



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)

**Third Quarterly Report For the Nine Months
Ended 30 September 2004**

**CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE
STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

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 nine months ended 30 September 2004, unaudited turnover increased to approximately RMB89,619,000, which represents an approximate 12.6% growth as compared to that of the same period in previous year. The net profit increased by approximately 97.1% to approximately RMB8,174,000, as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB2.05 cents for the nine months ended 30 September 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 nine months ended 30 September 2004.

Unaudited Condensed Consolidated Income Statement

For the period ended 30 September 2004

	<i>Notes</i>	For the three months ended 30 September		For the nine months ended 30 September	
		2004 <i>RMB'000</i> (Unaudited)	2003 <i>RMB'000</i> (Unaudited)	2004 <i>RMB'000</i> (Unaudited)	2003 <i>RMB'000</i> (Unaudited)
Turnover	2	30,298	28,233	89,619	79,569
Cost of sales		(20,212)	(17,478)	(57,973)	(51,024)
Gross profit		10,086	10,755	31,646	28,545
Other operating income		18	316	82	2,075
Distribution costs		(2,432)	(2,311)	(7,228)	(6,678)
Administrative expenses		(3,811)	(3,737)	(11,450)	(15,513)
Other operating expenses		(27)	—	(28)	(403)
Profit from operations		3,834	5,023	13,022	8,026
Finance costs		(1,214)	(969)	(3,137)	(2,721)
Share of results of a jointly controlled entity		—	—	(7)	(276)
Profit before taxation		2,620	4,054	9,878	5,029
Taxation	3	(404)	(632)	(1,588)	(1,107)
Profit before minority interests		2,216	3,422	8,290	3,922
Minority interests		88	51	(116)	225
Net profit for the period		<u>2,304</u>	<u>3,473</u>	<u>8,174</u>	<u>4,147</u>
Dividend	4	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Earnings per share					
— Basic	5	<u>0.44 cents</u>	<u>1.03 cents</u>	<u>2.05 cents</u>	<u>1.23 cents</u>

Notes to the Condensed Financial Statements

For the period ended 30 September 2004

1. BASIS OF PREPARATION

The unaudited results of the Group have been prepared in accordance with Statement of Standard Accounting Practice issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange.

2. 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 September		For nine months ended 30 September	
	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2003 RMB'000 (Unaudited)
Sales of card products	27,933	26,064	81,139	71,490
Sales of non-card products	<u>2,365</u>	<u>2,169</u>	<u>8,480</u>	<u>8,079</u>
	<u><u>30,298</u></u>	<u><u>28,233</u></u>	<u><u>89,619</u></u>	<u><u>79,569</u></u>

3. 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 nine months ended 30 September 2003 and 2004.

4. DIVIDEND

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

5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the unaudited profit for the relevant periods divided by the weighted average number of shares of approximately 398,666,667 shares (2003: 338,000,000 shares) for the nine months ended 30 September 2004 and 520,000,000 (2003: 338,000,000 shares) for the three months ended 30 September 2004.

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

6. MOVEMENT ON RESERVES

	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Statutory public welfare fund <i>RMB'000</i>	Retained profits <i>RMB'000</i>	Total <i>RMB'000</i>
Unaudited					
At 1 January 2003	—	3,503	1,750	14,500	19,753
Net profit for the period	—	—	—	4,147	4,147
	<u>—</u>	<u>—</u>	<u>—</u>	<u>4,147</u>	<u>4,147</u>
At 30 September 2003	—	3,503	1,750	18,647	23,900
	<u>—</u>	<u>3,503</u>	<u>1,750</u>	<u>18,647</u>	<u>23,900</u>
Unaudited					
At 1 January 2004	—	4,301	2,151	14,500	20,952
Arising on placing of 200.2 million H shares	35,852	—	—	—	35,852
Listing expenses	(18,278)	—	—	—	(18,278)
Net profit for the period	—	—	—	8,174	8,174
	<u>—</u>	<u>—</u>	<u>—</u>	<u>8,174</u>	<u>8,174</u>
At 30 September 2004	17,574	4,301	2,151	22,674	46,700
	<u>17,574</u>	<u>4,301</u>	<u>2,151</u>	<u>22,674</u>	<u>46,700</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's turnover for the nine months ended 30 September 2004 was approximately RMB89,619,000 (2003: RMB79,569,000) representing a growth of 12.6% as compared to the same period in last year. The growth in turnover was mainly attributable to the increase of the sales volume.

By the continuous refine to the product structure and sale strategies, the Group attempts to consolidate the market share of its basic products and enhance the business development. The Group also emphasises on the marketing and promotion of its high-end products (eKey and CPU card) and expands its sale channels in order to achieve steady growth in sales. As the Group possess strong technical research and development capability and holds 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 in the leading position in the industry. Meanwhile, the promotion of information system project by the government produces demand for the above high-end products due to its extensive applications in the government affairs (i.e. the social security card), e-government and e-commerce. The Group believes that these products will contribute the Group with sustainable and profitable income.

With respect to the cost of sales, the Group dedicate to control its cost of sales in a steady level. The cost of sales for the nine months ended 30 September 2004 was approximately increased by 13.6% to RMB57,973,000 (2003: RMB51,024,000) having gross profit margin of 35.3% (2003: 35.9%) as compared with the same period in last year. The increase in cost of sales was in line with the growth in sales.

In comparison with the same period of last year, the distribution costs increased by 8.2% to RMB7,228,000 (2003: RMB6,678,000) due to the increase in sales volume. The administrative expenses decreased by 26.2% to RMB11,450,000 (2003: RMB15,513,000) which was attributable by the revised sale practise which save the number of sales staff at different representative office by appointing independent sale agents. The finance costs increased by 15.3% to RMB3,137,000 (2003: RMB2,721,000) due to the reliance on import bills facilities to finance material purchases.

The net profit for the nine months ended 30 September 2004 was approximately RMB8,174,000 (2003: RMB4,147,000) representing a growth of 97.1% as compared with the same period in last year. The increase was mainly due to the growth in turnover and reduction in administrative expenses as a result of the revised sale practise.

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 to further enhance the 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.

DISCLOSURE OF INTERESTS

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

As at 30 September 2004, 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

So far as the Directors are aware, as at 30 September 2004, 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.

Barits, its directors, employees or any of their respective associates did not have any interest in any securities of the Company or any of its associated corporations as at 30 September 2004.

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 accounts of the Company for the nine months ended 30 September 2004.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company's shares were listed on 7 July 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 under review.

By Order of the Board
Li Qi Ming
Chairman

10 November 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.