sales to external customers by product and the percentage of total revenue by product during the year:

	2017 RMB'000	**%**	2016 RMB'000	%
Fiber optic inverters *(Note)*	**2,421**	**13**	(1,129)	-6
Fiber optic straight plates	**3,999**	**21**	6,361	34
Fiber optic face plates	**719**	**4**	504	3
Fiber optic tapers	**1,966**	**10**	403	2
Microchannel plates	**7,916**	**41**	11,719	63
Water purifier	**45**	**0**	281	2
Others	**2,055**	**11**	592	2
	19,121	**100**	18,731	100

Note:

Sale return of fiber optic inverters from Europe customers during the year ended 31 December 2016 was amounting to approximately RMB3,767,000. As the sales of fibre optic inverters were smaller than its sale return during the year ended 31 December 2016, therefore the net sales were reported as a negative figure.

(b) Geographical information

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

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

	2017 RMB'000	2016 RMB'000
The PRC	**8,974**	7,953
Hong Kong	**7,892**	10,994
Europe *(Note (i))*	**2,447**	(949)
Russia *(Note (ii))*	**(192)**	733
	19,121	18,731

Notes:

(i) Sale return of fiber optic inverters from Europe customers during the year ended 31 December 2016 was amounting to approximately RMB3,767,000. As the sales of fibre optic inverters were smaller than its sale return during the year ended 31 December 2016, therefore the net sales were reported as a negative figure.

(ii) Sale return of fiber optic inverters from Russia customers during the year ended 31 December 2017 was amounting to approximately RMB192,000. As the sales of fiber optic inverters were smaller than its sale return during the year ended 31 December 2017, therefore the net sales were reported as a negative figure.

(c) Information about major customers

Revenue from major customers, each of whom amounted to 10% or more of the total revenue, is set out below:

	2017	2016
	RMB'000	RMB'000
Customer A	**6,444**	9,855
Customer B	**3,672**	4,268
Customer C	**2,000**	2,208
Customer D	**2,075**	-

5. OTHER INCOME, GAINS AND LOSSES

	2017	2016
	RMB'000	RMB'000
Amortisation of deferred government grants	**950**	2,478
Bank interest income	**3**	3
Gross rental income from transmitting station	**30**	26
Reversal of impairment of trade and notes receivables	**29**	-
Foreign exchange (loss)/gain	**(34)**	329
Others	**37**	5
	1,015	2,841

6. FINANCE COSTS

	2017	2016
	RMB'000	RMB'000
Interest on bank borrowing	**1,479**	1,068
Interest on other borrowings	**1,154**	-
Interest on amounts due to shareholders	**540**	2,090
	3,173	3,158

7. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

	2017 **RMB'000**	2016 RMB'000
Auditors' remuneration	**460**	450
Cost of inventories sold	**15,457**	14,243
Staff costs (including directors' remuneration)		
Wages and salaries	**15,679**	17,587
Pension scheme contributions	**5,722**	6,164
	21,401	23,751
Depreciation of items of property, plant and equipment	**5,339**	4,893
Amortisation of land use right	**293**	293
Net foreign exchange loss/(gain)	**34**	(329)
Share of loss of an associate	**123**	307
Research and development costs	**313**	971
Impairment of investments in associates	**148**	333
Impairment of inventories	**6,215**	19,735
Impairment of due from a shareholder	**593**	-
Impairment of due from a former related company	**47**	-
(Reversal of impairment)/impairment of trade receivables	**(29)**	1,606

8. INCOME TAX EXPENSE

	2017 **RMB'000**	2016 RMB'000
Current PRC Enterprise income tax		
- Charge for the year	**-**	-
Deferred tax	**-**	-
Total tax charge for the year	**-**	-

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 year ended 31 December 2017 (2016:RMB Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdiction in which the Group operates.

According to the applicable Enterprise Income Tax Law of the PRC, the Company, which operates in the Taiyuan Economic and Technology Development Zone, the PRC, and which is registered as a New and High Technical Enterprise, is entitled to a concessionary Enterprise Income Tax rate of 15% over 3 years, beginning on 15 October 2015. For the year ended 31 December 2017, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2016: 15%).

9. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of approximately RMB28,535,000 (2016: RMB33,596,000) and 308,860,000 (2016: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2016 and 2017.

10. TRADE AND NOTES RECEIVABLES

	2017	2016
	RMB'000	RMB'000
Trade receivables	**13,042**	13,888
Notes receivables	**-**	540
Less: impairment of trade receivable	**(2,453)**	(2,482)
	10,589	11,946

An aged 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:

	2017	2016
	RMB'000	RMB'000
Within 90 days	**7,835**	6,852
91 to 180 days	**2,146**	2,900
181 to 365 days	**608**	1,654
	10,589	11,406

11. TRADE PAYABLES

An aged analysis of trade payables, based on the invoice date, is as follows:

	2017	2016
	RMB'000	RMB'000
0 to 90 days	**664**	1,529
91 to 180 days	**-**	613
181 to 365 days	**-**	3,119
Over 365 days	**10,809**	7,022
	11,473	12,283

12. DIVIDEND

The directors of the Company do not recommend the payment of any dividend for each of the years ended 31 December 2017 and 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

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

Image transmission fibre optics products manufactured by the Company are image transmission devices containing a rigidly bundle of optical fibres arranged in an ordered fashion so that images can be transmitted from one end of the optical fibre bundle and displayed on the other end of the bundle. A typical image transmission fibre optic product of the Company would consist of over 10 million optical fibres.

The Company and its subsidiaries (together the "**Group**") currently produces five major products, including fibre optic inverters, fibre optic straight plates, fibre optic face plates, fibre optic tapers and microchannel plates.

Details of the total sales to external customers by product and the percentage of total revenue by product for the years ended 31 December 2017 and 2016 are set out in notes to the accounts 4 above.

Financial Review

Turnover of the Group for the year ended 31 December 2017 was approximately RMB19,121,000 (2016: RMB18,731,000), representing an increase of approximately 2% as compared to that of the last year.

Cost of sales of the Group for the year ended 31 December 2017 was approximately RMB15,457,000 (2016: RMB14,243,000), representing an increase of approximately 9% as compared to that of the last year.

The gross profit margin of the Group for the year ended 31 December 2017 was 19% (2016: 24%).

Administrative expenses of the Group for the year ended 31 December 2017 was approximately RMB21,601,000 (2016: RMB13,158,000), representing an increase of approximately RMB8,443,000 as compared to that of the last year. As the Group reduced production scale during the year ended 31 December 2017, certain amount of labor costs (including pension scheme contributions and welfare expenses) are charged to the profit and loss as administrative expenses instead of the cost of inventories as manufacturing costs. Hence, the labor and staff costs included in the administrative expenses during the year ended 31 December 2017 was increased by approximately RMB6,028,000 as compared to that of the last year.

Other operating expenses of the Group for the year ended 31 December 2017 was approximately RMB6,761,000 (2016: RMB22,665,000), representing a decrease of approximately RMB15,904,000. The decrease was mainly attributable by the decrease in the impairment of inventories. As customers' requirement on the product quality has been increasing and there were sales return from time to time in recent years, the Group assesses the value of inventories at the end of each reporting period. The Group assessed the value of inventories as at 31 December 2017 and made an impairment in the amount of approximately RMB6,215,000 (2016: RMB19,735,000). The impairment amounts mainly includes those (i) finished goods with aging are over one-year and they are considered slow-moving items; (ii) finished goods returned by customers due to failed quality and they are no longer to be used for reproduction; and (iii) work in progress with aging are over one-year and they are produced for specific type of products with no alternative usage. In addition, the Group implemented measures to improve its production process in order to enhancing the quality of its products and meeting customers' requirement on the product quality during the year ended 31 December 2017.

The Group reported finance costs amounting to approximately RMB3,173,000 for the year ended 31 December 2017 (2016: RMB3,158,000), representing an increase of approximately RMB15,000 as compared to that of the last year. The finance costs for the year ended 31 December 2017 comprises interest on bank loan approximately RMB1,479,000; interest on loans from shareholders approximately RMB540,000, interest on loans from connected persons approximately RMB8,000, interest on other loans approximately RMB1,090,000 and interest on discounted bills approximately RMB56,000.

The loss after tax for the year ended 31 December 2017 of the Group was approximately RMB28,576,000 (2016: RMB33,602,000).

Going Concern

As at 31 December 2017, the Group's current liabilities exceeded its current assets by approximately RMB86,262,000. In addition, as at 31 December 2017, the Group had an outstanding bank borrowing, loans from connected persons and other borrowings amounting to approximately RMB13,479,000, RMB712,000 and RMB19,269,000 respectively, which would be due for repayment within the next twelve months; and loans from shareholders amounting to approximately RMB13,780,000 which is repayment on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

To address the issue of going concern, the directors of the Company have taken/will take the following steps:

– continue to negotiate with the Company's banker for renewal of the bank loan;

– strengthen the management of overdue trade receivable;

– implement measures to improve gross profit margin of the Group's products;

– reduce production scale in line with sale results;

– implement stringent cost control measures;

– consider to issue domestic shares and/or other fund raising measures; and

– consider seeking further financial assistance from its shareholders, if appropriate.

The Group has been proactively seeking to raise funds and taking measures to strengthen its financial position during the year ended 31 December 2017. The Group will continue to negotiate with potential investors (including the existing shareholders) the possibilities of raising funds to the Group in order to address the going concern issue of the Group.

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

The Group obtained financial assistance from Taiyuan Changcheng Optics Electronics Industrial Corporation ("**Taiyuan Changcheng**") since the late of 2011. As at 31 December 2011, 2012, 2013, 2014, 2015, 2016, and 31 December 2017, the amount due to Taiyuan Changcheng was RMB500,000, RMB12,400,000, RMB14,400,000, RMB14,400,000, RMB14,400,000, RMB16,490,070 (including interest portion RMB2,090,070), and approximately RMB13,327,000 (including interest portion approximately RMB2,627,000) respectively.

During the year ended 31 December 2017, Tiayuan Changcheng provided further financial assistance of RMB1,300,000, which are secured by certain plant and machinery and motor vehicles of the Company, to the Company. As at 31 December 2017, the carrying amount of the pledged plant and machinery and motor vehicles was approximately RMB1,417,000 and RMBNil respectively.

The Group obtained financial assistance from Beijing Gensir Venture Capital Management Limited ("**Beijing Gensir**") during the year ended 31 December 2017. As at 31 December 2017, the amount due to Beijing Gensir was RMB454,000 (including interest portion approximately RMB4,000).

The Group obtained financial assistance from two connected persons ("**Connected Persons**") during the year ended 31 December 2017. As at 31 December 2017, the amount due to Connected Persons was amounting to approximately RMB712,000 (including interest portion approximately RMB8,000).

For the year ended 31 December 2017, total interest charged by Taiyuan Changcheng, Beijing Gensir and Connected Persons was approximately RMB537,000, RMB4,000 and RMB8,000 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 December 2017, the Group had an outstanding bank borrowing amounting to approximately RMB13,479,000 (2016: RMB13,920,000) which was expired in November 2016 and was not repaid. The bank borrowing is now repayable on demand. The bank borrowing is secured by the land located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC, certain plant and machinery at carrying amount of approximately RMB537,000 (2016: RMB846,000).

As at 31 December 2017, the Group had outstanding other borrowings amounting to approximately RMB19,269,000 (including interest portion approximately RMB1,041,000). The other borrowings were mainly used in purchase of production raw materials and payment of labor costs and as the general working capital of the Group. As at 31 December 2017, Beijing Gensir is the guarantor of the other borrowings in the amount of RMB3,000,000.

Financial Assistance to Related Parties

As at 31 December 2017, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2016: RMB593,000). As at 31 December 2017, the amount of approximately RMB593,000 was fully impaired. As at 31 December 2017, the amount due from a former related company – Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) ("**Shanxi Jindi**") was approximately RMB47,000 (2016: RMB4,283,000). As at 31 December 2017, the amount of approximately RMB47,000 was fully impaired. At the year end of 2017, the Company adopted an offset plan, pursuant to which RMB5,000,000 was offset the amount due from Shanxi Jindi against the amount due to Taiyuan Changcheng. As a result, the amount due from Shanxi Jindi and the amount due to Taiyuan Changcheng decreased by the same amount respectively.

Leasing Arrangement

As an office building (the "**No. 8 Building**") owned by the Company was vacant for a long period of time, the Company, during the second half of 2017, has been negotiation with a related party to enter into a leasing arrangement and intends to enter into a letter of intent for the leasing arrangement. Due to the substantial change in the board composition and management of the Company at the end of November 2017 and miscommunication problem, the management office of the Company wrongly entered into a lease agreement with the related party instead of a letter of intent without the prior Board's approval on 26 December 2017. The No. 8 Building was not in the condition of use as no interior decoration and proper water and electricity connection in place and the related party has not ready to occupy the No. 8 Building. The management of Company considers that this is the management and communication mistake. In this connection, the Company then entered into a cancellation agreement with the related party on 11 June 2018, pursuant to which both of the Company and the related party agreed that the original lease agreement should be cancelled at the effective date of the agreement and there shall be no obligations relating to the original lease agreement owed to the counter party.

Liquidity and Financial Resources

As at 31 December 2017, the total assets of the Group decreased by approximately RMB8,664,000 to approximately RMB115,068,000 as compared to approximately RMB123,732,000 as at the end of the previous financial year, representing a decrease of approximately 7%.

As at 31 December 2017, the total liabilities of the Group increased by approximately RMB19,912,000 to approximately RMB124,720,000 as compared to approximately RMB104,808,000 as at the end of the previous financial year, representing an increase of approximately 19%.

As at 31 December 2017, the total equity of the Group decreased by approximately RMB28,576,000 to approximately RMB9,652,000 in negative as compared to approximately RMB18,924,000 as at the end of the previous financial year.

Gearing Ratio

As at 31 December 2017, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 109% (2016: 83%).

Significant Investment Held

As at 31 December 2017, the Group held interests in associates with the carrying value of approximately RMB167,000 (2016: RMB246,000).

Acquisition and Disposal of Subsidiaries

The Group had no acquisition and disposal of subsidiaries during the year ended 31 December 2017.

Pledge of Assets

As at 31 December 2017, the Group's land and plant and machinery with the carrying value of approximately RMB10,827,000 and RMB537,000 respectively (2016: RMB11,120,000 and RMB846,000) were pledged to a bank as securities for the borrowing facilities of the Group.

During the year ended 31 December 2017, Tiayuan Changcheng provided further financial assistance of RMB1,300,000, which are secured by certain plant and machinery and motor vehicles of the Company, to the Company. As at 31 December 2017, the carrying amount of the pledged plant and machinery and motor vehicles was approximately RMB1,417,000 and RMBNil respectively.

Contingent Liabilities

As at 31 December 2017, 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 31 December 2017, the Group had approximately 511 (2016: 542) full-time employees. For the year ended 31 December 2017, the Group reported staff costs of approximately RMB21,401,000 (2016: RMB23,751,000). The Group remunerates its employees based on their experience, performance and value, which they contribute to the Group.

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 directors of the Company, the Company has complied with the code provisions except for (i) no arrangement of insurance cover in respect of legal action against the directors of the Company (code provisions A1.8) due to insufficient budget provided; (ii) one non-executive director and four independent nonexecutive directors of the Company did not attend the annual general meeting of the Company dated 30 November 2017 (code provisions A6.7) due to other engagements; and (iii) the chairman of the board of directors of the Company did not attend the annual general meeting of the Company dated 30 November 2017 (code provisions E1.2) due to other engagement.

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 year ended 31 December 2017. Having made specific enquiry of all the incumbent 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.

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 year ended 31 December 2017.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee include (i) to consider the appointment of, external auditors and any questions of resignation or dismissal; (ii) to review financial information; and (iii) to oversight of the financial reporting system, risk management and internal control systems. The audit committee comprises two independent non-executive directors and one non-executive director, namely Ms. Long Yan, Ms. Ning Lingying and Mr. Yuan Guo Liang. Ms. Long Yan was appointed as the chairman of the audit committee. The audited consolidated financial statements for the year ended 31 December 2017 have been reviewed by the audit committee.

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 year ended 31 December 2017.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is the extract of the independent auditors' report from the external auditors of the Company:

Basis for Disclaimer of Opinion

1. **Amount due to a shareholder and interest expenses payable to a shareholder**

   Included in the consolidated statement of financial position as at 31 December 2017 was an amount due to a shareholder of approximately RMB13,327,000. Since audit confirmation of such balance has not been received from the shareholder, we have not been able to assess the accuracy and completeness of the above liability. There are no other satisfactory alternative procedures that we could perform to satisfy ourselves that this balance as at 31 December 2017 was free from material misstatement and the related disclosures have been properly recorded and reflected in the consolidated financial statements of the Company. No sufficient evidence has been received by us in respect of whether the interest expenses payable to that shareholder of approximately RMB537,000 and RMB2,090,000 charged to profit or loss were properly accounted for in the consolidated financial statements for the year ended 31 December 2017 and 2016 respectively. However, we are satisfied that the amount due to the shareholder is fairly stated as at 31 December 2016.

2. **Amount due from a shareholder**

   We were unable to obtain sufficient evidence on the balance of the amount due from a shareholder of RMB593,000 as at 31 December 2016. No sufficient evidence has been received by us in respect of whether the impairment loss related to that shareholder of approximately RMB593,000 charged to profit or loss were properly accounted for in the consolidated financial statements for the year ended 31 December 2017. However, we are satisfied that the amount due from a shareholder is fairly stated as at 31 December 2017.

3. **Amount due from a former related company**

   We were unable to obtain sufficient evidence on the balance of the amount due from a former related company of RMB4,283,000 as at 31 December 2016. No sufficient evidence has been received by us in respect of whether the impairment loss related to that former related company of approximately RMB47,000 charged to profit or loss were properly accounted for in the consolidated financial statements for the year ended 31 December 2017. However, we are satisfied that the amount due from a former related company is fairly stated as at 31 December 2017.

Any adjustments to the figures as described above might have a significant consequential effect on the Group's financial performance and cash flows for the year ended 31 December 2017 and 2016 and the financial position of the Group as at 31 December 2017 and 2016, and the related disclosures thereof in the consolidated financial statements.

4. Material uncertainty relating to the going concern basis

We draw attention to note 2 to the financial statements which mentions that the Group incurred a loss attributable to owners of the Company of RMB28,535,000 for the year ended 31 December 2017 and as at 31 December 2017 the Group had net current liabilities and net liabilities of RMB86,262,000 and RMB9,652,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to RMB33,460,000 which would be due for repayment within the next twelve months and an amount due to shareholders amounting to RMB13,780,000 which are repayable on demand. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the favourable outcomes of the steps being taken by the Directors as described in note 2 to the consolidated financial statements. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at other than the amounts at which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets as current assets.

In the absence of sufficient evidence, we were unable to ascertain whether the assumptions made by the Directors in the preparation of the consolidated financial statements on a going concern basis were appropriate.

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the auditors, Zhonghui Anda CPA Limited, to the amounts set out in the audited consolidated financial statements of the Group for the year ended 31 December 2017. The work performed by Zhonghui Anda CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Zhonghui Anda CPA Limited on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This announcement is published on the GEM website at www.hkgem.com and the Company's website at http://www.sxccoe.com. The annual report of the Company for the year ended 31 December 2017 will be available on both websites and dispatched to the shareholders of the Company in due course.

By order of the Board
Shanxi Changcheng Microlight Equipment Co. Ltd.
Guo Xiu Zhi
Chairman

Taiyuan City, Shanxi Province, the PRC, 28 August 2018

As at the date of this announcement, the board of directors comprises nine directors, of which four are executive directors, namely Mr. Guo Xu Zhi, Mr. Song Zhenglai, Mr. Shen Jian and Ms. Wang Lingling; two non-executive directors, namely Mr. Yuan Guo Liang and Mr. Wu Bo; and three independent non-executive directors, namely Ms. Long Yan, Ms. Ning Lingying, and Ms. Qie Hui Fang.

This announcement will remain on the "Latest Company Announcements" page on the GEM website at www.hkgem.com for at least 7 days from its date of publication and on the website of the Company at http://www.sxccoe.com.