



深圳市明華澳漢科技股份有限公司
Shenzhen Mingwah Aohan High Technology Corporation Limited*
(a joint stock limited company incorporated in the People's Republic of China)

Interim Report 2004

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This report, for which the directors of Shenzhen Mingwah Aohan High Technology Corporation Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to Shenzhen Mingwah Aohan High Technology Corporation Limited. The directors of Shenzhen Mingwah Aohan High Technology Corporation Limited, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- The Company was successfully listed on GEM of the Stock Exchange on 7 July 2004.
- For the six months ended 30 June 2004, unaudited turnover increased to approximately RMB59,300,000, which represents an approximate 15.6% growth as compared to that of the same period in previous year. The net profit increased by approximately 770.9% to approximately RMB5,900,000, as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB1.74 cents for the six months ended 30 June 2004.

To all shareholders,

The board of directors (the “Directors” or the “Board”) is pleased to announce the unaudited condensed consolidated operating results of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the three months and six months ended 30 June 2004.

The Company was successfully listed on GEM of the Stock Exchange on 7 July 2004, subsequent to the balance sheet date as at 30 June 2004 for the interim results. The Company, together with the selling shareholders (the “Selling Shareholders”) of the sale shares (the “Sale Shares”), offered 200,200,000 H shares in aggregate by way of placing (the “Placing”). A total amount of HK\$56,056,000 was raised. The net proceeds to be received by the Company from the Placing, after deducting the related expenses and the net proceeds payable to the National Social Security Fund pursuant to the sale of the Sale Shares and without taking into account of any proceeds from the exercise of the Offer Size Adjustment Option, was approximately HK\$39,400,000 based on a placing price (the “Placing Price”) of HK\$0.28 per H share, being the lower limit of the stated range of the Placing Price. The net proceeds will be mainly used for the enhancement of research and development capability, the acquisition of new machineries and upgrading of existing production facilities, the commercialisation of new products and technology, the repayment of bank loans and as the general working capital.

THE FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Income Statement

For the six months ended 30 June 2004

The unaudited condensed consolidated results of the Group for the three months and six months ended 30 June 2004 together with the unaudited comparative figures for the corresponding periods in 2003 are as follows:

Condensed Consolidated Income Statement

For the period ended 30 June 2004

	NOTES	For the three months ended 30 June		For the six months ended 30 June	
		2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Turnover	4	31,725	25,580	59,321	51,336
Cost of sales		<u>(19,339)</u>	<u>(16,963)</u>	<u>(37,761)</u>	<u>(33,546)</u>
Gross profit		12,386	8,617	21,560	17,790
Other operating income		49	1,696	64	1,759
Distribution costs		(2,500)	(2,340)	(4,796)	(4,367)
Administrative expenses		(4,399)	(6,981)	(7,639)	(11,776)
Other operating expenses		<u>(1)</u>	<u>(402)</u>	<u>(1)</u>	<u>(403)</u>
Profit from operations	6	5,535	590	9,188	3,003
Finance costs		(844)	(771)	(1,923)	(1,752)
Share of results of a jointly controlled entity		<u>(7)</u>	<u>(276)</u>	<u>(7)</u>	<u>(276)</u>
Profit (loss) before taxation		4,684	(457)	7,258	975
Taxation	7	<u>(676)</u>	<u>(169)</u>	<u>(1,184)</u>	<u>(475)</u>
Profit (loss) before minority interests		4,008	(626)	6,074	500
Minority interests		<u>(195)</u>	<u>192</u>	<u>(204)</u>	<u>174</u>
Net profit (loss) for the period		<u><u>3,813</u></u>	<u><u>(434)</u></u>	<u><u>5,870</u></u>	<u><u>674</u></u>
Dividend	8	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>
Earnings (loss) per share	9				
— Basic		<u><u>1.13 cents</u></u>	<u><u>(0.13) cents</u></u>	<u><u>1.74 cents</u></u>	<u><u>0.20 cents</u></u>

Condensed Consolidated Balance Sheet

At 30 June 2004

	NOTES	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	10	37,358	34,557
Intangible assets		2,839	2,880
Interests in a jointly controlled entity		<u>705</u>	<u>712</u>
		<u>40,902</u>	<u>38,149</u>
Current assets			
Inventories		34,066	30,790
Debtors, deposits and prepayments	11	76,841	70,113
Notes receivable		34	—
Pledged bank deposits		1,151	4,110
Bank balances and cash		<u>25,626</u>	<u>22,859</u>
		<u>137,718</u>	<u>127,872</u>
Current liabilities			
Creditors and accrued charges	12	31,456	25,755
Bills payable		4,208	4,482
Notes payable		3,730	4,590
Amount due to a director		—	154
Amount due to a jointly controlled entity		—	40
Tax liabilities		4,918	4,660
Borrowings	13	59,700	57,761
Obligations under finance leases		<u>85</u>	<u>91</u>
		<u>104,097</u>	<u>97,533</u>
Net current assets		<u>33,621</u>	<u>30,339</u>
Total assets less current liabilities		74,523	68,488
Non-current liability			
Obligations under finance leases		183	222
Minority interests		<u>4,403</u>	<u>4,199</u>
		<u>69,937</u>	<u>64,067</u>
Capital and reserves			
Paid-in capital	14	33,800	33,800
Reserves		<u>36,137</u>	<u>30,267</u>
		<u>69,937</u>	<u>64,067</u>

Condensed Consolidated Statement of Changes in Equity

For the period ended 30 June 2004

	Paid-in capital RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2003	33,800	3,503	1,750	14,500	53,553
Net profit for the period	—	—	—	674	674
At 30 June 2003	33,800	3,503	1,750	15,174	54,227
Net profit for the period	—	—	—	9,840	9,840
Appropriations	—	798	401	(1,199)	—
At 31 December 2003	33,800	4,301	2,151	23,815	64,067
Net profit for the period	—	—	—	5,870	5,870
At 30 June 2004	<u>33,800</u>	<u>4,301</u>	<u>2,151</u>	<u>29,685</u>	<u>69,937</u>

Condensed Consolidated Cash Flow Statement

For the period ended 30 June 2004

	Six months ended 30 June	
	2004	2003
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from (used in) operating activities	5,962	(1,624)
Net cash used in investing activities	(2,152)	(11,018)
Net cash (used in) from financing activities	<u>(1,043)</u>	<u>3,906</u>
Net increase (decrease) in cash and cash equivalents	2,767	(8,736)
Cash and cash equivalents at beginning of the period	<u>22,859</u>	<u>33,440</u>
Cash and cash equivalents at end of the period	<u>25,626</u>	<u>24,704</u>
— represented by bank balances and cash		

Notes to the Condensed Financial Statements

For the period ended 30 June 2004

1. GENERAL

The Company was established in Mainland China (the “PRC”) on 29 October 1993 under the name of 深圳明華澳漢磁卡系列有限公司 Shenzhen Mingwah Aohan Magnetic Card Series Co., Ltd. as a limited company. On 27 March 1996 and 14 June 1999, the name of the Company was changed to 深圳市明華澳漢磁卡系列有限公司 Shenzhen Mingwah Aohan Magnetic Card Series Co., Ltd. and 深圳市明華澳漢科技股份有限公司 Shenzhen Mingwah Aohan High Technology Limited respectively. On 17 April 2001, the Company was converted into a joint stock limited company and registered in the name of 深圳市明華澳漢科技股份有限公司 Shenzhen Mingwah Aohan High Technology Corporation Limited.

The H shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 7 July 2004.

2. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 to the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange and with the Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted for the preparation of the condensed financial statements are consistent with those adopted by the Group as set out in Appendix I to the prospectus dated 30 June 2004 (the “Prospectus”).

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold to outside customers, and are summarised as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of cards products	28,298	23,249	53,206	45,426
Sales of non-cards products	3,427	2,331	6,115	5,910
	<u>31,725</u>	<u>25,580</u>	<u>59,321</u>	<u>51,336</u>

5. SEGMENT INFORMATION

Business segments

For management purpose, the Group’s products are dividend into two kinds, namely cards and non-card products. Cards products include IC cards, non-IC cards, IC chips and others. Non-cards products include card peripheral equipment. These products are the basis on which the Group reports its business segment information.

The Group’s primary format for reporting segment information is business segments.

Segment information about the business is presented below:

Six months ended 30 June 2004

	Cards products RMB'000	Non-card products RMB'000	Consolidated RMB'000
<i>Revenue</i>			
External sales	<u>53,206</u>	<u>6,115</u>	<u>59,321</u>
<i>Result</i>			
Segment results	<u>7,273</u>	<u>1,852</u>	9,125
Unallocated bank interest income			32
Unallocated other operating income			32
Unallocated corporate expenses			<u>(1)</u>
Profit from operations			9,188
Finance costs			(1,923)
Share of result of a jointly controlled entity			<u>(7)</u>
Profit before taxation			7,258
Taxation			<u>(1,184)</u>
Profit before minority interests			6,074
Minority interests			<u>(204)</u>
Net profit for the period			<u>5,870</u>

Six months ended 30 June 2003

	Cards products RMB'000	Non-card products RMB'000	Consolidated RMB'000
<i>Revenue</i>			
External sales	<u>45,426</u>	<u>5,910</u>	<u>51,336</u>
<i>Result</i>			
Segment results	<u>1,246</u>	<u>401</u>	1,647
Unallocated bank interest income			56
Unallocated other operating income			1,703
Unallocated corporate expenses			<u>(403)</u>
Profit from operations			3,003
Finance costs			(1,752)
Share of result of a jointly controlled entity			<u>(276)</u>
Profit before taxation			975
Taxation			<u>(475)</u>
Profit before minority interests			500
Minority interests			<u>174</u>
Net profit for the period			<u>674</u>

6. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Depreciation of property, plant and equipment				
— owned assets	1,110	1,591	2,307	2,391
— assets under finance leases	18	18	35	35
Amortisation of intangible assets	<u>21</u>	<u>21</u>	<u>41</u>	<u>41</u>
Total depreciation and amortisation	<u><u>1,149</u></u>	<u><u>1,630</u></u>	<u><u>2,383</u></u>	<u><u>2,467</u></u>
Loss on disposal of property, plant and equipment	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>10</u></u>

7. TAXATION

The charge represents enterprise income tax in the PRC.

PRC enterprise income tax of the Group is calculated at the applicable rate ranging from 15% to 33% on estimated assessable profits.

There is no share of taxation of the jointly controlled entity as the jointly controlled entity did not have any assessable profits for the period.

The Group does not have any significant unrecognised deferred taxation during the three months and six months ended 30 June 2003 and 2004.

8. DIVIDEND

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the three months and six months ended 30 June 2003 and 2004 and 338,000,000 shares in issue on the assumption that the share subdivision of the Company's shares as described in the section headed "Changes in the share capital of the Company" in Appendix VI of the Prospectus had taken place at the beginning of the periods.

Diluted earnings per share is not presented as there were no potential dilutive securities in existence during the periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2004, the Group spent RMB4,800,000 (six months ended 30 June 2003: nil) on the construction of its new manufacturing plant in the PRC in order to upgrade its manufacturing capabilities.

11. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period of 15–180 days to its customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

The following is an aged analysis of the trade debtors at the reporting date:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
1–90 days	35,646	30,171
91–180 days	4,041	5,596
181–365 days	4,156	6,378
Over 365 days	641	744
	<u>44,484</u>	<u>42,889</u>

12. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of trade creditors at the reporting date:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
1–90 days	10,012	9,024
91–180 days	6,435	4,644
181–365 days	1,376	1,455
Over 365 days	2,022	2,007
	<u>19,845</u>	<u>17,130</u>

13. BORROWINGS

During the six months ended 30 June 2004, the Group obtained new bank loans of RMB15,500,000 and repaid bank loans of RMB13,561,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the operations of the Group.

14. PAID-IN CAPITAL

The paid-in capital represented the nominal value of the Company of RMB1 each as at 31 December 2003 and 30 June 2004.

15. CAPITAL COMMITMENTS

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	786	786
Capital expenditures for the construction of a manufacturing plant contracted for but not provided in the financial statements	1,642	—
	<u>2,428</u>	<u>786</u>

16. PLEDGE OF ASSETS

The following assets have been pledged to secure bank loans granted to the Group:

	30 June 2004 RMB'000 (Unaudited)	31 December 2003 RMB'000 (Audited)
Property, plant and equipment	10,866	12,055
Bank deposits	1,151	4,110

17. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following transactions with its related parties:

(i) Continued transactions

Name of related party	Nature of transactions	Notes	Three months ended 30 June		Six months ended 30 June	
			2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
深圳市大明五洲城市 一卡通科技有限公司 Shenzhen Daming Wuzhou e-City Co., Ltd. (“一卡通”)	Sale of goods	i	78	89	151	89
李啟明 Mr. Li Qi Ming	Rental expenses	i & ii	—	17	—	33

(ii) Discontinued transactions

Name of related party	Nature of transactions	Notes	Three months ended 30 June		Six months ended 30 June	
			2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
深圳市大明五洲高新 科技有限公司 Shenzhen Da Ming Wuzhou High Technology Co., Ltd. (“深圳五洲”)	Sale of goods	i	—	—	—	463

Notes:

- i. The directors of the Company are of the opinion that the transactions were entered into in the ordinary course of the Group's business and at normal commercial terms.
- ii. Mr. Li Qi Ming, a director of the Company, is one of the landlord of the premises and rental expenses were charged at market rate.

一卡通 is a subsidiary of 深圳五洲, in which a director of the Company, Zhu Qing Feng, has beneficial interest.

- (b) 深圳五洲 had provided guarantees to banks in respect of credit facilities granted to the Company of RMB13,300,000 at 31 December 2003 and 30 June 2004. The directors confirmed that the guarantee from 深圳五洲 would be replaced by an independent guarantee company 廣東金滙源擔保投資有限公司 (“廣東金滙源”) within three months after its the listing of the Company's shares on the GEM of The

Stock Exchange. Pursuant to an undertaking dated 28 May 2004, 廣東金滙源 has undertaken that it will assume the guarantee obligations in relation to the Group's liability in an aggregate amount of RMB13,300,000.

- (c) Certain credit facilities granted to the Group were secured by properties owned as to 90% by a minority shareholder of a subsidiary of the Company. The directors confirmed that the related bank loans of RMB16,200,000 will be settled by the net proceeds to be received by the Company from the placing.
- (d) Pursuant to a deed of individual counter-indemnity dated 20 November 2003 given by Mr. Li Qi Ming (the "Counter-Indemnity"), Mr. Li Qi Ming provides counter-indemnity of RMB13,000,000 to 廣東銀達擔保投資有限公司 ("廣東銀達") for its provision of guarantee to secure the bank loans of RMB13,000,000 granted to the Group. Further, pursuant to a declaration dated 20 November 2003 given by Ms. Tan Hui Ping, the spouse of Mr. Li Qi Ming, Ms. Tan Hui Ping agreed to be jointly liable with Mr. Li Qi Ming for all the obligations and liabilities under the Counter-Indemnity. In addition, a subsidiary of the Company had provided security in favour of 廣東銀達. Such security include certain buildings and machinery equipment of the subsidiary.
- (e) Pursuant to two guarantee contracts entered during the year ended 31 December 2003, Mr. Li Qi Ming provides guarantees in favour of Industrial Bank Corporation of RMB10,000,000 and RMB8,000,000 respectively to secure certain banking facilities granted to the Group. Up to 30 June 2004, a short-term bank loan of RMB12,000,000 has been utilised by the Group (31 December 2003: nil).

18. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2004, each share with a nominal value of RMB1 each in the issued share capital of the Company was subdivided into 10 shares with a nominal value of RMB0.1 each, and an aggregate of 200,200,000 H shares (including 18,200,000 H shares being converted from domestic shares held by a shareholder) were placed and fully subscribed for, and the placing price was fixed at HK\$0.28 per H share. Details are set out in the section headed "Changes in the share capital of the Company" in Appendix VI of the Prospectus.

The H shares of the Company were listed on the GEM of the Stock Exchange on 7 July 2004.

REVIEW OF INTERIM RESULTS BY EXTERNAL AUDITORS

On the basis of our review which does not constitute an audit, the auditors are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2004.

Without modifying review conclusion, the auditors draw the attention that the comparative condensed consolidated income statement for the six months ended 30 June 2003 and the condensed consolidated income statements for each of the three months ended 30 June 2004 and 2003, and the comparative condensed consolidated cash flow statement and statement of changes in equity for the six months ended 30 June 2003 disclosed in the interim financial report have not been reviewed in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Society of Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 June 2004, the Group recorded a turnover of approximately RMB59,321,000, representing an increase of approximately 15.6% as compared with the turnover of approximately RMB51,336,000 for the corresponding period in previous year. The

growth in turnover was mainly attributable to the increase of the Group's sales volume. The net profit of the Group for the period was approximately RMB5,870,000, representing an increase of approximately 770.9% as compared with the net profit of RMB674,000 for the corresponding period in previous year. The increase in net profit was mainly attributable to the growth of sales income and profit from operations, and the reduction of administrative expenses.

In the first half of 2004, the Group has further adjusted its product structure and sales strategies which created a strong momentum for the rapid growth in sales. Such adjustments include not only the further consolidation of the market share of its basic products and the enhancement of business development, but also the emphasis on the marketing and promotion of its high-end products (eKey and CPU card) and the expansion of sales channels in order to achieve a steady growth in sales volume. As the Group possesses strong technical research and development capability and holds a substantial number of self-owned intellectual property rights, coupled with its edges in the know-how of high-end products like eKey and CPU card, the Group is currently in the comparatively leading or exclusive position in the industry. Meanwhile, due to the extensive applications of the above high-end products in the governmental affairs (for example the social security card), e-government and e-commerce, all of which are related to the national livelihood and information system projects which the government are currently publicized, which lead to a higher selling price and gross profit of such high-end products than other products in general. It not only brings the Group with a sustainable and substantial income but also maintains a relatively high profit margin.

During the period under review, the Group dedicated efforts in production cost control to a steady level. For the periods ended 30 June 2004 and 30 June 2003, the costs of sales were approximately RMB37,761,000 (for the first half of 2004) and RMB33,546,000 (for the first half of 2003) respectively, representing a growth rate of approximately 12.6%. The increase in costs of sales was mainly attributable to the increase in sales volume. According to the costs of sales and its corresponding turnover for the abovementioned periods, the average gross profit margins for the relevant periods were about 36.3% (for the first half of 2004) and 34.7% (for the first half of 2003) respectively. The reason for such increase in average gross profit margins was that the new products developed by the Company, namely eKey and CPU card, were duly marketed for sales in response to the increasing market demand for these high-tech products. It resulted in the growth in gross profit and alleviated the Company's dependence on the revenue generated from the non-IC cards.

During the period under review, the Group further reduced its administrative expenses, which mainly comprised salaries for managerial and administrative staff, traveling expenses, rental expenses for offices, and provision for bad and doubtful debts. The reduction of administrative expenses was mainly caused by a revised sales practice of the Group for the purpose of cost control in 2003. Such practice can reduce administrative expenses in relation to sales representative offices by reducing the number of sales representative offices and encouraging some of its sales staff at different representative office to leave the Company and establish their own companies as independent sales agents for the Group. The aforesaid reforms commenced in 2003 and continue to implement in 2004. Its result was satisfactory since the administrative expenses recorded a significant decrease in the first half of the year.

During the period under review, given the rise of the sales volume, the distribution cost of the Group was approximately RMB4,796,000, representing a slight increase as compared with the distribution cost of approximately RMB4,367,000 for the corresponding period last year.

For the periods ended 30 June 2004 and 30 June 2003, the Group recorded a profit attributable to shareholders of approximately RMB5,870,000 and RMB674,000 respectively, representing a growth rate of approximately 770.9%. Such growth in net profit was mainly due to the growth of sales income and profit from operations, and the reduction of the administrative expenses. With the facts of the increase of net profit and reasons thereof, the Group has achieved a remarkable results of the series of reforms in adjusting product structure, improving sales strategies and controlling the internal administrative expenses since 2004, all of which have brought about significant economic benefits for the Group. For the second half of the year, it is anticipated that the Group will remain its strong momentum in the growth of sales and net profit which are brought about by the scientific operation management.

Prospects

The Group's business objective is to become the leading player in the card industry with the establishment of the most recognised brand name in the PRC. In recognition of the huge market potential in the area of information security, the Group plans to secure a dominant position in such field by leveraging its expertise and competitive advantages in the card business with an objective to achieving overall business diversification of the Group.

In the second half of 2004, the Group's principal business strategy is the further enhancement of research and development capability of products and technology and the continual exploration of new applications and upgrade of SCOS in different fields such as banking, telecom, petrochemical industry and social security. Besides eKey, the Group continues to commit more resources to develop information security products.

In regard to production facilities, with an objective to fulfilling the new certification requirements of telecommunications cards, bank union cards and credit cards as well as the production specifications of dual interface smart cards, the Group intends to introduce facilities for the production and quality control of SIM cards in order to lower cost of production and enhance product quality.

The Group will continue its effort in the commercialization and application of products. With a focus on the commercialization of new products and technology, the Group will expand the commercial applications of eKey products in new applicable areas in the second half of the year. With the introduction of online banking in the commercial banks in the PRC, the Group will put an emphasis on the development and promotion of eKey products in online banking application.

The Group is determined to enhance the existing research and development capability. The Group aims to complete research and development of SCOS of Java card, CDMA card, finger card operating systems and the Smart-EMV operating system with EMV standard. In terms of products, the Group aims to complete research and development of broadband eKey and smart safety chip.

Regarding sales and marketing, the Group will endeavour to promote its products in key industries in the second half of the year. In the banking industry, the Group has successfully bid the “Renminbi Settlement Authentication System” (人民幣結算密押系統) of the Agricultural Bank of China with its CPU cards and reader devices. The products will be promoted within the circle of the Agricultural Bank of China nationwide. Such products not only bring about a stable income stream for the Group, but also show that high technological products of the Group have formally entered into the financial industry. The Group will further enhance the promotion of such system in the PRC.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2004, the Group had net current assets of approximately RMB33,621,000. Current assets as at 30 June 2004 comprised inventories of approximately RMB34,066,000, debtors, deposits and prepayments of approximately RMB76,841,000, notes receivable of approximately RMB34,000, pledged bank deposits of approximately RMB1,151,000 and bank balances and cash of approximately RMB25,626,000. Current liabilities as at 30 June 2004 comprised creditors and accrued charges of approximately RMB31,456,000, bills payable of approximately RMB4,208,000, notes payable of approximately RMB3,730,000, tax liabilities of approximately RMB4,918,000, short-term borrowings of approximately RMB59,700,000 and current portion of obligations under finance lease of approximately RMB85,000.

CAPITAL COMMITMENTS

As at 30 June 2004, the Group had outstanding capital commitments of approximately RMB2,428,000.

FINANCIAL RESOURCES

As at 30 June 2004, the Group had bank balances of approximately RMB25,626,000. The Company intends to finance the Group’s future operations, capital expenditure and other capital requirements with the existing bank balances and the listing proceeds.

GEARING RATIO

The Group’s gearing ratios were approximately 58.4% and 58.9% as at 30 June 2004 and 31 December 2003 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the six months ended 30 June 2004 and it is the same for the comparative six months ended 30 June 2003.

SEGMENTAL INFORMATION

All the Group’s activities are conducted in the PRC and are within the same business segment.

EMPLOYEE INFORMATION

As at 30 June 2004, the Group had 413 full time employees, comprising 99 in administration and finance, 40 in research and development and customer services, 40 in sales, 216 in production, 7 in purchase, and 11 in quality control.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2004, property, plant and equipment with a total net book value of approximately RMB10,866,000 (30 June 2003: RMB12,055,000) and bank deposits of approximately RMB1,151,000 (30 June 2003: RMB4,110,000) were pledged as collateral for the Group's bank loans.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

The Directors do not have any future plans for material investment or capital assets other than those stated in the Prospectus.

FOREIGN EXCHANGE EXPOSURE

Since most of the income and expenditure of the Group were received and paid in RMB, the local currency of the place where the Group mainly operates in, the Directors do not consider that the Group was significantly exposed to any foreign currency exchange risk.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2004 and it is the same for the comparative six months ended 30 June 2003.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As this interim report covers activities up to 30 June 2004 only, no update is applicable for all business objectives stated in the section headed "Business Objectives" of the Prospectus which was issued on 30 June 2004 in connection with the listing of shares of the Company on GEM of the Stock Exchange.

DIRECTORS' AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or supervisors (the "Supervisors") of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2004.

USE OF PROCEEDS

The shares of the Company have been listed on GEM of the Stock Exchange since 7 July 2004. The Company currently has deposited the net proceeds raised in interest bearing accounts with licensed banks and will apply the proceeds in accordance with the schedule as mentioned under the section headed "Reasons for the Placing and use of proceeds" in the Prospectus.

DISCLOSURE OF INTERESTS

(a) Directors', Chief Executive's and Supervisors' interests in shares of the Company

As the shares of the Company were listed on GEM of the Stock Exchange on 7 July 2004, as at 30 June 2004, none of the Directors who had an interest and short position in shares, underlying shares or debenture of the Company and its associated corporation (with the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) was required (a) to notify to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to notify the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules.

As at 7 July 2004, the date of the listing of the Company's shares on GEM (the "Listing Date"), the interests and short positions of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director/Chief Executive/Supervisor	Capacity	Number and class of securities	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Li Qi Ming	Beneficial owner	229,840,000 domestic shares	68.00%	44.20%
Mr. Zhu Qing Feng	Beneficial owner	50,700,000 domestic shares	15.00%	9.75%
Mr. Guo Bao An	Beneficial owner	10,140,000 domestic shares	3.00%	1.95%
Mr. Han Ruo Pin	Beneficial owner	3,380,000 domestic shares	1.00%	0.65%
Mr. Li Guang Ming (<i>Note</i>)	Beneficial owner	11,830,000 domestic shares	3.50%	2.27%

Note: Mr. Li Guang Ming holds an 80% equity interest in Jianheng Holding Company Limited ("Jianheng Holding"). Mr. Li Guang Ming is deemed to be interested in the same number of shares held by Jianheng Holding under the SFO.

(b) Substantial shareholders

As the shares of the Company were listed on GEM of the Stock Exchange on 7 July 2004, as at 30 June 2004, no person or company (not being a director, chief executive or supervisor of the Company) had any interests and/or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO.

So far as the Directors are aware, as at the Listing Date, the persons or companies (not being a Director or chief executive of the Company) have interests and/or short positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Long positions in shares of the Company

Name of substantial shareholders	Capacity	Number and class of securities	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Neon Liberty Capital Management, LLC	Beneficial owner	41,250,000 H shares	—	20.60%
Wong Pak Hung	Beneficial owner	24,744,000 H shares	—	12.36%
Principes MB Asset Management Corp.	Beneficial owner	12,368,000 H shares	—	6.18%

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company during the period under review.

SPONSOR'S INTERESTS

Pursuant to a sponsor agreement dated 2 July 2004 made between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits has been appointed as the sponsor to the Company as required under the GEM Listing Rules at a fee for the period from the Listing Date to 31 December 2006.

AUDIT COMMITTEE

The Company has established an audit committee on 19 June 2004 with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors. The audit committee comprises three independent non-executive Directors, namely, Mr. Gao Xiang Nong, Mr. Li Quan Sheng and Mr. Zhang Yu Chuan.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the unaudited interim accounts of the Company for the six months ended 30 June 2004.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

As at 30 June 2004, the Company's shares were not yet listed. The Company will comply with minimum standards of good practice concerning the general management responsibilities of the board of directors as set out in Rules 5.34 to 5.45 of the GEM Listing Rules at all times.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's shares were listed on 7 July 2004. Accordingly, no purchase, sale or redemption of the listed shares were made by the Company or any of its subsidiaries during the six months period ended on 30 June 2004.

Except for the Placing of the shares of the Company on GEM of the Stock Exchange, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period from 30 June 2004 to the Listing Date.

By Order of the Board
Li Qi Ming
Chairman

11 August 2004, Shenzhen, the PRC

As at the date hereof, the executive directors of the Company are Mr. Li Qi Ming, Mr. Zhu Qing Feng, Mr. Guo Bao An, Mr. Zheng Wen, Mr. Wang Zheng Guo and Mr. Li Guang Ming; the independent non-executive directors of the Company are Mr. Gao Xiang Nong, Mr. Li Quan Sheng and Mr. Zhang Yu Chuan.