



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



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This report, for which the directors (the “Directors”) of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “Company”) 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 (the “GEM Listing Rules”) 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: (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.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Li Qi Ming (*Chairman*)

Mr. Li Guang Ming

Mr. Guo Bao An

Mr. Wang Zheng Guo

Mr. Zheng Wen

Mr. Zhu Qing Feng

Independent Non-Executive Directors

Mr. Gao Xiang Nong

Mr. Li Quan Sheng

Mr. Zhang Yu Chuan

Supervisors

Mr. Li Xiang

Mr. Han Ruo Pin

Ms. Liu Wei Qun

COMPANY SECRETARY

Mr. Ho Siu Lam

QUALIFIED ACCOUNTANT

Mr. Hung Sum

AUDIT COMMITTEE

Mr. Gao Xiang Nong

Mr. Li Quan Sheng

Mr. Zhang Yu Chuan

COMPLIANCE OFFICER

Mr. Li Qi Ming

AUTHORIZED REPRESENTATIVES

Mr. Ho Siu Lam

Mr. Zhu Qing Feng

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

17/F., Unit A

Skyworth Plaza

Gaoxin Avenue 1 South

Nanshan District

Shenzhen, 518057

The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 1108, 11/F.,

Houston Centre

63 Mody Road

Tsimshatsui East

Hong Kong

HONG KONG SHARE REGISTRAR & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

46/F., Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKERS

Bank of China (Shenzhen Branch)

Industrial Bank Co., Ltd.

GEM STOCK CODE

8301

Chairman's Statement

To our respectable shareholders,

I am pleased to present our first annual report, together with the Group's audited annual results for the year ended 31 December 2004, since the Group's listing on GEM of the Stock Exchange.

The year of 2004 is a remarkable year for Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") and its subsidiaries (collectively the "Group"). The Company, one of the leading players in the smart card industry in the PRC, was listed on GEM of the Stock Exchange on 7 July 2004. This provides ample opportunities for the Group's future development.

(1) REVIEW OF OPERATIONS

In 2004, the turnover of the Group reached RMB142,604,000, representing an increase of 13.86% as compared with the previous year. Our profit attributable to shareholders for the two years ended 31 December 2004 and 31 December 2003 amounted to approximately RMB11,614,000 and RMB10,514,000 respectively, with a growth rate of 10.46%. The growth of the Company's sales income and net profit strongly evidenced the feasibility of the series of reforms in adjusting products structure, optimizing the sales system and controlling the administrative expenses formulated in early 2004, all of which have further enhanced the Group's competitiveness and profitability.

(2) BUSINESS REVIEW

The Group aims at becoming the leader player in the PRC's smart card manufacturing industry, promoting the brand name of "M & W" as a recognized brand in the PRC's smart card industry and placing great emphasis on the development of high-end products in the field of information security. During the year, the Group has been adhering to such development objectives in its business development. In 2004, we were managed to realize such development objectives in different products lines and market segments and achieve outstanding results.

1. Products and Services

For non-IC cards and logic encrypted card products, which are the main products that generate cash flow for the Company, continued to maintain a steady growth through the sales channels. In particular, the Company was awarded the "China Unionpay Card Product Enterprise Qualification Certificate" (銀聯標識卡

Chairman's Statement

產品企業資格證書) and such award allowed the Company to achieve a breakthrough in the bank union card market of the PRC and improve and re-affirm our brand image in the PRC card market. The turnover of the Group's smart cards and eKey, being the high-end products that we have put particular emphasis in the research and development and promotion, showed a substantial growth and became the major drive of the profit growth. Such products also attained a high market share in fields such as the PRC e-government, online banking, social insurance and code security, laying a solid foundation for the further expansion of the Group's high-end products in the field of information security in the future.

By capitalizing on the advantage of the Group's technological services, the Group has achieved a growth in revenue in 2004.

2. Management and Control

As at 31 December 2004, the Group's administrative expenses for the year was RMB17,883,000, decreased by approximately 9% as compared with the previous year. This indicated that the Group's strategies on budget management and cost control were effective and had achieved satisfactory results in reducing and cutting of unreasonable expenses.

3. Research and Development

The Company continued to devote resources to research and development in order to improve and upgrade the smart card operating system for releasing new smart card products to satisfy the market demand. Such commitment enhanced our core competitiveness. The Group's investment in research and development for the year amounted to approximately RMB2.4 million. Besides, the Group implemented a management control method for the funding of the research and development. Under such method, the funding shall be appropriated on project basis and only applied on designated purpose. The Group can have a better control on the funding on the projects being completed.

4. External Co-operation

The Group continued to reinforce its co-operation with reputable chips manufacturers inside and outside the PRC, so as to capitalize on the development trend in card technology and source new drive of profit growth. The

Chairman's Statement

Group has formally become the team member of "Texas Instrument", an equipment company in Texas, the USA and both parties will closely co-operate in the field of radio frequency identification (RFID).

5. Human Resources

Under the people-oriented management and the motivation scheme being adopted, the Company effectively maintained a low turnover of staff, and we had no core member of management and technician resigned from the Company during the year. This enhanced to maintain a sustainable development of the Company.

(3) PROSPECTS

1. Business activities and marketing

We will continue to put a greater effort in the marketing of products with high profit margin such as eKey and smart cards and expanding our market share, in order to maintain our leading position in the market and technology field.

The Group will concentrate in achieving a breakthrough by leveraging on its edges and will dedicate to explore the market of mobile telecommunications in the PRC for our smart card products. In 2005, we will intend to capture the demand of fixed-line telecommunication operators and leverage on the new business opportunities arisen from the separation of cards and phones achieved by PHS (小靈通), so as to make the telecommunication industry as our new business segment and profit growth center.

To ensure the production quality and to satisfy the order placed, we will improve and upgrade the production technology of contactless cards to make the RFID electronic products become a product series for commercialization, with an aim to satisfying the increasing global demand for RFID electronic labeling products.

We will also establish a department designated for the promotion and operation of the overseas markets. It will be responsible for the marketing and promotion of the Group's brand name in overseas markets. It will also work closely with foreign partners to acquire the benefits of complementary effects, in an effort to make "M & W" a reputable international brand name for smart cards.



Chairman's Statement

2. Management

The Group intends to launch and implement the Enterprise Resource Planning System to fully upgrade our information management. The system includes business resources management, distribution management, purchase and inventory management, production management, administrative management and financial management, and forms a scientific basis for the Group's management decision.

We will continue spare greater efforts in implementing a budget control system together with its feedback system over administrative expenses for designated projects.

In respect of financial management, we will put extra effort in contract assessment as well as the control and management of account receivables in order to have better control on the operating risks.

The Group will be committed to build up the formalities in internal management , maintain good record of the Company's internal legal documents and regulate the Company's administrative work. The Group will further protect the interest of the Company from infringement by further enhancing the Company's internal and external security system and to eliminate operating risks by maintaining a proper record of legal documents. The Group will conduct performance evaluation for each of the department in accordance to the needs of development, so as to improve the management efficiency and maximize the return for the shareholders.

3. Conclusion

On behalf of the Board, I wish to express our sincere gratitude to the shareholders for their support to the development of our company, and to all the staff for their dedication to our development.

Shenzhen Mingwah Aohan High Technology Corporation Limited

LI Qi Ming

Chairman

Shenzhen, the PRC

21 March 2005

Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

李啟明 (*Mr. Li Qi Ming*), aged 45, is the chairman and an executive Director. He joined the Group in June 1994 and was the general manager of the Company. Before joining the Company, he has held positions in 肇慶市國有林業總場 (Zhaoqing State-owned Forestry Administration), 四會市人民法院 (Sihui People's Court) and a property management company in Shenzhen as general staff respectively.

朱慶峰 (*Mr. Zhu Qing Feng*), aged 39, is the vice-chairman and an executive Director. He graduated from 中共中央黨校 (Party School of the Central Committee (of the Communist Party of China)) with an Undergraduate Qualification in Managerial Economics. He joined the Group in April 2001 and was appointed as the vice-chairman and a Director of the Board on 26 April 2001. Mr. Zhu was the chairman of the board of directors and the general manager of Wuzhou from March 1998 to 13 October 2002.

郭寶安 (*Mr. Guo Bao An*), aged 40, is an executive Director. He studied a Ph.D. degree course in Communication and Information System (通信與電子系統) at 北京郵電大學 (Beijing University of Post and Telecommunication). He was approved to become an assistant professor of Tsinghua University (清華大學) on 11 July 1997 and had worked in 計算機系博士後流動站 (Faculty of Computer Science Ph.D. Postgraduate discussion platform) of Tsinghua University from September 1993 to September 1995 and 計算機科學與技術系 (Faculty of Computer Science and Technology) of Tsinghua University from September 1995 to July 2002. He joined the Group in September 1998 and has been employed as the person in charge of the Beijing Research Institute of the Group since September 1998.

鄭文 (*Mr. Zheng Wen*), aged 32, is an executive Director. He graduated from National University of Singapore (新加坡國立大學) with a Master's Degree in Business Administration. Before joining the Company in July 2001, he worked as the assistant finance manager of 深圳百樂鋁業有限公司 (Shenzhen Bigwin Aluminium Co., Ltd.) and in 中信證券股份有限公司 (CITIC Securities). Currently, he is the secretary to the Board and the person in charge of the listing exercise of the Company.

Directors, Supervisors and Senior Management

王振國 (*Mr. Wang Zheng Guo*), aged 50, is an executive Director. He graduated from East China Normal University (華東師範大學) with a Bachelor Degree in Chinese Language and Literature (中國語言文學). He worked in 上海大眾交通(集團)股份有限公司 (Dazhong Transportation Group Co. Ltd.) from 1991 to 1995. Thereafter, he has worked for 上海匯茂投資管理顧問公司 (Shanghai Huimao Investment Management Consulting Company). Before joining the Group in February 2004, he worked in 上海正盈投資諮詢公司 (Shanghai Zhengying Investment Consulting Company) as the Managing Director since 2003.

李光明 (*Mr. Li Guang Ming*), aged 40, is an executive Director. He joined the Group in April 2001 and was appointed a Director on 26 April 2001. He was the executive director and assistant general manager of 山西安泰集團股份有限公司 from October 1986 to 1999. He is currently the chairman of the board of directors and general manager of Jianheng Holding.

Independent non-executive Directors

高向農 (*Mr. Gao Xiang Nong, also known as Mr. Gao Xiang Nong, Paul*), aged 35, is an independent non-executive Director appointed on 2 February 2004. He holds a Master Degree in Business Administration from the California State University, Long Beach and is a certified public accountant of the State Board of Accountancy of the State of Colorado. He previously worked for Platt College as international marketing director from March 1999 to March 2003. He worked for Amdec LLC as the chief accounting officer from October 1997 to February 1999. He had worked in David Lu & Co., CPA from September 1996 to September 1997 and Compec International, Inc. from 1992 to 1996. Currently, he is the Chief Financial Officer of MultiVision Intelligent Surveillance, a listed company in Singapore.

李全聖 (*Mr. Li Quan Sheng*), aged 61, is an independent non-executive Director appointed on 3 August 2002. He graduated from 西安交通大學 (Xian Jiaotong University) with a specialty in Radio Engineering. He is working for 中國科學院微電子中心 (Microelectronics R&D Centre Chinese Academy of Sciences). He has been awarded the 北京市科學技術進步獎二等獎 (Beijing Sciences and Technology Advancement Grade II Award).

張玉川 (*Mr. Zhang Yu Chuan*), aged 46, is an independent non-executive Director appointed on 3 August 2002. He graduated from 武漢大學 (Wuhan University) with a Bachelor Degree in Library Science. He established 北京歐文公眾事務研究所 (Beijing Ouwen Public

Directors, Supervisors and Senior Management

Affairs Research Centre) and acted as the head of the research center in 1998. He has been acting as the Chairman of the board of directors of 北京眾星聯合科技發展有限公司 (Beijing Chung Hsing Lien He Technology Development Company Limited) since May 2000.

Supervisors

李翔 (*Mr. Li Xiang*), aged 32, graduated from 武漢大學 (Wuhan University) with Undergraduate Degree in 情報科學系 (Faculty of Intelligence Science). Since he joined the Company in 1995, he has been the division general manager, Vice Chief Engineers, Assistant of Chief Executive Officer and assistant of the person in charge of the Beijing Research and Development Institute of the Group. Currently, he is the Vice Chief Officer of Market Operation Management Center of the Group.

韓若頻 (*Mr. Han Ruo Pin*), aged 34, graduated from 廣東工學院 (Guangdong University of Technology) with a Bachelor's Degree in Computer Application. Since he joined the Company in 1994, he has been the assistant to general manager, Deputy General Manager, supervisor and Vice Chief Officer of technology development centre of the Group. Currently, he is the senior engineer of 深圳市中密科技有限公司 (Shenzhen Zhong Mi Technology Co. Ltd.).

劉為群 (*Ms. Liu Wei Qun*), aged 49, graduated from 南京大學 (Nanjing University) with a specialty in Catalytic Chemistry. She has worked in various companies such as 深圳市寶安金橋實業有限公司 (Shenzhen Bao An Jin Qiao Industrial Company) and 深圳南港動力工程有限公司 (Shenzhen Nanguang Power Co. Ltd.). She joined the Group in April 2001. Currently, she is a senior engineer and assistant general manager of Wuzhou.

Senior Management

王永 (*Mr. Wang Yong*), aged 46, graduated from 北京廣播電視大學 (Beijing Radio & Television University) and completed the Electronic Program. Before joining the Company in March 2001, he had worked in 電子工業部信息中心 (Electronic Industry Information Center) and 中國計算機軟件專業技術資格和水平考試中心 (China Computer Software Standard Examination Center). Currently, he is the Chief Officer of the Group's Market Operation Centre.

Directors, Supervisors and Senior Management

汪愚 (*Mr. Wang Yu*), aged 31, graduated from School of International Commerce of 上海大學 (Shanghai University) specializing in Financial Accounting. Before joining the Company in March 2002, he has worked in KPMG Peat Marwick Huazhen and the finance department of 湖州銘德耐火材料有限公司 (Huzhou Mineral Technology Fire Resistant Materials Co. Ltd.). Currently, he is the Financial Controller of the Company.

QUALIFIED ACCOUNTANT

洪琛 (*Mr. Hung Sum, Dennis*), aged 31, is the qualified accountant of the Company. He joined the Group in February 2004. He is responsible for the financial and accounting management affairs of the Company. He graduated from the Hong Kong Polytechnic University and is an associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He joined the Group in February 2004 and has extensive experience in accounting and audit.

COMPANY SECRETARY

何兆霖 (*Mr. Ho Siu Lam*), aged 48, is the company secretary of the Company. He joined the Group on 1 December 2002. He is responsible for the secretarial affairs of the Company. He graduated from York University, Canada with a Master of Business Administration degree and is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. He has been acting as a director in Everbrace Development Limited, a consultancy company, since 1989.

COMPLIANCE OFFICER

李啟明 (*Mr. Li Qi Ming*) will advise on and assist the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding promptly and efficiently to all enquires directed to him by the Stock Exchange.

Management Discussion and Analysis

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB142,604,000, representing an increase of approximately 13.86% as compared with the turnover of RMB125,250,000 in the previous year. The growth in turnover was mainly attributable to the increase in the Group's sales volume.

The gross profit of the Group for the year ended 31 December 2004 amounted to RMB44,796,000, with a growth rate of approximately 3.32% as compared with the gross profit of RMB43,357,000 in the previous year, and the underlying reason of such growth is also due to the increase in the Group's sales volume.

For the year ended 31 December 2004, the Group's administrative expenses decreased by RMB1,790,000 or approximately 9% to RMB17,883,000 as compared with last year. The decrease in administrative expenses was mainly due to the Group's implementation of more stringent measures in budget management and cost control and the reduction of unreasonable expenses create the satisfactory results.

In comparing with the same in 2003, the distribution costs rose by 16.23% from RMB8,206,000 to RMB9,538,000 for the year ended 31 December 2004. This was due to the increase in the cost of sales, which was driven by the growth in sales volume, and the increase in costs related to new product research and development and further market expansion .

For the two years ended 31 December 2004 and 31 December 2003, the Group's profit attributable to the shareholders were approximately RMB11,614,000 and RMB10,514,000 respectively, representing a growth rate of approximately 10.46%. Such growth in net profit was mainly due to the growth in sales income and profit from operations, and the reduction of the administrative expenses. The increase in net profit reaffirms that the Group has achieved remarkable results from the series of reforms in adjusting products structure, improving sales system and controlling the administrative expenses as implemented since early 2004, all of which have further enhanced the Group's competitiveness and profitability.

For the year ended 31 December 2004, the Group had shareholders' equity of RMB111,455,000 (2003: RMB64,067,000), cash and bank balance of RMB49,872,000 (2003: RMB22,859,000), current assets of RMB154,122,000 (2003: RMB127,872,000) and current liabilities of approximately RMB76,839,000 (2003: RMB97,533,000) which mainly

Management Discussion and Analysis

comprised short-term bank loans and amounts due to suppliers. The Group's current ratio (total current assets over total current liabilities) increased from 1.31 as at 31 December 2003 to 2.01 as at 31 December 2004, showing that the Group has a high liquidity.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2004, the Group had net current assets of approximately RMB77,283,000. Current assets as at 31 December 2004 comprised inventories of approximately RMB28,145,000, debtors, deposits and prepayments of approximately RMB75,192,000, notes receivable of approximately RMB630,000, pledged bank deposits of approximately RMB228,000 and bank balances and cash of approximately RMB49,872,000. Current liabilities as at 31 December 2004 comprised creditors and accrued charges of approximately RMB32,829,000, notes payable of approximately RMB3,680,000, tax liabilities of approximately RMB6,087,000, short-term borrowings of approximately RMB33,855,000 and current portion of obligations under finance lease of approximately RMB94,000.

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had outstanding capital commitments of approximately RMB786,000.

FINANCIAL RESOURCES

As at 31 December 2004, the Group had bank balances of approximately RMB49,872,000. 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 39.8% and 58.9% as at 31 December 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 year ended 31 December 2004.

Management Discussion and Analysis

SEGMENTAL INFORMATION

The Group's products are divided into two kinds, namely card products and non-card products. Card products include IC cards, non-IC cards, IC chips and others. Noncard products include card peripheral equipment.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group had 459 full time employees, comprising 105 in administration and finance, 39 in research and development and customer services, 43 in sales, 254 in production, 7 in purchase, and 11 in quality control.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2004, property, plant and equipment with a total net book value of approximately RMB10,790,000 (31 December 2003: RMB12,055,000) and bank deposits of approximately RMB228,000 (31 December 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 principally 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 31 December 2004 and it is the same for the year ended 31 December 2003.

Management Discussion and Analysis

COMPARISON OF BUSINESS OBJECTIVE PLANS WITH ACTUAL BUSINESS PROGRESS

The Company was successfully listed on the GEM on 7 July 2004. The business objectives of the Company for the period from 25 June 2004 (being the latest practicable date prior to the printing of the prospectus of the Company) to 31 December 2006 have been set out in the Company's prospectus. Set out below is the actual progress in the implementation of the Company's business objectives during the period from the above latest practicable date to 31 December 2004:

Business objectives for the year ended 31 December 2004 as mentioned in the Prospectus	The actual progress for the year ended 31 December 2004
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Enhancement of research and development capability

Complete research and development of Java card, CDMA card, finger card operating system, Smart-EMV, broadband eKey and smart safety chip	<ul style="list-style-type: none">— The Java card project was suspended as the market had not attained to the expected level of growth— Development of the UIM card project under the CDMA mobile communications system was completed— Development of the finger card operating system was suspended as the market was not ready for the development of the project
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Management Discussion and Analysis

Business objectives for the year

ended 31 December 2004 as mentioned in the Prospectus

The actual progress for the year ended 31 December 2004

- The Smart-EMV (PBOC 2.0 standard) project is initially scheduled to be launched to the market in 2006 as the standard of which had not been confirmed and released and the development of such project was suspended
- The high-speed eKey project was successfully developed and is expected to be applied to e-government systems
- Development of the prototype of smart safety chip project was completed. The project is in the stage of project verification and technological confirmation

Acquisition of new machinery and upgrading of existing production facilities

Purchase facilities for the production and quality control of SIM cards

- The Company purchased equipment such as packaging machines and cutting machine for SIM Cards

Commercialisation of new products and technology

Expanding the commercial applications of eKey products in new applicable areas

- The eKey products was under full-scale promotion and was widely applied in account management and user identification for online banking, CA authentication centers across the PRC and account management in the securities industry

Management Discussion and Analysis

USE OF PROCEEDS FROM LISTING

The listing proceeds from the listing of the Group on the Growth Enterprise Market on 7 July 2004 was approximately HK\$39,400,000. For the year ended 31 December 2004, the Group substantially applied the proceeds in the following manner to achieve the business objectives set out in the Prospectus:

	Budgeted amount to be used up to 31 December 2004 as extracted from the Prospectus HK\$' million	Actual amount used up to 31 December 2004 HK\$' million
Enhancement of research and development capacity	5	3
Acquisition of new machineries and upgrading of existing production facilities	3	3
Commercialisation of new products and technology	3	3
Repayment of bank loans	13.4	13.4
General working capital	3	3
Total	27.4	25.4

All the proceeds from the listing was placed as bank deposits for future use in accordance with the business development plan referred to in the prospectus.

Directors' Report

The board of directors (the "Directors" or the "Board") of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") have pleasure in submitting their first report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2004.

REORGANISATION AND LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

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.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in the research and development, production, sales and marketing of non-IC cards and IC cards as well as cards peripheral equipment.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by products for the year ended 31 December 2004 is set out in note 4 to the financial statements.

Directors' Report

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 57.74% of the Group's purchases. The largest supplier accounted for approximately 17.91% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 31.41% of the total turnover. The largest customer accounted for approximately 10.96% of the turnover of the Group.

None of the directors, the supervisors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the five largest suppliers or customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on pages 26.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2004.

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 29 and note 28 to the financial statements, respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the financial statements.

Directors' Report

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2004 are set out in notes 24 and 25 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors during the year and up to the date of report were as follows:

Executive directors

Mr. Li Qi Ming (*Chairman*)

Mr. Zhu Qing Feng

Mr. Li Guang Ming

Mr. Guo Bao An

Mr. Wang Zheng Guo

Mr. Zheng Wen

Independent non-executive directors

Mr. Gao Xiang Nong

Mr. Li Quan Sheng

Mr. Zhang Yu Chuan

Supervisors

Mr. Li Xiang

Mr. Han Ruo Pin

Ms. Liu Wei Qun

In accordance with the provisions of the Company's Articles of Association, the directors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election and re-appointment.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its subsidiaries was a party and in which a director or a supervisor of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Directors' Report

MANAGEMENT CONTRACTS

Each of the executive Directors and Supervisors has entered into a service contract with the Company. Each service contract is for an initial term of 3 years commencing on 7 July 2004 (subject to termination in certain circumstances as stipulated in the relevant contract). Under each service contract, subject to shareholders' approval in general meeting, either party may terminate the contract at any time by giving to the other not less than 3 months' prior written notice.

DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTEREST IN SHARES

As at 31 December 2004, the interests and long positions of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (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:

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 (Note)	Held by controlled corporation	11,830,000 domestic shares	3.50%	2.27%

Directors' Report

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.

Other than the holdings disclosed above, none of the Company's directors, chief executives, supervisors, and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2004.

INTERESTS DISCLOSEABLE UNDER THE SFO AND SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, as at 31 December 2004, the persons or companies (not being a Director or chief executive of the Company) have interests and/or long 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:

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%
Princeps MB Asset Management Corp.	Beneficial owner	12,368,000 H shares	—	6.18%

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 31 December 2004.

Directors' Report

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 31 December 2004.

PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company's shares were listed on 7 July 2004. Except for the Placing of shares of the Company on GEM of the Stock Exchange, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

BOARD PRACTICES AND PROCEDURES

The Company complied throughout the period from 7 July 2004, being the listing date of the Company, to 31 December 2004 with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules effective as at 31 December 2004.

Directors' Report

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the period from the listing date of the Company to 31 December 2004.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 5.09 of the GEM Listing Rules. The Company considers all of its independent non-executive Directors are independent.

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 audited annual result of the Company for the year ended 31 December 2004.

AUDITORS

The financial statements of the Company for the year ended 31 December 2004 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

On Behalf Of The Board

Li Qi Ming

Chairman

Shenzhen, the PRC

21 March 2005

Auditors' Report

Deloitte.
德勤

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**TO THE MEMBERS OF
SHENZHEN MINGWAH AOHAN HIGH TECHNOLOGY CORPORATION LIMITED**

深圳市明華澳漢科技股份有限公司

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

We have audited the financial statements on pages 26 to 64 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.


Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.



Auditors' Report

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2005

Consolidated Income Statement

For the year ended 31 December 2004

	NOTES	2004 RMB'000	2003 RMB'000
Turnover	3	142,604	125,250
Cost of sales		(97,808)	(81,893)
Gross profit		44,796	43,357
Other operating income	5	1,053	2,833
Distribution costs		(9,538)	(8,206)
Administrative expenses		(17,883)	(19,673)
Other operating expenses		(60)	(554)
Profit from operations	6	18,368	17,757
Finance costs	7	(3,727)	(3,530)
Share of results of a jointly controlled entity		(14)	223
Profit before taxation		14,627	14,450
Taxation	10	(2,378)	(2,935)
Profit before minority interests		12,249	11,515
Minority interests		(635)	(1,001)
Net profit for the year		11,614	10,514
Dividends	11	—	—
Earnings per share			
— Basic	12	2.72 cents	3.11 cents

Balance Sheets

At 31 December 2004

	NOTES	THE GROUP		THE COMPANY	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Non-current assets					
Property, plant and equipment	13	35,637	34,557	3,356	3,676
Intangible assets	14	2,799	2,880	—	—
Investments in subsidiaries	15	—	—	9,250	9,650
Interest in a jointly controlled entity	16	698	712	836	836
		39,134	38,149	13,442	14,162
Current assets					
Inventories	17	28,145	30,790	9,712	9,828
Debtors, deposits and prepayments	18	75,192	70,113	58,259	55,531
Notes receivable		630	—	630	—
Amount due from a jointly controlled entity	19	55	—	—	—
Amounts due from subsidiaries	20	—	—	5,744	13,612
Pledged deposits		228	4,110	228	4,110
Bank balances and cash	21	49,872	22,859	46,069	17,317
		154,122	127,872	120,642	100,398
Current liabilities					
Creditors and accrued charges	22	32,829	25,755	13,430	11,977
Bills payable		—	4,482	—	4,482
Notes payable		3,680	4,590	—	—
Amount due to a director	23	94	154	94	—
Amount due to a jointly controlled entity	19	—	40	—	40
Amount due to a subsidiary	20	—	—	1,055	—
Tax liabilities		6,087	4,660	3,364	2,331
Borrowings	24	33,855	57,761	14,455	38,060
Obligations under finance leases	25	94	91	—	—
Government grants received	26	200	—	—	—
		76,839	97,533	32,398	56,890
Net current assets		77,283	30,339	88,244	43,508
Total assets less current liabilities		116,417	68,488	101,686	57,670
Non-current liability					
Obligations under finance leases	25	128	222	—	—
		116,289	68,266	101,686	57,670

Balance Sheets

At 31 December 2004

	NOTES	THE GROUP		THE COMPANY	
		2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Capital and reserves					
Pain-in capital	27	52,000	33,800	52,000	33,800
Reserves	28	59,455	30,267	49,686	23,870
		111,455	64,067	101,686	57,670
Minority interests					
		4,834	4,199	—	—
		116,289	68,266	101,686	57,670

The financial statements on pages 24 to 64 were approved and authorised for issue by the Board of Directors on 21 March 2005 and are signed on its behalf by:

Li Qi Ming
DIRECTOR

Zhu Qing Feng
DIRECTOR

Statements of Changes in Equity

For the year ended 31 December 2004

	Paid-up capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Retained profits RMB'000	Total RMB'000
THE GROUP						
At 1 January 2003	33,800	—	3,503	1,750	14,500	53,553
Net profit for the year	—	—	—	—	10,514	10,514
Appropriations	—	—	798	401	(1,199)	—
At 31 December 2003	33,800	—	4,301	2,151	23,815	64,067
Shares issued during the year	18,200	35,853	—	—	—	54,053
Shares issue expenses	—	(18,279)	—	—	—	(18,279)
Net profit for the year	—	—	—	—	11,614	11,614
Appropriations	—	—	1,485	743	(2,228)	—
At 31 December 2004	52,000	17,574	5,786	2,894	33,201	111,455
THE COMPANY						
At 1 January 2003	33,800	—	2,693	1,346	14,909	52,748
Profit for the year	—	—	—	—	4,922	4,922
Appropriations	—	—	714	357	(1,071)	—
At 31 December 2003	33,800	—	3,407	1,703	18,760	57,670
Shares issued during the year	18,200	35,853	—	—	—	54,053
Shares issue expenses	—	(18,279)	—	—	—	(18,279)
Net profit for the year	—	—	—	—	8,242	8,242
Appropriations	—	—	1,230	615	(1,845)	—
At 31 December 2004	52,000	17,574	4,637	2,318	25,157	101,686

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Operating activities		
Profit from operations	18,368	17,757
Adjustments for:		
Depreciation and amortisation	4,406	4,812
Loss on disposal of property, plant and equipment	13	8
Loss on deregistration of a subsidiary	—	370
Allowance for obsolete inventories	1,011	745
(Reversal of) allowance for doubtful debts	(218)	2,315
Interest income	(162)	(258)
Operating cash flow before movements in working capital	23,418	25,749
Decrease (increase) in inventories	1,634	(7,887)
Increase in debtors, deposits and prepayments	(11,261)	(2,022)
(Increase) decrease in notes receivable	(630)	189
Decrease in amounts due from related companies	—	10,675
(Increase) decrease in amount due from a jointly controlled entity	(55)	3,236
Increase (decrease) in creditors and accrued charges	7,074	(14,935)
(Decrease) increase in bills payable	(4,482)	4,482
Decrease in amount due to a related company	—	(900)
(Decrease) increase in amount due to a jointly controlled entity	(40)	40
Cash generated from operations	15,658	18,627
PRC enterprise income tax paid	(951)	(1,234)
Net cash from operating activities	14,707	17,393

Consolidated Cash Flow Statement

For the year ended 31 December 2004

	2004 RMB'000	2003 RMB'000
Investing activities		
Interest received	162	258
Purchase of property, plant and equipment	(5,430)	(10,265)
Repayment from directors	—	503
Proceeds on disposal of property, plant and equipment	12	86
Repayment from minority shareholders of subsidiaries	—	1,941
Repayment from a shareholder of the Company	—	450
Decrease (increase) in pledged deposits	3,882	(99)
Net cash used in investing activities	(1,374)	(7,126)
Financing activities		
Proceeds from issue of shares	54,053	—
Share issue expenses	(11,879)	—
Interest paid	(3,714)	(3,514)
Finance lease charge	(13)	(16)
New borrowings raised	34,280	72,882
Repayment of borrowings	(58,186)	(89,741)
(Decrease) increase in notes payable	(910)	1,700
Repayment to a director	(60)	(71)
Government grants received	200	(2,000)
Repayment of obligations under finance leases	(91)	(88)
Net cash from (used in) financing activities	13,680	(20,848)
Net increase (decrease) in cash and cash equivalents	27,013	(10,581)
Cash and cash equivalents at beginning of the year	22,859	33,440
Cash and cash equivalents at end of the year		
Bank balance and cash	49,872	22,859

Notes to the Financial Statements

For the year ended 31 December 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.

The Group is principally engaged in design, development and manufacture of IC cards, magnetic cards, related equipment and application systems in the PRC.

The Group’s books and records are maintained in Renminbi (“RMB”), the currency in which the majority of the Group’s transactions is denominated.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial information have been prepared under the historical cost convention. The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies are set out below:

Potential impact arising from the recently issued accounting standards

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Potential impact arising from the recently issued accounting standards *(Continued)*

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Investment in subsidiaries

Investment in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Jointly controlled entity

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entity.

The Group's interests in jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity in so far as it has not already been written off or amortised or released to income less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entity is included in the consolidated income statement.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entity *(Continued)*

The Company's investments in jointly controlled entity is stated at cost, as reduced by any identified impairment loss. The results of jointly controlled entity is accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and any identified impairment loss.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the assets and is recognised in the income statement.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress over their estimated useful lives, and after taking into account their estimated residual value, using the straight-line method, as follows:

	Depreciation life	Residue value (on cost)
Buildings	30 – 40 years	3%
Plant and machinery	6 years	3 – 10%
Leasehold improvements	6 years	10%
Furniture, fixture and equipment	5 – 6 years	3 – 10%
Motor vehicles	5 – 10 years	3 – 10%

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Construction in progress

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. It is not depreciated until the completion of construction. Costs of construction works are transferred to the appropriate categories of property, plant and equipment when the construction is completed.

Land use right

Land use right is recognised as an asset and stated at cost less amortisation over the term of the lease, and any identified impairment loss.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that these assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to income statements over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals charged to the income statements on a straight-line basis over the relevant lease term.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are recognised as income over the period necessary to match them with the related costs. Grants related to depreciable assets are recognised in the same period as those expenses are charged to the income statement. When government grants are given for the purposes of immediate financial support to the Group with no further related cost to be incurred, the grants are recognised as income when they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

Transactions denominated in currencies other than RMB are translated into RMB at the applicable rates of exchange quoted by the People's Bank of China ("PBOC") prevailing at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than RMB are re-translated at the applicable PBOC rates in effect at the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Retirement benefit schemes

The retirement benefit costs charged in the income statement represent the contributions payable to the retirement fund schemes managed by local social security bureau in accordance with the government regulation in the PRC and are charged as an expense as they fall due.

Notes to the Financial Statements

For the year ended 31 December 2004

3. TURNOVER

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

	2004	2003
	RMB'000	RMB'000
Sales of cards	129,009	112,248
Sales of non-card products	13,595	13,002
	142,604	125,250

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION

Business segments

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

Segment information about the business is presented below:

For the year ended 31 December 2004

	Card products RMB'000	Non-card products RMB'000	Consolidated RMB'000
Revenue			
External sales	129,009	13,595	142,604
Result			
Segment results	16,167	1,208	17,375
Unallocated bank interest income			162
Unallocated other operating income			891
Unallocated corporate expenses			(60)
Profit from operations			18,368
Finance costs			(3,727)
Share of results of a jointly controlled entity			(14)
Profit before taxation			14,627
Taxation			(2,378)
Profit before minority interests			12,249
Minority interests			(635)
Net profit for the year			11,614

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

At 31 December 2004

	Card products RMB'000	Non-card products RMB'000	Consolidated RMB'000
Assets			
Segment assets	135,689	7,467	143,156
Unallocated assets			50,100
			193,256
Liabilities			
Segment liabilities	37,275	4,268	41,543
Unallocated liabilities			35,424
			76,967
Other information			
Capital expenditure	5,379	51	5,430
Depreciation and amortisation	4,243	163	4,406
Allowance for obsolete inventories	1,011	—	1,011
Loss on disposal of property, plant and equipment	13	—	13

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

For the year ended 31 December 2003

	Card products RMB'000	Non-card products RMB'000	Consolidated RMB'000
Revenue			
External sales	112,248	13,002	125,250
Result			
Segment results	14,480	998	15,478
Unallocated bank interest income			258
Unallocated other operating income			2,575
Unallocated corporate expenses			(554)
Profit from operations			17,757
Finance costs			(3,530)
Share of results of a jointly controlled entity			223
Profit before taxation			14,450
Taxation			(2,935)
Profit before minority interests			11,515
Minority interests			(1,001)
Net profit for the year			10,514

Notes to the Financial Statements

For the year ended 31 December 2004

4. SEGMENTAL INFORMATION (Continued)

Business segments (Continued)

At 31 December 2003

	Card products RMB'000	Non-card products RMB'000	Consolidated RMB'000
Assets			
Segment assets	133,262	5,790	139,052
Unallocated assets			<u>26,969</u>
			<u>166,021</u>
Liabilities			
Segment liabilities	32,326	2,501	34,827
Unallocated liabilities			<u>62,928</u>
			<u>97,755</u>
Other information			
Capital expenditure	10,245	20	10,265
Depreciation and amortisation	4,658	154	4,812
Allowance for obsolete inventories	745	—	745
Allowance for doubtful debts	2,315	—	2,315
Loss on disposal of property, plant and equipment	8	—	8

Geographical segments

All of the Group's operations are carried out in the PRC, and accordingly, the revenue, contribution to profit from operations, carrying amount of assets and capital expenditure are all situated in that region.

Notes to the Financial Statements

For the year ended 31 December 2004

5. OTHER OPERATING INCOME

	2004 RMB'000	2003 RMB'000
Bank interest income	162	258
Government grants (<i>note</i>)	800	500
Value-added tax refund	—	1,435
Others	91	640
	1,053	2,833

Note: The government grants were given for the purpose of immediate financial support to the Group's research and development project which is recognised as high technology project by the government authority.

6. PROFIT FROM OPERATIONS

	2004 RMB'000	2003 RMB'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation and amortisation		
— owned assets	4,279	4,658
— amortisation of land use right	81	81
— assets under finance leases	46	73
	4,406	4,812
Auditors' remuneration	477	12
(Reversal of) allowance for doubtful debts	(218)	2,315
Loss on disposal of property, plant and equipment	13	8
Loss on deregistration of a subsidiary	—	370
Minimum lease payments under operating leases in respect of rented premises	1,335	1,655
Allowance for obsolete inventories	1,011	745
Research and development costs	2,388	3,054

Notes to the Financial Statements

For the year ended 31 December 2004

7. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on banking borrowings wholly repayable within five years	3,714	3,514
obligations under finance leases	13	16
	3,727	3,530

No interest was capitalised during the either year.

8. REMUNERATION OF DIRECTORS, SUPERVISORS AND EMPLOYEES

Total staff costs incurred during the years are as follows:

	2004 RMB'000	2003 RMB'000
Staff costs including retirement benefit schemes contributions	10,876	10,780

Directors and supervisors

	2004 RMB'000	2003 RMB'000
Fees	—	—
Salaries and other benefits	1,257	661
Retirement benefit schemes contributions	6	8
Total emoluments	1,263	669

Notes to the Financial Statements

For the year ended 31 December 2004

8. REMUNERATION OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(Continued)

Analysed into:

Executive directors

	2004 RMB'000	2003 RMB'000
Director A	389	1
Director B	53	—
Director C	224	271
Director D	309	216
Director E	1	—
Director F	1	—
	977	488
Independent non-executive directors		
Director A	6	—
Director B	6	—
Director C	6	—
	18	—
Supervisors		
Supervisor A	260	180
Supervisor B	4	1
Supervisor C	4	—
	268	181
	1,263	669

Notes to the Financial Statements

For the year ended 31 December 2004

8. REMUNERATION OF DIRECTORS, SUPERVISORS AND EMPLOYEES

(Continued)

Employees

The emoluments paid by the Group to the five highest paid individuals (including directors and supervisors, details of whose emoluments are set out above, and employees) are as follows:

	2004	2003
	RMB'000	RMB'000
Salaries and other benefits	1,406	1,050
Retirement benefit schemes contributions	8	7
	1,414	1,057

The emoluments of those individuals whose emoluments fell within the band of nil to HK\$1,000,000 were as follows:

	2004	2003
Number of directors	3	2
Number of supervisors	1	—
Number of employees	1	3
	5	5

During the year, no emoluments were paid by the Group to the directors and the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

9. RETIREMENT BENEFITS

The Group participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group are required to make monthly contributions to the retirement schemes up to the time of retirement of the eligible employees, at rates ranging from approximately 8% to 20% of the local standard basic salaries. The local government authorities are responsible for the pension liabilities to these retired employees.

As at 31 December 2004, the Group had no other obligations apart from the contributions as stated above.

Details of the pension contributions made by the Group, which have been dealt with in the consolidated income statement, were as follows:

	2004 RMB'000	2003 RMB'000
Contributions to retirement schemes	557	508

10. TAXATION

	2004 RMB'000	2003 RMB'000
The tax charge comprises:		
PRC enterprise income tax	2,456	2,935
Overprovision in prior years	(78)	—
	2,378	2,935

For the two years ended 31 December 2004, the Company is subject to a tax rate of 15%.

Notes to the Financial Statements

For the year ended 31 December 2004

10. TAXATION (Continued)

The subsidiaries of the Company are subject to income tax rate ranging from 15% to 33% on the estimated assessable profit.

The tax charge for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2004 RMB'000	2003 RMB'000
Profit before taxation	14,627	14,450
Tax at domestic tax rate of 15%	2,194	2,167
Overprovision in prior year	(78)	—
Tax effect of utilisation of tax losses not recognised in previous years	—	(215)
Tax effect of expenses that are non-deductible in determining taxable profits	86	1,186
Effect of different tax rates of subsidiaries	21	(156)
Others	155	(47)
Tax charge for the year	2,378	2,935

There is no share of taxation of the jointly controlled entity since it is within tax exemption period.

Neither the Group nor the Company had any significant unprovided deferred taxation as at 31 December 2003 and 31 December 2004

11. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance date (2003: Nil).

Notes to the Financial Statements

For the year ended 31 December 2004

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the year of RMB11,614,000 (2003: RMB10,514,000) and on the weighted average number of 426,756,164 (2003: 338,000,000) shares in issue assuming the 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 on 1 January 2003.

Diluted earnings per share is not presented as there were no potential ordinary shares outstanding during either period.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements, furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 2004	18,603	23,843	5,760	2,948	4,031	55,185
Additions	4	49	890	—	4,487	5,430
Disposals	—	(210)	—	—	—	(210)
At 31 December 2004	18,607	23,682	6,650	2,948	8,518	60,405
DEPRECIATION						
At 1 January 2004	4,229	12,582	2,929	888	—	20,628
Provided for the year	788	2,140	1,002	395	—	4,325
Eliminated on disposals	—	(185)	—	—	—	(185)
At 31 December 2004	5,017	14,537	3,931	1,283	—	24,768
NET BOOK VALUES						
At 31 December 2004	13,590	9,145	2,719	1,665	8,518	35,637
At 31 December 2003	14,374	11,261	2,831	2,060	4,031	34,557

The buildings are situated on land held under medium term lease in the PRC.

At the balance sheet date, the net book value of motor vehicle held under finance leases are RMB341,000 (2003: RMB387,000).

Notes to the Financial Statements

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Company

	Leasehold, improvements, furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2004	4,666	1,846	6,512
Additions	778	—	778
At 31 December 2004	5,444	1,846	7,290
DEPRECIATION			
At 1 January 2004	2,257	579	2,836
Provided for the year	822	276	1,098
At 31 December 2004	3,079	855	3,934
NET BOOK VALUES			
At 31 December 2004	2,365	991	3,356
At 31 December 2003	2,409	1,267	3,676

Notes to the Financial Statements

For the year ended 31 December 2004

14. INTANGIBLE ASSETS

The Group

	2004 RMB'000	2003 RMB'000
COST		
At beginning and end of the year	3,375	3,375
AMORTISATION		
At beginning of the year	495	414
Amortised for the year	81	81
At end of the year	576	495
NET BOOK VALUES		
At end of the year	2,799	2,880

Intangible assets represent the land use rights owned by the Group for a term of 50 years expiring on 1 December 2042.

Notes to the Financial Statements

For the year ended 31 December 2004

15. INVESTMENTS IN SUBSIDIARIES

	2004 RMB'000	2003 RMB'000
Capital contribution, at cost	9,650	9,650
Impairment loss recognised	(400)	—
	9,250	9,650

The particulars of the Company's subsidiaries at 31 December 2004 are as follows:

Name of company	Place of registration and operation	Issued and fully paid registered capital	Attributable equity interest held by the Company	Principal activities
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	PRC	RMB500,000	80%	Design, development and trading of IC cards, magnetic cards, related equipment and application systems
廣州市明華澳漢科技有限公司 Guangzhou Mingwah Aohan High Technology Co., Ltd.	PRC	RMB500,000	90%	Trading in IC cards, magnetic cards, related equipment and application systems
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	PRC	RMB1,000,000	80%	Trading in IC cards, magnetic cards and related equipment
四會市明華澳漢科技有限公司 Sihui Mingwah Aohan High Technology Co., Ltd. ("Sihui Mingwah")	PRC	RMB10,000,000	80%	Manufacture of IC cards, magnetic cards and related equipment

Notes to the Financial Statements

For the year ended 31 December 2004

16. INTEREST IN A JOINTLY CONTROLLED ENTITY

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investment, at cost	—	—	836	836
Share of net assets	698	712	—	—
	698	712	836	836

Details of the Company's jointly controlled entity at 31 December 2004 are as follows:

Name of company	Place of registration and operation	Fully paid registered capital	Attributable equity interest held by the Company	Principal activities
四會新概念電子 科技有限公司 New Concept Technology Limited	PRC	US\$400,000 (Registered capital) US\$101,018.11 (Paid-up capital)	49%	Development, manufacture and trading in computer hardware and software

17. INVENTORIES

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Raw materials	17,431	21,809	1,193	3,976
Work-in-progress	1,001	1,538	—	—
Finished goods	9,713	7,443	8,519	5,852
	28,145	30,790	9,712	9,828
Included above are the following inventories carried at the net realisable value:				
Raw materials	—	214	—	—
Finished goods	22	115	22	115

Notes to the Financial Statements

For the year ended 31 December 2004

18. 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 aged analysis of trade debtors is as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1-90 days	47,792	30,171	40,255	23,865
91-180 days	2,145	5,596	955	2,687
181-365 days	2,460	6,378	1,264	6,019
Over 365 days	128	744	—	413
Trade debtors	52,525	42,889	42,474	32,984
Advance to suppliers	1,993	1,670	170	330
Loans to staff (<i>note 1</i>)	4,921	4,980	4,407	4,845
Loans to other (<i>note 2</i>)	2,514	2,225	2,514	2,225
Other debtors, deposits and prepayments	13,239	18,349	8,694	15,147
	75,192	70,113	58,259	55,531

Notes:

1. The loans are unsecured and interest free and are repayable in accordance with the agreements.
2. The loans are unsecured, interest free and have no fixed term of repayment.

19. AMOUNT DUE FROM (TO) A JOINTLY CONTROLLED ENTITY

The amount is unsecured, interest free and has no fixed terms of repayment.

20. AMOUNTS DUE FROM (TO) SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed repayment term.

Notes to the Financial Statements

For the year ended 31 December 2004

21. BANK BALANCES AND CASH

The amounts are subject to foreign exchange control imposed by the relevant PRC authorities, but the usage of these balances may not subject to any restriction.

22. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors is as follows

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
1-90 days	13,739	9,024	1,113	2,175
91-180 days	1,406	4,644	846	2,597
181-365 days	511	1,455	204	1,238
Over 365 days	2,629	2,007	1,517	1,175
Trade creditors	18,285	17,130	3,680	7,185
Value-added tax payable	7,949	5,875	4,539	3,494
Deposits from customers	211	483	—	—
Other creditors and accrued charges	6,384	2,267	5,211	1,298
	32,829	25,755	13,430	11,977

23. AMOUNT DUE TO A DIRECTOR

The amount due to a director is unsecured, interest free and has no fixed repayment term.

Notes to the Financial Statements

For the year ended 31 December 2004

24. BORROWINGS

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Bank loans (<i>note a</i>)	33,855	55,761	14,455	36,060
Other loan (<i>note b</i>)	—	2,000	—	2,000
	33,855	57,761	14,455	38,060
Secured	3,500	3,500	—	—
Unsecured	30,355	54,261	14,455	38,060
	33,855	57,761	14,455	38,060

Notes:

(a) Included in borrowings were unsecured bank loans guaranteed by:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Properties owned as to 90% by a minority shareholder of Sihui Mingwah (see note 32b)	15,900	16,200	—	—
廣東銀達投資擔保投資有限公司 Guangdong Yinda Guarantee Investment Co., Ltd. ("Guangdong Yinda")	6,455	13,000	6,455	13,000
深圳市大明五州高新科技有限公司 Shenzhen Da Ming Wuzhou High Technology Co., Ltd. ("Shenzhen Wuzhou") (see note 32d)	—	5,000	—	5,000
Mr. Li Qi Ming, a director of the Company, and 深圳市盛明興投資發展有限公司 Shenzhen City Shing Ming Hing Investment Development Limited (see note 32c)	8,000	—	8,000	—
	30,355	34,200	14,455	18,000

(b) The other loan from 深圳市財政局 was unsecured, interest free and was repaid during the year.

Notes to the Financial Statements

For the year ended 31 December 2004

25. OBLIGATIONS UNDER FINANCE LEASES

THE GROUP

	Maximum lease payments		Present value of minimum lease payments	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Amounts payable under finance leases:				
Within one year	104	104	94	91
In the second to fifth years inclusive	139	243	128	222
	243	347	222	313
Less: Future finance charges	(21)	(34)		
Present value of lease obligations	222	313		
Less: Amount due for settlement within one year shown under current liabilities			(94)	(91)
Amount due for settlement after one year			128	222

The average lease term is 5 years. The average effective borrowing rate was 0.42% per month. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Notes to the Financial Statements

For the year ended 31 December 2004

26. GOVERNMENT GRANTS RECEIVED

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
科技研究開發項目經費	200	—	—	—

In accordance with the notices issued by 四會市科學技術局, the subsidy was for the development of “智能卡表面不可見型防偽技術的開發及應用”.

The grant was recognised as a liability until the related project has passed the examination of the expert panels from the relevant governmental authority and then it will be recognised as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

27. PAID-IN CAPITAL

	Number of shares	Amount RMB'000
Registered, issued and fully paid:		
Domestic shares of RMB1 each at 1 January 2003 and 2004	33,800	33,800
Subdivision of each issued Domestic share into 10 Domestic shares of RMB0.1 each during 2004	304,200	—
Conversion into H shares of RMB0.1 each	(18,200)	(1,820)
	<u>319,800</u>	<u>31,980</u>
Domestic shares of RMB0.1 each		
Issuance of H shares of RMB0.1 each upon listing on the GEM during 2004	200,200	20,020
	<u>520,000</u>	<u>52,000</u>
Balance of share capital of RMB0.1 each at 31 December 2004		

Notes to the Financial Statements

For the year ended 31 December 2004

27. PAID-IN CAPITAL *(Continued)*

At the time of conversion of the Company into a joint stock limited company on 17 May 2001, the registered capital for the Company was increased from RMB21,800,000 to RMB33,800,000 divided into 33,800,000 Domestic shares with a nominal amount of RMB1 each.

The Company had on 1 July 2002 submitted an application to the China Securities Regulatory Commission (the "CSRC") for approval of the subdivision of each Domestic share with a nominal value of RMB0.1 each, and the share subdivision was approved and granted by the CSRC on 5 May 2003. Accordingly, each Domestic share of RMB1 will on the listing date be sub-divided into 10 Domestic shares of RMB0.1.

Taking into account of the placing of H shares became unconditional, and immediately following completion of the placing and the share subdivision had taken effect, but without taking into account the H shares to be issued pursuant to the exercise of the offer size adjustment option under the placing, the registered capital of the Company will be increased from RMB33,800,000 to RMB52,000,000 divided into 319,800,000 Domestic shares of RMB0.1 each and 200,200,000 H shares of RMB0.1 each (including 18,200,000 H shares be converted from domestic shares).

On 7 July 2004, 200,200,000 H shares were issued at a price of HK\$0.28 per share.

28. RESERVES

(i) Basis of appropriations to reserves

The transfer to statutory surplus reserve and statutory public welfare fund are based on the net profit under the financial statements prepared in accordance with PRC accounting standards.

Notes to the Financial Statements

For the year ended 31 December 2004

28. RESERVES *(Continued)*

(ii) Statutory surplus reserve

Pursuant to the PRC Company Law, the Company shall appropriate 10% of its profit after taxation each year to the statutory surplus reserve until the balance reaches 50% of the registered share capital. According to the provision of the Company's Articles of Association, in normal circumstances, the statutory surplus reserve shall only be used for marking up losses, capitalisation into share capital and expansion of the Company's operation. For the capitalisation of statutory surplus reserve into share capital, the remaining amount of such reserve shall not be less than 25% of the registered share capital.

(iii) Statutory public welfare fund

Pursuant to the PRC Company Law, the Company shall make allocation from its profit after taxation at the rate of 5% to 10% to the statutory public welfare fund. The statutory public welfare fund can only be utilised on capital items for employees' collective welfare. Individual employees only have the right to use these facilities, the titles to which will remain with the Company. The statutory public welfare fund forms part of the shareholders' equity but is non-distributable other than in liquidation.

(iv) Retained profits

The Company's reserve available for distribution to shareholders is based on the lower of the aggregate amount of profit after taxation for the year and retained profits brought forward determined under PRC accounting standards and that determined under HKGAAP after deduction of the current year's appropriations to the statutory surplus reserve and statutory public welfare fund.

In the opinion of the directors, the reserve available for distribution to the shareholders at 31 December 2004 was RMB25,157,000 (2003: RMB18,760,000).

Notes to the Financial Statements

For the year ended 31 December 2004

29. PLEDGE OF ASSETS

The following assets have been pledged to secure banks loans granted to the Group and the Company.

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Buildings and machinery equipment	10,790	12,055	—	—
Deposits	228	4,110	228	4,110

30. CAPITAL COMMITMENT

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	786	786	786	786

Notes to the Financial Statements

For the year ended 31 December 2004

31. OPERATING LEASE ARRANGEMENT

At the balance sheet date, the commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due are as follows:

	THE GROUP		THE COMPANY	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Within one year	950	1,178	676	1,102
In the second to fifth years inclusive	1,551	1,740	1,466	1,710
	2,501	2,918	2,142	2,812

Leases for office premises are negotiated for an average of three years and rentals are fixed for an average of three years.

32. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	Notes	2004	2003
			RMB'000	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 ("Wuzhou e-City")	Sale of goods	1	151	226
Shenzhen Wuzhou	Sale of goods	1	—	753
李啟明 Mr. Li Qi Ming	Rental expenses	1 & 2	—	66

Notes:

- 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.
- Mr. Li Qi Ming, a director of the Company, is a landlord of the premises and rental expenses are charged at market rate.

Notes to the Financial Statements

For the year ended 31 December 2004

32. RELATED PARTY TRANSACTIONS *(Continued)*

Wuzhou e-City is a subsidiary of Shenzhen Wuzhou, in which a director of the Company, Mr. Zhu Qing Feng, has beneficial interest.

- (b) Certain credit facilities and pledges granted to the Group were secured by properties owned as to 90% by a minority shareholder of Sihui Mingwah (see note 24a).
- (c) 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 provided counter-indemnity of RMB13,000,000 to Guangdong Yinda 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 agreed to be jointly liable with Mr. Li Qi Ming for all the obligations and liabilities under the Counter-Indemnity. In addition, Sihui Mingwah had provided security in favour Guangdong Yinda, such security include certain buildings and machinery equipment of Sihui Mingwah. The bank loans have been repaid and the security has been released during the year.

Pursuant to two guarantee contracts entered during 2003, Mr. Li Qi Ming provided guarantees in favour of Industries Bank Corporation of RMB10,000,000 and RMB8,000,000 respectively to secure certain banking facilities granted to the Group. As at 31 December 2004, a bank loan of RMB8,000,000 is borrowed from Industrial Bank Corporation and the guarantee provided by Mr. Li Qi Ming is the borrowed amount (see note 24a).

- (d) Shenzhen Wuzhou had provided guarantees to banks in respect of credit facilities granted to the Company of RMB13,300,000 at 31 December 2003. As at 31 December 2003, a bank loan of RMB5,000,000 was borrowed by the Group and the guarantee provided by Shenzhen Wuzhou was RMB5,000,000. The guarantees have been released upon the repayment of the related borrowings by the Group during the year. (see note 24b)

Financial Summary

RESULTS

	Year ended 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Turnover	142,604	125,250	134,698
Profit before taxation	14,627	14,450	15,224
Taxation	(2,378)	(2,935)	(1,203)
Profit before minority interests	12,249	11,515	14,021
Minority interests	(635)	(1,001)	16
Net profit for the year	11,614	10,514	14,037

ASSETS AND LIABILITIES

	Year ended 31 December		
	2004 RMB'000	2003 RMB'000	2002 RMB'000
Total assets	193,256	166,021	181,483
Total liabilities	(76,967)	(97,755)	(124,865)
Minority interests	(4,834)	(4,199)	(3,065)
Equity	111,455	64,067	53,553

The results of the Group for each of the two years ended 31 December 2003 and the assets and liabilities of the Group as at 31 December 2002 and 2003 have been extracted from the prospectus dated 30 June 2004 issued by the Company.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting (the “**AGM**”) of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “**Company**”) will be held at No. 63 Sihui Road East, Sihui City, Guangdong Province, the PRC on Friday, 20 May 2005 at 10:00 am for the purpose of considering, and, if thought fit, passing (with or without modifications) the following resolutions:

Ordinary Resolutions

“**THAT**”

1. To review and approve the report of the directors of the Company for the year ended 31 December 2004;
2. To review and approve the audited consolidated accounts and the report of the auditors of the Company for the year ended 31 December 2004;
3. To consider and declare a final dividend for the year ended 31 December 2004 (if any), and to authorize the board of directors of the Company (the “**Board**”) to distribute the final dividends (if any) to the Company’s shareholders;
4. To consider and approve the re-appointment of Deloitte Touche Tohmatsu as the auditors of the Company for the year 2005 with a term of office until the conclusion of the next annual general meeting and to authorize the Board to fix their remunerations;
5. To consider and, if thought fit, pass the following resolution as a special resolution:

Notice of Annual General Meeting

Special Resolution

THAT:

1. The articles of association of the Company (the “Articles”) be amended to add the following business scope:

“The development, production and sales of commercial encrypted products approved by the State’s encryption administration authority; the research and development, production, sales and installation of WLAN equipments and broadband wireless communications equipments.”

2. (a) the amendments to the Articles of the Company as set out in item no. 1 of this Special Resolution be and are hereby approved and the Articles as amended in accordance with such amendments (the “Amended Articles”) be and are hereby approved, such Amended Articles shall take effect upon the approval by and/or registration with the relevant government authorities in the People’s Republic of China (“PRC”) and any one of the executive directors of the Company be and is hereby authorized to deal with on behalf of the Company the relevant application, approval, registration, filing procedures and other related issues arising from the abovementioned amendments of the Articles; and

(b) the board of directors of the Company be and is hereby authorized and empowered to further amend the Amended Articles in accordance with the relevant rules and regulations of the PRC and the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and to make further amendment(s) to the Amended Articles in order to fulfill or accommodate any request that may be raised or made by the relevant government authorities in the PRC during the approval and/or registration of the Amended Articles.”

By order of the Board
Shenzhen Mingwah Aohan High Technology Corporation Limited
Li Qi Ming
Chairman

Shenzhen, The PRC, 31 March 2005

Notice of Annual General Meeting

Notes:

- (A) The register of members of the Company will be closed from Wednesday, 20 April 2005 to Friday, 20 May 2005 (both days inclusive) during which no transfer of the Company's H shares will be effected. Any holder of the H shares of the Company whose name appears on the register of members of the Company at the close of business on Tuesday, 19 April 2005 will be entitled to attend and vote at the AGM.
- (B) Shareholders who intend to attend the AGM should complete and return the reply slip and return it to the Company's H Shares registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 46/F., Hopewell Centre, 183 Queen's Road East, Hong Kong (for H Shares) or to the registered office of the Company at 17/F., Unit A, Skyworth Plaza, Gaoxin Avenue 1 South, Nanshan District, Shenzhen, 518057, the PRC (for Domestic Shares) on or before Friday, 29 April 2005. The reply slip can be delivered in person or by mail, telegram or fax (fax member: (852)2865 0990 or (86 755)2601 0111)).
- (C) Any shareholder of the Company entitled to attend and vote at the AGM are entitled to appoint in writing one or more proxies to attend and vote (on show of hand and on a poll if a proxy is appointed, however, if more than one proxy is appointed, by poll only) on his behalf. A proxy need not be a member of the Company. For shareholders appointing more than one proxy, the instrument(s) appointing each of the proxies shall specify the class and number of shares represented by such proxies.
- (D) In order to be valid, the instrument appointing a proxy shall be in writing under the hand of the appointer or his attorney duly authorised in writing or, if the appointer is a legal person, it shall be under seal or under the hand of a Director or attorney duly authorised.
- (E) The instrument appointing a proxy shall be deposited to the Company's H Share registrar and transfer office in Hong Kong (for H Shares), Computershare Hong Kong Investor Services Limited or the Company's registered office (for Domestic Shares) at the addresses as listed in Note (B) above not less than 24 hours before the time of holding of the AGM or the appointed time of voting.
- (F) Delivery of an instrument appointing a proxy shall not preclude a shareholder of the Company from attending and voting in person at the AGM if he so wish.
- (G) Shareholders attending the AGM shall be responsible for their own transportation and accommodation expenses.