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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 2018

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.

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*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.*

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 2018, together with the comparative figures for the year ended 31 December 2017, as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*4*	**26,386**	19,121
Cost of sales		**(18,810)**	(15,457)
Gross profit		**7,576**	3,664
Other income, gains and losses	*5*	**1,306**	1,015
Selling and distribution costs		**(925)**	(957)
Administrative expenses		**(21,172)**	(21,601)
Other operating expenses		**(10,582)**	(6,761)
Impairment loss of due from a shareholder		**-**	(593)
Impairment loss of due from a former related company		**-**	(47)
Share of loss of an associate		**(172)**	(123)
Finance costs	*6*	**(5,272)**	(3,173)
LOSS BEFORE TAX	*7*	**(29,241)**	(28,576)
Income tax expense	*8*	**-**	-
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(29,241)**	(28,576)
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(29,237)**	(28,535)
Non-controlling interests		**(4)**	(41)
		(29,241)	(28,576)
LOSS PER SHARE (RMB)			
- Basic and diluted	*9*	**(0.095)**	(0.092)

Consolidated Statement of Financial Position
As at 31 December 2018

	Notes	**2018** **RMB'000**	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**91,358**	76,049
Land use right		**10,534**	10,827
Interests in associates		**-**	167
		101,892	87,043
CURRENT ASSETS			
Inventories		**9,030**	13,517
Trade receivables	*10*	**12,646**	10,589
Prepayments, deposits and other receivables		**4,000**	2,302
Cash and cash equivalents		**20,749**	1,617
		46,425	28,025
CURRENT LIABILITIES			
Trade payables	*11*	**9,796**	11,473
Accruals and other payables		**62,826**	49,774
Contract liabilities		**5,904**	5,800
Amount due to shareholders		**19,517**	13,780
Bank and other borrowings		**58,515**	33,460
		156,558	114,287
NET CURRENT LIABILITIES		**(110,113)**	(86,262)
TOTAL ASSETS LESS CURRENT LIABILITIES		**(8,241)**	781
NON-CURRENT LIABILITIES			
Deferred government grants		**30,652**	10,433
NET LIABILITIES		**(38,893)**	(9,652)
EQUITY			
Equity attributable to owners of the Company			
Share capital		**30,886**	30,886
Reserves		**(69,750)**	(40,513)
		(38,864)	(9,627)
Non-controlling interests		**(29)**	(25)
TOTAL EQUITY		**(38,893)**	(9,652)

Consolidated Statement of Changes in Equity
For the year ended 31 December 2018

	Attributable to owners of the Company						
	Issued capital	**Capital surplus***	**Statutory surplus reserves***	**Accumulated losses***	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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)
At 1 January 2018	**30,886**	**18,561**	**11,853**	**(70,927)**	**(9,627)**	**(25)**	**(9,652)**
Total comprehensive loss for the year	**-**	**-**	**-**	**(29,237)**	**(29,237)**	**(4)**	**(29,241)**
At 31 December 2018	**30,886**	**18,561**	**11,853**	**(100,164)**	**(38,864)**	**(29)**	**(38,893)**

* 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 GEM of the Stock Exchange.

2. GOING CONCERN BASIS

The Group incurred a loss attributable to owners of the Company of approximately RMB29,237,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities and net liabilities of approximately RMB110,133,000 and RMB38,893,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB58,515,000 which would be due for repayment within the next twelve months and amounts due to shareholders amounting to approximately RMB19,517,000 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 of the Company (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) proposing and implementing share offering plan; (ii) negotiating and implementing debts restructuring plan with shareholders, borrowers and financial institutions; (iii) negotiating and implementing loan interest reduction plan with shareholders and borrowers; (iv) seeking financial support from shareholders and borrowers; (v) strengthening the management of overdue trade receivables; (vi) implementing imaging fiber production technology upgrade; (vii) implement measures to improve products passing rate and gross profit margin; (viii) adjusting production line structure to achieve efficiency level; and (ix) 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 (the "**HKICPA**") that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. 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 except as stated below.

HKFRS 15 "Revenue from Contracts with Customers"

Revenue is recognised at a point in time when control of the products is transferred to the customers.

HKFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	31 December 2017	1 January 2017
	RMB'000	*RMB'000*
At 31 December 2017		
Increase in contract liabilities	5,800	5,591
Decrease in accruals and other payables	(5,800)	(5,591)

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 (collectively referred to as "**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, 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:

	2018		2017	
	RMB'000	*%*	*RMB'000*	*%*
Fiber optic inverters	**9,251**	**35**	2,421	13
Fiber optic straight plates	**6,119**	**23**	3,999	21
Fiber optic face plates	**325**	**1**	719	4
Fiber optic tapers	**3,213**	**13**	1,966	10
Microchannel plates	**7,366**	**28**	7,916	41
Water purifier	**112**	**0**	45	0
Others	**-**	**0**	2,055	11
	26,386	**100**	19,121	100

(b) Geographical information

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

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

	2018	2017
	RMB'000	*RMB'000*
The PRC	**15,127**	8,974
Hong Kong	**3,742**	7,892
Europe	**2,733**	2,447
Russia *(Note (i))*	**4,779**	(192)
Taiwan	**5**	-
	26,386	19,121

Note:

(i) 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 was 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:

	2018	2017
	RMB'000	*RMB'000*
Customer A	**9,485**	6,444
Customer B	**4,779**	3,672
Customer C	**3,484**	2,000
Customer D	**3,043**	2,075

(d) Disaggregation of revenue from contracts with customers

Segment	**Manufacturing and sales of Fiber Optic Products**	
	2018	2017
	RMB'000	*RMB'000*
Geographical markets		
The PRC	**15,127**	8,974
Hong Kong	**3,742**	7,892
Europe	**2,733**	2,447
Russia	**4,779**	(192)
Taiwan	**5**	-
	26,386	19,121
Major products		
Fiber optic inverters	**9,251**	2,421
Fiber optic straight plates	**6,119**	3,999
Fiber optic face plates	**325**	719
Fiber optic tapers	**3,213**	1,966
Microchannel plates	**7,366**	7,916
Water purifier	**112**	45
Others	**-**	2,055
	26,386	19,121
Timing of revenue recognition		
At a point of time	**26,386**	19,121
Over time	**-**	-
	26,386	19,121

Manufacturing and sales of Fiber Optic Products

The Group manufactures and sells of fiber optic products to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

Sales to customers are normally made with credit terms of 90 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

5. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Amortisation of deferred government grants	**1,140**	950
Bank interest income	**4**	3
Gross rental income from transmitting station	**93**	30
Reversal of impairment of trade receivables	**-**	29
Foreign exchange loss	**(42)**	(34)
Others	**111**	37
	1,306	1,015

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interest on bank borrowing	**1,326**	1,479
Interest on other borrowings	**3,389**	1,154
Interest on amount due to shareholders	**557**	540
	5,272	3,173

7. LOSS BEFORE TAX

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

	2018	2017
	RMB'000	*RMB'000*
Auditors' remuneration	**442**	460
Cost of inventories sold	**18,810**	15,457
Staff costs (including directors' remuneration):		
Wages and salaries	**15,308**	15,679
Pension scheme contributions	**5,852**	5,722
	21,160	21,401
Depreciation of items of property, plant and equipment	**4,807**	5,339
Amortisation of land use right	**293**	293
Net foreign exchange loss	**42**	34
Share of loss of an associate	**172**	123
Research and development costs	**402**	313
Impairment of investments in associates	**167**	148
Impairment of inventories	**7,736**	6,215
Impairment loss of due from a shareholder	**-**	593
Impairment loss of due from a former related company	**-**	47
Impairment of/(reversal of impairment of) trade receivables	**901**	(29)

8. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*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 2018 (2017: 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 2018, the Company was still entitled to a concessionary Enterprise Income Tax rate of 15% (2017: 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 RMB29,237,000 (2017: RMB28,535,000) and 308,860,000 (2017: 308,860,000) shares in issue during the year. There were no diluted potential ordinary shares in issue during the years ended 31 December 2018 and 2017.

10. TRADE RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**16,000**	13,042
Less: impairment of trade receivables	**(3,354)**	(2,453)
	12,646	10,589

An aging analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2018	2017
	RMB'000	*RMB'000*
Within 90 days	**8,771**	7,835
91 days to 180 days	**2,273**	2,146
181 days to 1 year	**1,602**	608
	12,646	10,589

11. TRADE PAYABLES

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

	2018	2017
	RMB'000	*RMB'000*
0 to 90 days	**2,317**	664
91 days to 180 days	**230**	-
181 days to 365 days	**455**	-
Over 365 days	**6,794**	10,809
	9,796	11,473

12. DIVIDEND

The Directors do not recommend the payment of any dividend for each of the years ended 31 December 2018 and 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Business of the Group

Since the listing of the Company on the GEM of the Stock Exchange in 2004, the Group has been engaged in design, research, development, manufacture, and sale of image transmission fibre optic products as its principal business. Image transmission fibre optics products manufactured by the Group 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 Group would consist of over 10 million optical fibres.

At present, the Group produces five main products, including fibre optic inverters, fibre optic straight plates, fibre optic face plates, fibre optic tapers and microchannel plates. Although fiber-optic imaging devices (fibre optic inverters, fibre optic face plates, fibre 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.

Business Review

Revenue

Revenue of the Group for the year ended 31 December 2018 was approximately RMB26,386,000, representing an increase of approximately 37.9% as compared to that of the last year. Details of the total sales to external customers by product and the percentage of total revenue by product for the years ended 31 December 2018 and 2017 are set out are set out in note (4) above. With the enhancement of product quality control and the implementation of production technology upgrade measures, the Group's revenue has gradually increased since the fourth quarter of 2018. In particular, the revenue of fiber optic inverters and fiber optic straight plates has increased significantly in 2018.

Image Transmission Fiber Optic Production Technology Upgrade

In view of the unsatisfactory performance of the Group in the past and with an aim to further improve its operational and financial performance, the Group has conducted a comprehensive and in-depth review of its production processes in respect of the production technology of the internal standards of products in the fourth quarter of 2018 and considers that it is necessary to implement production technology upgrade and measures. At the same time, the Group has gradually implemented measures to improve products production passing rate, enhance products gross profit margin and adjust production line structure. The results will be reflected in the year of 2019.

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

The Group will strive to implement measures to enhance the efficiency of production lines, including adjustment of production structure, replacement of production equipment, enhancement of products production passing rate and products internal standard production technology.

Financial Review

Turnover of the Group for the year ended 31 December 2018 was approximately RMB26,386,000 (2017: RMB19,121,000), representing an increase of approximately 37.9% as compared to that of the last year.

Cost of sales of the Group for the year ended 31 December 2018 was approximately RMB18,810,000 (2017: RMB15,457,000), representing an increase of approximately 21.7% as compared to that of the last year.

The gross profit margin of the Group for the year ended 31 December 2018 was 28.7% (2017: 19.2%). The improvement in the gross profit margin was mainly attributable by the implementation of measures to improve its production process.

Administrative expenses of the Group for the year ended 31 December 2018 was approximately RMB21,172,000 (2017: RMB21,601,000), representing a decrease of approximately RMB429,000 as compared to that of the last year. There has been no significant change in the administrative expenses for the year.

Other operating expenses of the Group for the year ended 31 December 2018 was approximately RMB10,582,000 (2017: RMB6,761,000), representing an increase of approximately RMB3,821,000 as compared to that of the last year. The Group assessed the value of inventories at the end each reporting period and determined that the impairment of inventories in the amount of approximately RMB7,736,000 (2017: RMB6,215,000) was recognised in the consolidated statement of profit or loss for the year ended 31 December 2018 as other operating expense. The impairment 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.

The Group reported finance costs amounting to approximately RMB5,272,000 (2017: RMB3,173,000) for the year ended 31 December 2018, representing an increase of approximately RMB2,099,000 as compared to that of the last year. Details of the finance costs are set out in note (6) above. The increase in finance costs was mainly attributable by the increase in other borrowings.

The loss after tax for the year ended 31 December 2018 of the Group was approximately RMB29,241,000 (2017: RMB28,576,000).

Going Concern

The Group incurred a loss attributable to owners of the Company of approximately RMB29,237,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities and net liabilities of approximately RMB110,133,000 and RMB38,893,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB58,515,000 which would be due for repayment within the next twelve months and amounts due to shareholders amounting to approximately RMB19,517,000 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 auditors of the Company issued modified opinion with respect to the material uncertainty relating to the going concern basis in the independent auditors' report relating to the audit of the consolidated financial statements of the Group for the year ended 31 December 2018. To address the issue of going concern, the directors of the Company have taken/will take the following steps:

Measures to improve the financial position as below:

- Propose and implement share offering plan;
- Negotiate and implement debts restructuring plan with shareholders, borrowers and financial institutions;
- Negotiate and implement loan interest reduction plan with shareholders and borrowers;
- Seek financial support from shareholders and borrowers; and
- Strengthen the management of overdue trade receivables.

Measures to improve the business capabilities as below:

- Implement image transmission fiber optic production technology upgrade;
- Implement measures to improve products passing rate and gross profit margin;
- Adjust production line structure to achieve efficiency level; and
- Implement stringent cost control measures.

As disclosed in the announcement of the Company dated 31 January 2019, the management team has proposed a fund-raising plan, which will form part of the resumption proposal to the board of directors of the Company for their consideration.

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

The Group obtained financial assistance from Taiyuan Changcheng Optics Electronics Industrial Co., Limited ("**Taiyuan Changcheng**"), a substantial shareholder of the Company. As at 31 December 2018, the amount due to Taiyuan Changcheng was amounting to approximately RMB18,871,000 (including aggregate interest portion approximately RMB3,171,000). 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 Venture Capital Management Limited ("**Beijing Gensir**"), a substantial shareholder of the Company. As at 31 December 2018, the amount due to Beijing Gensir was amounting to approximately RMB646,000 (including aggregate interest portion approximately RMB17,000).

The Group obtained financial assistance from two connected persons (the "**Connected Persons**"). As at 31 December 2018, the amount due to Connected Persons was amounting to approximately RMB759,000 (including aggregate interest portion approximately RMB41,000).

The Group obtained financial assistance from a related company (the "**Related Company**"). As at 31 December 2018, the amount due to a related company was amounting to approximately RMB29,887,000 (including aggregate interest portion approximately RMB1,019,000).

For the year ended 31 December 2018, total interest charged by Taiyuan Changcheng, Beijing Gensir, Connected Persons and Related Company was approximately RMB544,000, RMB14,000, RMB32,000 and RMB1,019,000 respectively. The directors of the Company consider that the interest charged by Taiyuan Changcheng, Beijing Gensir, Connected Persons and Related Company 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 2018, the Group had an outstanding bank borrowing amounting to approximately RMB13,245,000 (2017: RMB13,479,000) which was expired in November 2016 and was not repaid. The bank borrowing is now repayable on demand. The bank borrowing is secured by the land located at No. 7, Dianzi Street, Taiyuan City, Shanxi Province, the PRC and certain plant and machinery of the Company. As at 31 December 2018, the Group had outstanding other borrowings amounting to approximately RMB45,270,000 (2017: RMB19,981,000). As at 31 December 2018, Beijing Gensir is the guarantor of the other borrowings in the amount of RMB6,000,000 (2017: RMB3,000,000).

Financial Assistance to Related Parties

During the year, the amount due from a shareholder – Taiyuan Tanghai Automatic Control Company Limited was approximately RMB593,000 (2017: RMB593,000). As at 31 December 2018 and 2017, the amount of approximately RMB593,000 was fully impaired. As at 31 December 2018, the carrying amount of amount due from a shareholder was RMB Nil (2017: RMB Nil).

During the year, the amount due from a former related company – Shanxi Jindi Yucheng Medical Equipments Company Limited (formerly known as Taiyuan Huamei Medical Equipments Company Limited) was approximately RMB47,000 (2017: RMB47,000). As at 31 December 2018 and 2017, the amount of approximately RMB47,000 was fully impaired. As at 31 December 2018, the carrying amount of amount due from a former related company was RMB Nil (2017: RMB Nil).

Liquidity and Financial Resources

As at 31 December 2018, the total assets of the Group increased by approximately RMB33,249,000 to approximately RMB148,317,000 as compared to approximately RMB115,068,000 as at the end of the previous financial year, representing an increase of approximately 29%.

As at 31 December 2018, the total liabilities of the Group increased by approximately RMB62,490,000 to approximately RMB187,210,000 as compared to approximately RMB124,720,000 as at the end of the previous financial year, representing an increase of approximately 50%.

As at 31 December 2018, the total equity of the Group decreased by approximately RMB29,241,000 to approximately RMB38,893,000 in negative as compared to approximately RMB9,652,000 in negative as at the end of the previous financial year.

Gearing Ratio

As at 31 December 2018, the gearing ratio (defined as net debt divided by total share capital plus net debt) of the Group was approximately 143% (2017: 110%).

Significant Investment Held

As at 31 December 2018, the Group held interests in associates with the carrying value of RMBNil (2017: RMB167,000).

Acquisition and Disposal of Subsidiaries

The Group had no acquisition and disposal of subsidiaries during the year ended 31 December 2018.

Pledge of Assets

As at 31 December 2018, the Group's land use right and plant and machinery with carrying value of approximately RMB10,534,000 and RMB284,000 respectively (2017: RMB10,827,000 and RMB537,000) were pledged to a bank as securities for the borrowing facilities of the Group.

As at 31 December 2018, the Group's plant and machinery and motor vehicles with carrying value of approximately RMB1,003,000 and RMBNil respectively (2017: RMB1,417,000 and RMBNil) were pledged to Taiyuan Changcheng as securities for the borrowing facilities of the Group.

Contingent Liabilities

As at 31 December 2018, 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 2018, the Group had approximately 510 (2017: 542) full-time employees. For the year ended 31 December 2018, the Group reported staff costs of approximately RMB21,160,000 (2017: RMB21,401,000). 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 the Company, the Company has complied with the code provisions except for (i) no arrangement of insurance cover in respect of legal action against the directors of the Company (code provisions A1.8) due to insufficient budget provided and (ii) two non-executive directors and three independent non-executive directors of the Company did not attend the annual general meeting of the Company dated 28 December 2018 (code provisions A6.7) due to other engagements.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors of the Company on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.68 of the GEM Listing Rules throughout the year ended 31 December 2018. Having made specific enquiry of all the relevant 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 2018.

AUDIT COMMITTEE

In compliance with Rules 5.28 and 5.33 of the GEM Listing Rules, the Company has established an audit committee. The primary duties of the audit committee are to review and to provide supervision over the financial reporting system, risk management and internal control systems of the Group. The audit committee comprises two independent non-executive directors and one non-executive director, namely Mr. Xu Yongfeng, Mr. Rong Fei and Mr. Yuan Guo Liang respectively. Mr. Xu Yongfeng has been appointed as the chairman of the audit committee. The audit committee has reviewed the annual results of the Group for the year ended 31 December 2018.

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 2018.

EXTRACT OF INDEPENDENT AUDITORS' REPORT

The following is the extract of the independent auditors' report for the year ended 31 December 2018 from the external auditors of the Company:

Basis for Disclaimer of Opinion

1. Amount due from a shareholder

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 2018 and 2017.

2. Amount due from a former related company

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 2018 and 2017.

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

3. Material uncertainty related to going concern

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred a loss attributable to owners of the Company of approximately RMB29,237,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities and net liabilities of approximately RMB110,133,000 and RMB38,893,000 respectively. In addition, the Group had outstanding bank and other borrowings amounting to approximately RMB58,515,000 which would be due for repayment within the next twelve months and amounts due to shareholders amounting to approximately RMB19,517,000 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 2018 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 2018. 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 2018 will be available on both websites and dispatched to the shareholders of the Company on or before 29 March 2019.

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

Taiyuan City, Shanxi Province, the PRC, 29 March 2019

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

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.

* *For identification purpose only*