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)

SUPPLEMENTAL ANNOUNCEMENT ON ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report of Shanxi Changcheng Microlight Equipment Co. Ltd. (the "Company", and its subsidiaries, collectively referred to as the "Group") for the year ended 31 December 2019 published on 30 June 2020 (the "Annual Report 2019") . Capitalised terms used in this announcement shall have the same meaning as defined in the Annual Report 2019 unless otherwise defined.

Save as disclosed in the Annual Report 2019, the board of directors of the Company (the "Board") provided further information in relation to the Group's other income for the year ended 31 December 2019.

FINANCIAL POSITION AND GOING CONCERN

On 11 July 2019, Taiyuan Changcheng and Beijing Gensir Venture Capital Management Limited (“Beijing Gensir”, which together with Taiyuan Changcheng, the “Lenders”), both being the substantial shareholders of the Company, have entered into a loan agreement with the Company, pursuant to which the Lenders agreed to grant a term loan in the principal amount of RMB60,000,000 (“Shareholders’ Loan A”) to the Company for the purposes of funding of the technological transformation and upgrade plan and replenishing the Company’s general working capital. On 29 July 2019, the Lenders had further entered into a supplemental loan agreement with the Company in relation to the Shareholders’ Loan A.

On 30 July 2019, the Lenders have entered into another loan agreement with the Company, pursuant to which the Lenders agreed to grant a term loan in the principal amount of RMB20,000,000 ("Shareholders' Loan B") to the Company for the purposes of funding of the technological transformation and upgrade plan and replenishing the Company's general working capital.

For the aforesaid Loan Agreements A, the Supplemental Agreement and Shareholder's Loan B, the shareholders shall agree to the borrowing in principle. However, due to the fact that banks are struggling with a tightening in the size of their lending to companies, it is unable to set the actual date for the time being. The Company is also in discussions with other borrowers.

INVENTORIES

With the easing of the COVID-19 epidemic and the relaxation of the government's mandatory quarantine measures, the resumption of full upstream and downstream operations in the industry will inevitably lead to obvious growth in sales in the second half of 2020; At the same time, the Company is developing new products that extend down the industry chain and is expected to generate new sales growth in the fourth quarter, resulting in inventory sales identified in the audit report.

If the aforesaid measures fail to achieve the expected result by 31 December 2020, the Company will make corresponding provisions for inventory impairment in accordance with the requirements of financial system and accounting standards for eliminating this audit opinion. The Company is confident that the inventory issues identified in the disclaimer will be removed from the financial statements next year.

TRADE RECEIVABLES

One of the Group's major suppliers of raw materials (the "Original Supplier") underwent a technological transformation of production equipment and has been unable to provide raw materials to the Group as normal since May 2019. Thus, the Group changed the original supplier from one to another (the "New Supplier"). However, as the product specifications of the new supplier is disqualified, the quality of the products is unstable and below average, thus affecting the normal use of customers. Due to the impact of the COVID-19, the Company was unable to restock the products in time. The epidemic control measures also greatly affected those three customers involved in the aforesaid returned products. The products which they purchased has caused overstocking. And, they were unable to make payment for the products. After communicating with the customers, they agreed to return the purchased products through our withdrawing of selling.

For the products that have been returned, the Company will diligently look for civilian customers while maintaining the sales of military customers, and utilize the return for secondary sales in the market of civilian products, so as to realize the re-sale of products.

For the inventories which are unable to meet the re-sales standard, the Company will make a full provision for impairment by the end of 2020, and at the same time, the Company will introduce the necessary receivables management system to avoid new misstatement, so as to eliminate the audit opinion indicated in the audit report. The Company is confident that the issue of trade receivables identified in the disclaimer will be removed from the financial statements next year.

In the first half of 2020, the Original Supplier has resumed the supply of raw materials, thus ensuring the product qualified rate.

ADDITIONAL INFORMATION RELATING TO THE DISCLAIMER OF OPINION

Although the Company's continuous operating loss has resulted in a shortage of funds and a decline in its ability to pay (i.e. the Company is unable to solve the problem by its own capacity), the Company still believes that there is huge room for development in its industry. With the development of society and technology, the application of fiber optic face plates and fiber optic tapers in the civilian field is increasing. The demand for large-diameter panels and fiber optic tapers in the medical field is increasing year by year. The Company will adjust its market expansion strategy and intensify the expansion of the civilian applications industry. While maintaining the sales of military customers, the product companies will diligently look for civilian customers, and utilize the return for secondary sales for civilian products, so as to achieve inventory realization.

Based on the Company's going concern issues, the following two measures will be taken:

(1) In the aspect of capital: introducing new strategic investors by the issuance of new shares/bonds;

(2) In the aspect of operation: (a) To revitalise the restricted long-term assets, the Company intend to rent out the properties which are temporarily not used in its business, and increase the property income. Once it is realised, it is expect to gain a net income of RMB13,000,000 per year; (b) For the research and development of new products, the Company will extend downstream of the industry chain, as well as strengthen the existing sales forces and introduce more capable strategic sales agencies; (c) Leveraging the technological advantages accumulated by the Company in the military area, the Company will explore the field of civilian products, thus increasing new customers and sources of income.

With respect to external loans, the borrower agreed to reduce interest on the RMB17,020,000 loan with the date of interest reduction as of 31 December 2019.

With respect to the debt restructuring, the Company has completed the restructuring of its debt with Hua Xia Bank's RMB13,000,000 loan, transforming the mature one-year loan into a three-year loan, which accounted for 51.7% of the total outstanding bank loans and other loans.

For the financial support of shareholders and borrowers, the shareholders shall agree to the loan support in principle. However, due to the fact that banks are struggling with a tightening in the size of their lending to the Group, it is unable to set the actual date for the time being. The Company is negotiating with other borrowers.

AUDIT COMMITTEE

On 30 June 2020, the Audit Committee held a 2020 fourth meeting, during which the members of the Audit Committee made communication with the Auditor regarding the Annual Report. The members of the Audit Committee have fully understood the disclaimer of opinion and have discussed with the management on the disclaimer of opinion in the board meeting held on 30 June 2020, and agree with the management's position and views on the disclaimer.

BASIS FOR DISCLAIMER OF OPINION

The reasons why the information or files provided by the Company did not form a satisfactory audit process, which is considered by Zhonghui Anda CPA Limited (the "Auditor") , were added as follows:

1. Inventories

As at the date of publication of the Annual Report 2019 (i.e. 30 June 2020) (the "Annual Report Publication Date"), the Auditor did not record the sale of materials. The reasons were as follows: the outbreak of COVID-19 in early 2020 and the subsequent mandatory government quarantine measures had a huge impact on the Group's business and operation, which also caused the upstream and downstream customers of the Company to be in an abnormal situation in the first half of 2020, and the Company was unable to conduct normal sales, which caused uncertainty about the recoverability of inventory and the Group's receivable balances.

When government controls were gradually liberalized in the the PRC as the epidemic recedes, the Company's operations gradually return to normal and inventories can be sold. However, operating activities were still affected by the COVID-19 epidemic as at the Annual Report Publication Date. As a result, the Auditor was not satisfied with the recoverability of the inventory of approximately RMB10,977,000 as at 31 December 2019 as a result of the absence of sales.

2. Trade receivables

The trade receivables amounted to RMB18,662,000, including RMB10,286,000 due from Jilin Juhong Intelligent Technology Co., Ltd.* 吉林省钜鴻智慧技術有限公司 ("Juhong"), RMB6,144,000 due from Songshan (Hong Kong) Company 香港松山公司 ("Songshan") and RMB2,232,000 due from

Shenzhen Julide Intelligent Development Co., Ltd.* 深圳市聚力德智慧發展有限公司 ("Julide"). One of the audit evidence required by the Auditor is the information about the subsequent settlement of trade receivables. However, as at the Annual Report Publication Date, there was no evidence that Juhong, Songshan and Julide had settled the relevant amounts.

In addition, since 31 December 2019 and prior to the Annual Report Publication Date, due to the reasons stated in the relevant contents under the paragraph headed "Inventories", no significant sales and no subsequent settlement were made by the aforesaid customers, and the Auditor was unable to express satisfaction with the recoverability of the trade receivables of RMB18,662,000 as at 31 December 2019.

Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.

By order of the Board
Shanxi Changcheng Microlight Equipment Co. Ltd.
Wu Bo
Chairman

Taiyuan City, Shanxi Province, the PRC, 31 August 2020

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

This announcement, for which the directors of 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 of Hong Kong Limited 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication. This announcement will also be published on the Company's website at www.sxccoe.com.

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