



深圳市明華澳漢科技股份有限公司
Shenzhen Mingwah Aohan High Technology Corporation Limited*

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

(Stock code: 8301)

Interim Report for the Six months ended 30 June 2005

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This report, for which the board of directors (the “Directors”) of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “Company”, together with its subsidiaries, the “Group”) 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: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- For the six months ended 30 June 2005, unaudited turnover decreased to approximately RMB52.5 million, which represents an approximate 11.5% decrease as compared to that of the same period last year. The net profit decreased by approximately 90.4% to approximately RMB0.6 million, as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB0.11cents for the six months ended 30 June 2005.

To all shareholders,

The Directors are pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months and six months ended 30 June 2005 together with comparative figures for the corresponding periods ended 30 June 2004, as follows:

THE FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Income Statement

For the three months and six months ended 30 June 2005 and 30 June 2004

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2004 RMB'000 (Unaudited)
Turnover	3	26,807	31,725	52,484	59,321
Cost of sales		(20,626)	(19,339)	(38,428)	(37,761)
Gross profit		6,181	12,386	14,056	21,560
Other operating income		513	49	671	64
Distribution costs		(1,939)	(2,500)	(4,223)	(4,796)
Administrative expenses		(3,894)	(4,399)	(8,664)	(7,639)
Other operating expenses		(16)	(1)	(19)	(1)
Profit from operations	5	845	5,535	1,821	9,188
Finance costs		(524)	(844)	(1,172)	(1,923)
Share of results of a jointly controlled entity		—	(7)	—	(7)
Profit before taxation		321	4,684	649	7,258
Taxation	6	(178)	(676)	(292)	(1,184)
Profit before minority interests		143	4,008	357	6,074
Minority interests		66	(195)	207	(204)
Net profit for the period		209	3,813	564	5,870
Dividend	7	—	—	—	—
Earnings per share					
— Basic	8	0.04 cents	1.13 cents	0.11 cents	1.74 cents

Unaudited Condensed Consolidated Balance Sheet

At 30 June 2005 and 31 December 2004

		As at 30 June 2005 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2004 <i>RMB'000</i> <i>(Audited)</i>
Non-current assets			
Property, plant and equipment		34,325	35,637
Intangible assets		2,758	2,799
Interests in a jointly controlled entity		<u>698</u>	<u>698</u>
		<u>37,781</u>	<u>39,134</u>
Current assets			
Inventories		37,681	28,145
Debtors, deposits and prepayment	9	72,365	75,192
Notes receivable		1,059	630
Amount due from a jointly controlled entity		92	55
Pledged bank deposits		—	228
Cash and bank balance		<u>34,983</u>	<u>49,872</u>
		<u>146,180</u>	<u>154,122</u>
Current Liabilities			
Creditors and accrued charges	10	(27,059)	(32,829)
Notes payable		(2,580)	(3,680)
Amount due to a director		—	(94)
Tax liability		(6,353)	(6,087)
Borrowings	11	(30,768)	(33,855)
Obligations under finance leases		(157)	(94)
Government grants received		<u>(200)</u>	<u>(200)</u>
		<u>(67,117)</u>	<u>(76,839)</u>
Net current assets		<u>79,063</u>	<u>77,283</u>
Total assets less current liabilities		116,844	116,417
Non-current liability			
Obligations under finance leases		(198)	(128)
Minority interests		<u>(4,627)</u>	<u>(4,834)</u>
		<u>112,019</u>	<u>111,455</u>
Capital and reserves			
Paid-in capital	12	52,000	52,000
Reserves		<u>60,019</u>	<u>59,455</u>
		<u>112,019</u>	<u>111,455</u>

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2005 and 30 June 2004

	Paid-up capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Retained profits	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
At 1 January 2004	33,800	—	4,301	2,151	23,815	64,067
Net profit for the period	—	—	—	—	5,870	5,870
At 30 June 2004	33,800	—	4,301	2,151	29,685	69,937
Share issued during the year	18,200	35,853	—	—	—	54,053
Share issue expenses	—	(18,279)	—	—	—	(18,279)
Net profit for the period	—	—	—	—	5,744	5,744
Appropriations	—	—	1,485	743	(2,228)	—
At 31 December 2004	52,000	17,574	5,786	2,894	33,201	111,455
Net profit for the period	—	—	—	—	564	564
At 30 June 2005	52,000	17,574	5,786	2,894	33,765	112,019

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2005 and 30 June 2004

	Six months ended 30 June	
	2005	2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Net cash (used in)/generated from operating activities	(9,519)	5,962
Net cash used in investing activities	(50)	(2,152)
Net cash used in financing activities	(5,320)	(1,043)
Net (decrease)/increase in cash and cash equivalents	(14,889)	2,767
Cash and cash equivalents at beginning of the period	49,872	22,859
Cash and cash equivalents at end of the period	34,983	25,626
— represented by bank balances and cash		

Notes to the Condensed Financial Statement

For the period ended 30 June 2005

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 GEM of the Stock Exchange on 7 July 2004.

2. BASIS OF PREPARATION

The accounting policies adopted in preparing the unaudited condensed consolidated results are consistent with those followed in the annual financial statements for the year ended 31 December 2004. The unaudited consolidated results have been prepared under the historical cost convention method and in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRS”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of these HKFRS has no material impact on the Group’s results of operations and financial position.

3. TURNOVER

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

	For the three months ended 30 June		For the six months ended 30 June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sales of card products	22,475	28,298	41,032	53,206
Sales of non-card products	4,332	3,427	11,452	6,115
	<u>26,807</u>	<u>31,725</u>	<u>52,484</u>	<u>59,321</u>

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 segmental information.

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

Segmental information about the business is presented below:

For the six months ended 30 June 2005

	Card products <i>RMB'000</i>	Non-card products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue			
External sales	<u>41,032</u>	<u>11,452</u>	<u>52,484</u>
Results			
Segment results	<u>1,100</u>	<u>69</u>	1,169
Unallocated bank interest income			37
Unallocated other operating income			634
Unallocated corporate expenses			<u>(19)</u>
Profit from operations			1,821
Finance costs			(1,172)
Share of result of a jointly controlled entity			<u>—</u>
Profit before taxation			649
Taxation			<u>(292)</u>
Profit before minority interests			357
Minority interests			<u>207</u>
Net profit for the period			<u>564</u>

For the six months ended 30 June 2004

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

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the three months ended		For the six months ended 30	
	30 June		June	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Depreciation of property, plant and equipment				
— owned assets	786	1,110	1,592	2,307
— assets under finance leases	18	18	35	35
Amortisation of intangible assets	21	21	41	41
	<u>21</u>	<u>21</u>	<u>41</u>	<u>41</u>
Total depreciation and amortization	<u>825</u>	<u>1,149</u>	<u>1,668</u>	<u>2,383</u>

6. TAXATION

The charge represents enterprise income tax in the PRC.

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

There is no share of taxation of the jointly controlled entity as the jointly controlled entity did not have any assessable profits for the six months ended 30 June 2005 (2004: Nil).

The Group does not have any significant unprovided deferred taxation as at 30 June 2004 and 30 June 2005.

7. DIVIDEND

No dividend was paid during the period. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005 (2004: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2005 is based on the unaudited net profit for the relevant period of approximately RMB0.6 million (2004: approximately RMB5.9 million) and the weighted average number of 520,000,000 shares (2004: 338,000,000 shares).

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

9. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows an average credit period ranging from 15 to 180 days to its customers. At the discretion of the Directors, certain customers with long-established relationship and good past repayment records may be granted with a longer credit period.

The following is an aging analysis of trade receivables at the reporting date:

	30 June 2005	31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
1-90 days	37,643	47,792
91-180 days	1,188	2,145
181-365 days	3,222	2,460
Over 365 days	<u>230</u>	<u>128</u>
	<u>42,283</u>	<u>52,525</u>

10. CREDITORS AND ACCRUED CHARGES

The following is an aging analysis of trade payables at the reporting date:

	30 June 2005	31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
1-90 days	5,629	13,739
91-180 days	3,267	1,406
181-365 days	1,618	511
Over 365 days	<u>2,363</u>	<u>2,629</u>
	<u>12,877</u>	<u>18,285</u>

11. BORROWINGS

During the six months ended 30 June 2005, the Group obtained new bank loans of RMB3,400,000 and repaid bank loans of RMB6,487,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the operations of the Group.

12. PAID-IN CAPITAL

The paid-in capital represented the nominal value of the Company of RMB0.1 each as at 30 June 2005.

13. CAPITAL COMMITMENTS

	30 June 2005	31 December 2004
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Audited)</i>
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	<u>786</u>	<u>786</u>

14. PLEDGE OF ASSETS

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

	30 June 2005	31 December 2004
	RMB'000	RMB'000
	(Unaudited)	<i>(Audited)</i>
Property, plant and equipment	3,012	10,866
Bank deposits	<u>—</u>	<u>1,151</u>

15. RELATED PARTY TRANSACTIONS

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

(i) Continued transactions

Name of related party	Nature of transactions	Notes	Three months ended 30 June 2005		Six months ended 30 June 2005	
			RMB'000	RMB'000	RMB'000	RMB'000
Shenzhen Daming Wuzhou e-City Co., Ltd. ("Wuzhou e-City")	Sales of goods	i & ii	<u>—</u>	<u>78</u>	<u>—</u>	<u>151</u>

Notes:

- i. The Directors are of the opinion that the transactions were entered into in the ordinary course of the Group's business and at normal commercial terms.
 - ii. 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 Aohan High Technology Co., Limited ("Sihui Mingwah").
- (c) Pursuant to a deed of individual counter-indemnity dates 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 Guarantee Investment Co., Limited ("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 liability under the Counter-Indemnity. In addition, Sihui Mingwah had provided security in favour of Guangdong Yinda, such security include certain buildings and machinery equipment of Sihui Mingwah.

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 30 June 2005, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Review of operations

For the period ended 30 June 2005, the Group's turnover was approximately RMB52,484,000, representing a decrease of approximately 11.5% as compared to RMB59,321,000 for the corresponding period in last year. Such decrease was mainly due to the drop in the sales of the Company. The Group's net profit for the period was RMB564,000, representing a decrease of approximately 90.4% as compared with the net profit of RMB5,870,000 recorded in the corresponding period in last year. The decrease in net profit was mainly attributed to the decrease in sales as well as the rise in the administrative expenses after listing of the Company's stocks on GEM.

(II) Business review

For the first half year of 2005, the Group's turnover was seriously impacted by the severe price competition in card products, in particular the acute price drop in the low-ended products caused by market competition. The Company selectively rejected some of the orders which generated a profit margin below the Company's target and such strategy was conducive to the fall of turnover and net profit as compared to the corresponding period in last year.

Given the change in the existing market environment, the Group has made appropriate adjustments to its product structure and sales strategy and has shifted its focus to *eKey*, a more competitive and high value-added product with which the Group enjoys strong market competitiveness.

For the periods ended 30 June 2005 and 30 June 2004, the Group's cost of sales were approximately RMB38,428,000 and RMB37,761,000 respectively, representing a growth of 1.8%. The rise in cost of sales was mainly attributable to the drop of selling price resulting from the severe market competition in card products as detailed above. Given the cost of sales and the turnover in the corresponding periods, the gross profit margin for the periods ended 30 June 2005 and 30 June 2004 were 26.8% and 36.3%, respectively. The fall in gross profit margin was mainly caused by the relatively high pre-marketing expenses incurred with respect to the market expansion of the Company's high-ended product, *eKey*.

For the period under review, given the decrease in turnover, the Group's distribution costs of approximately RMB4,223,000 was in line with the distribution costs of RMB4,796,000 for the corresponding period in last year, with a slight drop recorded.

For the periods ended 30 June 2005 and 30 June 2004, the Group's profit attributable to shareholders were RMB564,000 and RMB5,870,000 respectively, representing a decrease of 90.4%. The decrease in net profit was mainly attributable to the decrease of sales as well as the rise in the administrative expenses after listing of the Company's stocks on GEM.

The Group's operations for the first half of 2005 was in line with the Group's development objective of becoming the leading player in the PRC's card industry, promoting the brandname of "M&W" as a recognized brand in the PRC's card industry and placing great emphasis on the development of high-end products in the field of information security. The Group has made proactive response and adjustment to the development trend of different product lines and market segments.

1. *Adjustment in the focused strategy in marketing*

The severe price competition faced by the Group's card operation in the first half year of 2005 has contributed to a significant decrease in the Group's turnover and net profit. In response to such decrease, the Group has promptly shifted the focus of its marketing strategy to *eKey*, a high value-added product. Given the fact that 中國電子簽名法 (China's Law on Electronic Signature) has become effective in April this year, and that the Group's high-ended encrypted product, *eKey*, has acquired a significant market share and the competitive edge in the area, the Group will extend its effort in expanding the market share and maintain its leading position in terms of market share and technology. Currently, the proportion of turnover of *eKey* grew from 12.5% in the first half of 2004 to 16.6% in the first half of 2005. In addition to consolidate the market share in the existing application area, the Group has also made efforts in expanding the market share in the area of e-government, on-line banking, social insurance and password security for laying a strong foundation to expand the Group's high-ended products to the arena of information security and to generate a higher profit margin.

The Group has gradually slowed down its pace in the development of non-IC card products and logic encrypted card products. The Group has maintained a steady growth through established sales channels. The Group's marketing strategy is to eliminate gradually the low-ended market, in which the scale of operation is smaller, the price competition is intensive and the margin is low. Instead, the Group will extend its marketing efforts in licensing operation. In particular, the Company was awarded the 銀聯標識卡產品企業資格證書 (China Unionpay Card Product Enterprise Qualification Certificate) and such award has strengthened the Group's competitive edges in the high-ended market. The Group will continue to secure the business relationship with existing major clients with a view to assure the stability of orders.

2. *Research and technical support*

The Group will continue to devote in the research and development of high-ended products such as *eKey* and smart card operation system and in upgrading the smart card operation system to meet the application requirements of the industry and in the development platform of new chips. The Group has adopted the "one-stop" strategy in technical support for ensuring the timely provision of complete solutions for major clients.

3. *External cooperation*

The Group will continue its co-operation with renowned overseas and local chip manufacturers to grasp the technology development trend and to search for new point-of-growth. Being the only partner (TEAM MEMBER) of TEXAS INSTRUMENT, an equipment company in Texas, the United States, in the PRC, both parties have fostered close co-operation in the field of RFID. It is the Company's target to persistently raise the core production technology of RFID products.

4. *Overseas market development*

The Company has set up overseas operations department to actively expand the international smart card market beyond the Mainland, to persistently introduce latest card technology and to strengthen the strategic co-operation relationship with other parties for allowing the Group to set foot on the vast global market.

(III) **Future prospect**

The Group aims at becoming the leading player in the PRC's card industry, promoting the brand name of "M & W" as a recognized brand in the PRC's card industry and placing greater emphasis on the development of high-ended products in the field of information security. To acquire the enormous market potential in the field of security, the Group plans to, leveraging its expertise and competitive edge in smart card, maintain its dominant position in the area.

1. *Technology development*

The Group will further its efforts in the research and development of its smart card operation system and introduce SCOS which satisfies with the standard of EMV and CDMA as well as fingerprint operation system and JAVA operation system.

The Group will continue to upgrade and perfect its eKey products and is planning to complete its research and development in broadband eKey and smart card chips.

The commercialization and serialisation of RFID electronic products and the launch of UHF electronic signature products that can fulfill the requirements of EPC international standards will satisfy the constant growth in the global demand of RFID electronic signature products.

To establish a department to take charge in the promotion and operation of overseas market in order to enhance the sales and marketing of the Group's products in overseas market. It will also create the synergy of external co-operation with a view to establishing "M&W" as an international brandname in smart card industry.

2. *Marketing strategy*

The Group has shifted its emphasis to market eKey products while making an effort in commercializing its research products. Under the premise of maintaining the existing market share, the Group strives to expand the application of eKey products in banking network among the major commercial banks in the PRC with a view to expand the market share in the banking industry while expanding the application in other aspects of information security.

The Company has extended its efforts in marketing and sales in relation to “Renminbi Settlement Encryption System” (人民幣結算密押系統) of the commercial banks in the PRC for enlarging and consolidating the market share of the Company’s smart card and CPU card, while maintaining the card’s application in the PRC’s social insurance, information security and transportation, etc.

The Group will further expand its overseas market to realize the Group’s objective to globalize all the Company’s products. The selling point would be on the Company’s up-to-international-standard products.

3. *Management work*

The Company will complete and implement the Enterprise Resource Planning (ERP) System internally in order to improve the information management of the Group in all directions, including business resources management, distribution management, merchandize and inventory management, production management, administrative management and financial management, etc. Such system will be able to provide scientific evidences as to the Group’s management decisions.

The Company will continue to reinforce the budget control system over administrative expenses, and funds will only be applied to its designated use and feedback will be gauged.

The Company will reinforce its control and management over the review of contract and receivables to control business risk in operating activities.

The Group will continue its effort to build an internal procedure framework for legal compliance to perfect its internal legal document and standardize the administrative management. With the establishment of both the internal and external security systems, the operating risks could be eradicated with the support of legal documents in place, while the Group’s interests would be free from infringement. The Company’s effort in strengthening the evaluation system and in enhancing the operation efficiency will help to generate higher return for shareholders.

4. *Conclusion*

For the second half year of 2005, the sales and marketing expenses would be reduced as the Company has already made achievement in the sales and marketing of eKey in the first half year of 2005. The Group expects that better results could be achieved in the second half of the year. The Board has every confidence in the Group's prospects.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2005, the Group had net current assets of approximately RMB146,180,000. Current assets as at 30 June 2005 comprised inventories of approximately RMB37,681,000, debtors, deposits and prepayments of approximately RMB72,365,000, note receivable of approximately RMB1,059,000, amount due from a jointly controlled entity of approximately RMB92,000 and bank balances and cash of approximately RMB34,983,000. Current liabilities as at 30 June 2005 comprises creditors and accrued charges of approximately RMB27,059,000, notes payable of approximately RMB2,580,000, tax liabilities of approximately RMB6,353,000, short-term borrowings of approximately RMB30,768,000, current portion of obligations under finance lease of approximately RMB157,000 and government grants received of approximately RMB200,000.

CAPITAL COMMITMENTS

As at 30 June 2005, the Group had outstanding capital commitments of approximately RMB786,000 (as at 31 December 2004: approximately HK\$786,000).

FINANCIAL RESOURCES

As at 30 June 2005, the Group had bank balances of approximately RMB34,983,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing cash and bank balances and the listing proceeds.

GEARING RATIO

The Group's gearing ratios were approximately 36.6% and 39.8% as at 30 June 2005 and 31 December 2004 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the six months ended 30 June 2005.

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. Non-card products include card peripheral equipment.

EMPLOYEE INFORMATION

As at 30 June 2005, the Group had 420 full time employees, comprising 95 in administration and finance, 45 in research and development and customer services, 42 in sales, 221 in production, 7 in purchases, and 10 in quality control.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2005, property, plant and equipment with a total net book value of approximately RMB3,012,000 (30 June 2004: RMB10,866,000) were pledged as collateral for the Group's bank loans.

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 30 June 2005 and it is the same for the six months ended 30 June 2004.

COMPARISON OF BUSINESS OBJECTIVES 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 30 June 2005:

Business objectives for the period ended 30 June 2005 as mentioned in the Prospectus

The actual progress for the period ended 30 June 2005

Enhancement of research and development capability

Complete research and development of internet security products

— The research and development of the internet security products, eKey, has been completed

Acquisition of new machinery and upgrading of existing production facilities

Upgrade production conditions according to the requirements of Bank Union

— Enhancement of safety management of production, protection of raw materials and transportation of finished products have been finished according to the requirements of Bank Union

Commercialisation of new products and technology

Expanding the commercial applications of eKey products in new applicable areas

— eKey products have been promoted extensively and widely used in management of internet banking accounts and identity recognition, as well as the account management of Certification Authority (CA) and securities business

USE OF PROCEEDS

The listing proceeds from the listing of the Group on the Growth Enterprise Market on 7 July 2004 was approximately HK\$39,400,000. As at 30 June 2005, 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 30 June 2005 as extracted from the Prospectus	Actual amount used up to 30 June 2005
	<i>HK\$' million</i>	<i>HK\$' million</i>
Enhancement of research and development capacity	6.0	4.0
Acquisition of new machineries and upgrading of existing production facilities	4.0	3.0
Commercialisation of new products and technology	5.0	5.0
Repayment of bank loans	13.4	13.4
General working capital	<u>4.0</u>	<u>3.0</u>
Total	<u><u>32.4</u></u>	<u><u>28.4</u></u>

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' AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or supervisors (the "Supervisors") of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2005.

DISCLOSURE OF INTERESTS

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

As at 30 June 2005, 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 5.68 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

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

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

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 as at 30 June 2005.

(b) Interests discloseable under SFO and substantial shareholders

So far as the Directors are aware, as at 30 June 2005, 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%
Princes MB Asset Management Corp.	Beneficial owner	12,368,000 H shares	—	6.18%

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed in the section headed “Share Option Scheme”, at no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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.

SPONSORS' 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.

None of Barits, its directors, employees or any of their associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had accrued any material benefits or had a directorship in or had any interest in any class of securities of any member of the Group (including options or rights to subscribe for such securities but excluding interests in such securities subscribed by any director or employee of Barits pursuant to an offer by way of public subscription made by the Company) as a result of the listing or any transaction of the Company for the six months ended 30 June 2005.

AUDIT COMMITTEE

The Company has established an audit committee on 19 June 2005 with written terms of reference in compliance with Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors. The audit committee comprises three independent non-executive Directors, namely, Mr. Gao Xiang Nong, Mr. Li Quan Sheng and Mr. Zhang Yu Chuan.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the unaudited first quarterly result of the Company for the six month ended 30 June 2005.

CORPORATE GOVERNANCE

Throughout the six months ended 30 June 2005, the Company complied with the code provisions set out in the Code of Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

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 six months ended 30 June 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS

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

By Order of the Board
Li Qi Ming
Chairman

12 August 2005, Shenzhen, the PRC