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)

Stock Code: 8301

* For identification purpose only

ANNUAL REPORT 2005

Characteristics of the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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

This report, for which the directors (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. Li Wen Jun
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. Lau Chun Pong

QUALIFIED ACCOUNTANT

Mr. Lau Chun Pong

AUDIT COMMITTEE

Mr. Gao Xiang Nong
Mr. Li Quan Sheng
Mr. Zhang Yu Chuan

COMPLIANCE OFFICER

Mr. Li Qi Ming

AUTHORIZED REPRESENTATIVES

Mr. Lau Chun Pong
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

To our respectable shareholders,

For and on behalf of the board of directors of the Company (the "Board"), I hereby present the audited annual result of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

(1) REVIEW OF OPERATIONS

For the year ended 31 December 2005, the turnover of the Group amounted to approximately RMB100,313,000 as compared to RMB142,604,000 in the previous year, representing a decrease of 29.7%. Loss attributable to shareholders was approximately RMB26,854,000 as compared to a profit of RMB12,249,000 in 2004, which was restated due to the adoption of the new Hong Kong Financial Reporting Standards. The loss was mainly attributable to the decrease of sales, increase in provision for trade receivable and impairment loss on fixed assets.

(2) BUSINESS REVIEW

In 2005, negative impact brought by the continuous aggressive pricing of domestic card products had significantly affected the Company's turnover. The intense price reductions from competitors of low-end card products resulted in the Company's forsaking certain contracts with poor profit and cash flow, which lead to a decrease in turnover and result as compared to last year.

In 2005, the Group's business development was consistent with its established goal. The Group flexibly adjusted the focus of its market strategy according to actual market competition.

1. Adjustment of market strategy of products

In view of the decease in sales volume and turnover under intense competition of the card business, the Group continued to strengthen its sales effort on high profit value-added product of eKey, the high-end security communication product of the Group. In the first half of 2005, sales from eKey accounted for approximately 26.1% of total turnover of the Group compared with approximately 21.5% in the same period in 2004. We will continue to solidify the market share of eKey in the PRC e-government, online banking, social insurance and code security, strengthen our competitiveness and stand apart from other competitors.

Since the China Electronic Signature law became effective in May 2005, the Company's security communication products, Elliptic Curve Cryptography ("ECC") embedded Smart Safety Chips and Secured Wireless Local Area Network Terminal products will, with support of the law, have franchise advantage and become a new point of growth for the Group.

The Group will continue to expand our sales effort on the franchise business and maintain our relationship and orders with clients from different industries.

2. Research and development and technical support

The Company will increase its investment on its high-end products, enhance the quality and promptness of technical support for major customers.

3. External cooperation

The Group will continue to reinforce its co-operation with reputable chips manufacturers in and out of the PRC, and is managed to co-operate with other companies through Texas Instrument, United States. Oversea orders were received through the successful market launch of radio frequency identification ("RFID") electronic label products.

4. Overseas markets development

The Company's overseas sales department is located in the Asia-Pacific region. Orders from major European companies were received due to the increase of sales effort in the European market.

(3) BUSINESS PROSPECTS

The Group aims at becoming a leader in the PRC 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 and at the same time maintaining the dominant status of eKey and other products in the field of information security. The Group also aims at boosting sales capacity and market shares of overseas markets.

1. Technology development

In response to market demand, we upgraded the Smart Card Operating System ("Smart COS") for Europay, Master Card and Visa ("EMV"), Code Division Multiple Access ("CDMA"), Java and Finger Card Operating System and put in greater effort in ECC Calculation and research and development.

The Group will continue to optimize and upgrade eKey products and enhance the development and design capability for characterized product.

For RFID products, the Group will further enhance the productivity and antenna design, especially the ability to produce Ultra High Frequency ("UHF") label in batches.

2. Marketing Strategy

The Group will continue to focus our marketing efforts on eKey products, and while maintaining our present market share, we will continue to expand the application of eKey products in major commercial banking networks in the PRC and also explore its application in e-Government and other information security products.

The Group seeks to further develop the overseas information security product market and commence promotion activities for information security products and Wireless Local Area Network Terminal products based on ECC Calculation.

The Group will increase effort in overseas sales market in order to improve the influence of the "M&W" brand and to further expand its market share in Asia-Pacific region, Africa and Russia.

3. Management Operation

The Group will modify the Enterprise Resource planning System ("ERP system") to fully upgrade its business resources management, distribution management, purchase and inventory management, production management, administrative management and financial management in order to form a scientific basis for the Group's management decision.

The Group will continue to put in efforts in implementing a budget control system and to construct an expense status feedback mechanism over administrative expenses for designated projects.

In respect of financial management, the Group 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 a more comprehensive formalities in internal management. The Group will further protect the interest of the Company from infringement by further enhancing the Company's internal and external security system. 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.

(4) CONCLUSION

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

DIRECTORS

Executive Directors

李啟明 (Mr. Li Qi Ming), aged 46, 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 40, is the vice-chairman and an executive Director. He graduated from 中共央黨校 (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 41, 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.

李文軍 (Mr. Li Wen Jun), aged 35, is an executive Director. He graduated from 華南理工大學 (South China University of Technology) with an undergraduate qualification in 計算機工程學 (computer engineering). He joined the Group in December 1994 and was appointed as the general manager of 深圳市明華澳漢電子設備有限公司 (Shenzhen Mingwah Aohan Electronic Equipment Company Limited), an 80% owned subsidiary of the Group.

王振國 (Mr. Wang Zheng Guo), aged 51, 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 41, 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 36, 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 62, 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 47, 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 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 33, 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 35, 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 50, 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

汪愚 (Mr. Wang Yu), aged 32, 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.

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.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

劉振邦 (Mr. Lau Chun Pong), aged 32, is the company secretary and qualified accountant of the Company. He graduated from University of California, Los Angeles and is an associate member of the Hong Kong Institute of Certified Public Accountants and American Institute of Certified Public Accountants. He joined the Group in April 2005 and has extensive experience in accounting and audit.

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB100,313,000, representing a decrease of approximately 29.7% as compared with the turnover of RMB142,604,000 in the previous year. Such decrease was mainly due to the drop in the sales of the Group.

The gross profit of the Group for the year ended 31 December 2005 amounted to RMB25,571,000, with a decrease of approximately 42.9% as compared with the gross profit of RMB44,796,000 in the previous year, and the underlying reason of such decrease is also due to the drop of selling price resulting from the severe marketing competition in card products.

For the year ended 31 December 2005, the Group's administrative expenses increased by RMB958,000 or approximately 5.3% to RMB19,059,000 as compared with last year. In comparing with the same in 2004, the distribution costs decrease by 19.5% from RMB9,538,000 to RMB7,678,000 for the year ended 31 December 2005. This was due to the drop in sales volume.

For the year ended 31 December 2005, loss attributable to shareholders was approximately RMB26,854,000 as compared to a profit of RMB12,249,000 in 2004, which was restated due to the adoption of the new Hong Kong Financial Reporting Standards. The loss was mainly attributable to the decrease of sales, increase in provision for trade receivable and impairment loss on fixed assets.

For the year ended 31 December 2005, the Group had equity attributable to equity holders of the parents of RMB84,968,000 (2004: RMB111,455,000), cash and bank balance of RMB52,177,000 (2004: RMB49,872,000), current assets of RMB136,200,000 (2004: RMB150,984,000) and current liabilities of approximately RMB76,783,000 (2004: RMB76,839,000). The Group's current ratio (total current assets over total current liabilities) decreased from 1.96 as at 31 December 2004 to 1.77 as at 31 December 2005.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2005, the Group had net current assets of approximately RMB59,417,000. Current assets as at 31 December 2005 comprised inventories of approximately RMB22,477,000, debtors, deposits and prepayments of approximately RMB60,831,000, notes receivable of approximately RMB200,000 and bank balances and cash of approximately RMB52,177,000. Current liabilities as at 31 December 2005 comprised creditors and accrued charges of approximately RMB42,093,000, tax liabilities of approximately RMB7,272,000, short-term borrowings of approximately RMB26,100,000 and current portion of obligations under finance lease of approximately RMB97,000.

Gearing ratio

The Group's gearing ratios were approximately 46.2% and 39.8% as at 31 December 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.

Capital commitments

As at 31 December 2005, the Group had outstanding capital commitments of approximately RMB786,000 (2004: RMB786,000).

Financial resources

As at 31 December 2005, the Group had bank balances of approximately RMB52,177,000. 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.

Capital structure

Since 7 July 2004, the shares of the Company have been listed on the GEM of the Stock Exchange and there has been no change in the capital structure of the Company. The capital of the Company comprises only 33,800,000 Domestic Shares and 200,200,000 H Shares.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 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 31 December 2005, the Group had 416 full time employees, comprising 93 in administration and finance, 45 in research and development and customer services, 40 in sales, 221 in production, 7 in purchase, and 10 in quality control.

SIGNIFICANT INVESTMENTS

There is no significant investment held by the Group as at 31 December 2005.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2005, property, plant and equipment with a total net book value of approximately RMB5,658,000 (31 December 2004: RMB10,790,000) 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 2005 and it is the same for the year ended 31 December 2004.

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 2005:

Business objectives for the year ended 31 December 2005 as mentioned in the Prospectus		The actual progress for the year ended 31 December 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
Complete research and development of ECC application products	—	The research and development of ECC application products is in progress and will be completed in 2006
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
Purchase scratch card machine	—	The scratch card machine will be purchased in 2006
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 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 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 31 December 2005 as extracted from the Prospectus HK$' million	Actual amount used up to 31 December 2005 HK$' million
Enhancement of research and development capacity	7	4
Acquisition of new machineries and upgrading of existing production facilities	5	3
Commercialisation of new products and technology	6	6
Repayment of bank loans	13.4	13.4
General working capital	4.5	4.5
Total	35.9	30.9

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.

The board of directors (the "Directors" or the "Board") of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in design, development and manufacture of IC cards, magnetic cards, related equipment and application systems in the PRC.

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by products for the year ended 31 December 2005 is set out in note 7 to the financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 26.35% of the Group's purchases. The largest supplier accounted for approximately 6.66% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 30.74% of the total turnover. The largest customer accounted for approximately 7.36% 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 2005 are set out in the consolidated income statement on pages 25.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 28 and note 31 to the financial statements, respectively.

REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

Details of the emoluments of the Directors and the top five highest paid individuals of the Group are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 30 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2005 are set out in notes 27 and 28 to the financial statements.

DIRECTORS AND SUPERVISORS

The Directors and supervisors during the year and up to the date of this 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 *(resigned on 18 July 2005)*
Mr. Li Wen Jun *(appointed on 20 September 2005)*

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.

MANAGEMENT CONTRACTS

Each of the executive Director and Supervisor 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.

DISCLOSURES OF INTEREST

1. Directors', Chief Executives' and Supervisors' Interest in Shares

As at 31 December 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 5.67 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 Wen Jun	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%

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 2005.

2. Substantial Shareholders

So far as the Directors are aware, as at 31 December 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%
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 2005.

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 has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on page 19 to 22 of the annual 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 year 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.

None of Barits, its Directors, employees nor their respective associates as referred to in Note 3 to Rule 6.35 of the GEM (Listing Rules) has any interests in any class of securities of the Company or any other member of the Group (including options or rights to subscribe for such securities) as at 31 December 2005.

AUDITORS

The financial statements of the Company for the year ended 31 December 2005 have been audited by Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment.

By Order of the Board
Li Qi Ming
Chairman

30 March 2006, Shenzhen, the PRC

The Group has complied with most of the code provisions on Corporate Governance Practices as set out in the GEM Listing Rules ("CG Code"). This report describes its corporate governance practices, explains the applications of the principles of the CG Code and deviations, if any.

DIRECTORS' SECURITIES TRANSACTIONS

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 2005.

BOARD OF DIRECTORS

The Board comprises nine directors, of whom six are executive directors and three are independent non-executive directors. The participation of non-executive directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

For the year ended 31 December 2005, the Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive Directors is one-third of the members of the Board, and it also met the requirement of having non-executive director with appropriate professional qualification or professional accounting or financial management expertise.

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 of the Company.

The Board is responsible to the approval and monitoring of the Group's overall strategies and policies; approval of business plans; evaluating the performance of the Group and oversight of management. It is also responsible for promoting the success of the Company and its businesses by directing and supervising the Company's affairs.

The Board focuses on overall strategies and policies with particular attention paid to the growth and financial performance of the Group.

The Board delegates day-to-day operations of the Group to executive directors and senior management, while reserving certain key matters for its approval. Decisions of the Board are communicated to the management through executive directors who have attended at Board meetings.

The Board held a board meeting at least at each quarter or in case there is important decision to make. The Board conducted four meetings in 2005 and the following table sets out the attendance of the Board:

Directors	Attendance
Executive Directors	
Mr. Li Qi Ming *(Chairman)*	4/4
Mr. Li Guang Ming	4/4
Mr. Li Wen Jun *(Note)*	1/4
Mr. Guo Bao An	4/4
Mr. Wang Zheng Guo	4/4
Mr. Zhu Qing Feng	4/4
Independent non-executive Directors	
Mr. Gao Xiang Nong	4/4
Mr. Li Quan Sheng	4/4
Mr. Zhang Yu Chuan	4/4

Note: Appointed as an executive director on 20 September 2005.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Mr. Li Qi Ming assumes the role of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

— the Board acts in the best interests of the Group; and

— the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board.

The role of chairman and chief executive officer of the Group rests on the same individual which deviates from the code provision in the Corporate Governance Code of not having a clear division of responsibilities. The Board is of the view that this has not compromised accountability and independent decision making for the following reasons:

— Audit Committee composed exclusively of independent non-executive directors; and

— The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Li, the executive chairman, is a substantial shareholder of the Group and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the best interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

REMUNERATION COMMITTEE

During the period under review, the Company has not established a remuneration committee as set out in B.1 of the Code. The Board considers that the Company needs not set up a remuneration committee as remuneration of the directors are determined by the Board and subject to the approval of shareholders in general meeting in accordance with the Articles and Association of the Company.

NOMINATION COMMITTEE

The Board is responsible for considering the suitability of a candidate to act as a director, and approving and terminating the appointment of a director. During the period under review, the Company has not complied the requirement to establish a nomination committee with specific written terms of reference which deal clearly with its authority and duties as set out in Code provision A.4.4 of the Code. The Company has not set up any nomination committee although the Company is intending to set up such committee in 2006.

The chairman is mainly responsible for identifying suitable candidates for members of the Board when there is a vacancy or an additional director is considered necessary. The chairman will propose the appointment of such candidates to each member of the Board for consideration and each member of the Board will review the qualifications of the relevant candidates for determining the suitability to the Group on the basis of his qualifications, experience and background. The decision of appointing a director must be approved unanimously by the members of the Board and make recommendation to the shareholders' meeting for approval.

The Company has complied with Code provision A.4.1 and A.4.2 of the Code as required by the GEM Listing Rules. According to the Company's Articles of Association, the Company appoints its directors for a maximum term of three years and shall be elected by shareholders at annual general meeting every three years.

All Directors (including executive, non-executive and independent non-executive Directors) are subject to election for appointment by shareholders at the annual general meeting at every three years. None of the Directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within three years without payment of compensation (other than statutory compensation).

The notice period for the termination of executive Directors' and independent non-executive Directors' contracts by either parties is not less than one month.

In 2005, Mr. Zheng Wen resigned from the directorship and Mr. Li Wen Jun was appointed as executive Director of the Company with proper approval at the special general meeting.

AUDITORS' REMUNERATION

An amount of approximately RMB691,000 (2004: RMB477,000) was charged to the Group's income statement for the year ended 31 December 2005. There was no significant non-audit service assignment undertaken by the auditors during the year.

AUDIT COMMITTEE

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company. 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 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 2005.

The audit committee was established on 19 June 2004 to review the Group's financial reporting, internal controls and make relevant recommendations to the Board. The terms of reference of the audit committee are posted on the Company's website.

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 held four meetings in 2005, which were attended by all members. The Group's 2005 first and third quarterly reports, 2005 half-yearly report and 2004 annual report have been reviewed by the audit committee, which was of the opinion that such reports were prepared in accordance with the applicable accounting standards and requirements. For 2004 annual report, the audit committee met with the external auditors to discuss auditing, internal control, statutory compliance and financial reporting matters before recommending it to the Board for approval. The committee also monitored the Company's progress in implementing the code provisions on corporate governance practices as required under the GEM Listing Rules.

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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 25 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The 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 Hong Kong Standards on of Auditing 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 Group, consistently applied and adequately disclosed.

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 Group as at 31 December 2005 and of the loss 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

30 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Turnover	6	100,313	142,604
Cost of sales		(74,742)	(97,808)
Gross profit		25,571	44,796
Other income	8	752	1,053
Distribution costs		(7,678)	(9,538)
Administrative expenses		(19,059)	(18,101)
Other expenses		(446)	(60)
(Allowance for) reversal of bad and doubtful debts		(13,995)	218
Impairment loss on property, plant and equipment		(8,518)	—
Share of results of a jointly controlled entity		(9)	(14)
Finance costs	9	(2,278)	(3,727)
(Loss) profit before taxation	10	(25,660)	14,627
Taxation	13	(1,194)	(2,378)
(Loss) profit for the year		(26,854)	12,249
Attributable to:			
Equity holders of the parent		(26,487)	11,614
Minority interests		(367)	635
		(26,854)	12,249
Dividend	14	—	—
(Loss) earning per share			
—Basic	15	(5.09) cents	2.72 cents

Consolidated Balance Sheet

As at 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Non-current assets			
Property, plant and equipment	16	24,400	35,637
Prepaid lease payments	17	2,635	2,717
Interest in a jointly controlled entity	18	689	698
Loan receivable	19	2,326	3,220
		30,050	42,272
Current assets			
Inventories	20	22,477	28,145
Debtors, deposits and prepayments	21	60,831	71,972
Prepaid leases payments	17	82	82
Notes receivable		200	630
Amount due from a jointly controlled entity	22	133	55
Amount due from a shareholder	23	300	—
Pledged deposits		—	228
Bank balances and cash	24	52,177	49,872
		136,200	150,984
Current liabilities			
Creditors and accrued charges	25	42,093	32,829
Bills payable		—	3,680
Amount due to a director	26	621	94
Tax liabilities		7,272	6,087
Borrowings	27	26,100	33,855
Obligations under finance leases	28	97	94
Government grants received	29	600	200
		76,783	76,839
Net current assets		59,417	74,145
Total assets less current liabilities		89,467	116,417
Non-current liability			
Obligations under finance leases	28	32	128
		89,435	116,289

As at 31 December 2005

	NOTES	2005 RMB'000	2004 RMB'000 (Restated)
Capital and reserves			
Paid-in capital	30	**52,000**	52,000
Reserves	31	**32,968**	59,455
Equity attributable to equity holders of the parent		**84,968**	111,455
Minority interests		**4,467**	4,834
Total equity		**89,435**	116,289

The financial statements on pages 25 to 60 were approved and authorised for issue by the Board of Directors on 30 March 2006.

Li Qi Ming
DIRECTOR

Zhu Qing Feng
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

	Attributable to equity holders of the parent							
	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	Minority interests RMB'000	Total RMB'000
At 1 January 2004	33,800	—	4,301	2,151	23,815	64,067	4,199	68,266
Profit for the year and total recognised income and expense for the year	—	—	—	—	11,614	11,614	635	12,249
Shares issued during the year	18,200	35,853	—	—	—	54,053	—	54,053
Shares issue expenses	—	(18,279)	—	—	—	(18,279)	—	(18,279)
Appropriations	—	—	1,485	743	(2,228)	—	—	—
At 1 January 2005	52,000	17,574	5,786	2,894	33,201	111,455	4,834	116,289
Loss for the year and total recognised income and expense for the year	—	—	—	—	(26,487)	(26,487)	(367)	(26,854)
Appropriations	—	—	122	61	(183)	—	—	—
At 31 December 2005	52,000	17,574	5,908	2,955	6,531	84,968	4,467	89,435

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005 RMB'000	2004 RMB'000 (Restated)
Operating activities		
(Loss) profit before taxation	(25,660)	14,627
Adjustments for:		
Share of results of a jointly controlled entity	9	14
Bank interest income	(109)	(162)
Finance cost	2,278	3,727
Depreciation and amortisation	3,204	4,325
Amortisation of prepaid lease payments	82	81
Impairment loss on property, plant and equipment	8,518	—
Loss on disposal of property, plant and equipment	180	13
Allowance for obsolete inventories	746	1,011
Allowance (reversal of) for bad and doubtful debts	13,995	(218)
Operating cash flow before movements in working capital	3,243	23,418
Decrease in inventories	4,922	1,634
Increase in debtors, deposits and prepayments	(2,854)	(12,155)
Decrease (increase) in notes receivable	430	(630)
Increase in amount due from a jointly controlled entity	(78)	(55)
Increase in amount due from a shareholder	(300)	—
Increase in creditors and accrued charges	9,264	7,074
Decrease in bills payable	(3,680)	(4,482)
Decrease in amount due to a jointly controlled entity	—	(40)
Cash generated from operations	10,947	14,764
PRC enterprise income tax paid	(9)	(951)
Net cash from operating activities	10,938	13,813

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	2005	2004
	RMB'000	RMB'000
		(Restated)
Investing activities		
Interest received	109	162
Purchase of property, plant and equipment	(798)	(5,430)
Proceeds on disposal of property, plant and equipment	133	12
Decrease in pledged deposits	228	3,882
Net cash used in investing activities	(328)	(1,374)
Financing activities		
Interest paid	(2,267)	(3,714)
Finance lease charge	(11)	(13)
Proceeds from issue of shares	—	54,053
Share issue expenses	—	(11,879)
New borrowings raised	26,100	34,280
Repayment of borrowings	(33,855)	(58,186)
Decrease in notes payable	—	(910)
Decrease in loan receivable	894	894
Advance to supplier	(40,000)	—
Prepayment from a supplier	40,000	—
Advance from repayment(to) a director	527	(60)
Government grants received	400	200
Repayment of obligations under finance leases	(93)	(91)
Net cash (used in) from financing activities	(8,305)	14,574
Net increase in cash and cash equivalents	2,305	27,013
Cash and cash equivalents at beginning of the year	49,872	22,859
Cash and cash equivalents at end of the year		
Bank balance and cash	52,177	49,872

1. GENERAL

The Company is a public limited company incorporated in Mainland China (the "PRC") and its H shares are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the introduction to the annual report.

The financial statements are presented in Renminbi, which is the same as the functional currency of the Company.

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

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of jointly controlled entities have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following area, but it has had no material effect on how the results for the current or prior accounting years are prepared and presented. Accordingly, no prior year adjustment has been required.

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land was classified as intangible asset, which is stated at cost less amortisation over the term of lease, and any identified impairment loss. In the current year, the Group has applied HKAS 17 Leases. Under HKAS 17, intangible asset is reclassified to prepaid lease payments under operating leases, which is continued to be carried at cost and amortised over the lease term on a straight-line basis.

This change in accounting policy has been applied retrospectively.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) — INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) — INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) — INT 6	Liabilities arising from participating in a specific market — waste electrical and electronic equipment[3]
HK(IFRIC) — INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2006.
3 Effective for annual periods beginning on or after 1 December 2005.
4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis and in accordance with new HKFRSs. The principal accounting policies are set out below:

Basis of consolidation

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Interest in a jointly controlled entity

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as a jointly controlled entity.

The results and assets and liabilities of the jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investment in a jointly controlled entity is carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

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

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Construction in progress

Construction in progress is stated at cost less accumulated impairment loss. Cost 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.

Research and development costs

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

An internally-generally 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

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

Impairment

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. An impairment loss is recognised as an expense immediately.

When 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.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value.

Financial assets

Loans and receivables (including loan receivable, debtors, deposits and prepayments, notes receivable, amount due from a jointly controlled entity, amount due from a shareholder, and bank balances and cash) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

The Group's financial liabilities including creditors and accrued charges, bills payable, amount due to a director and borrowings are subsequently measured at amortised cost, using the effective interest rate method after initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Retirement benefit schemes

The retirement benefit costs representing 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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following estimate that have significant effect on the amounts recognised in the financial statements.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. An allowance of RMB13,995,000 was recognised during the year (2004: reversal of allowance of RMB218,000).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items amounting to RMB746,000 (2004: RMB1,011,000).

Estimated impairment of property, plant and equipment

Determining whether property, plant and equipment is impaired requires an estimation of the value in use of the cash-generating units. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. An impairment loss of RMB8,518,000 on construction in progress was recognised during the year.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loan receivable, debtors, deposits and prepayments, notes receivable, amount due from a jointly controlled entity, amount due from a shareholder, bank balances and cash, creditors and accrued charges, bills payable, amount due to a director and borrowings. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31 December, 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group is exposed to credit risk as a substantial portion of its sales is generated from a limited number of customers. During the year, the top five customers of the Group accounted for about 30.74% (2004: 31.41%) of the Group's sales. The Group manages its credit risk by closely monitoring the granting of credit. The Group also reviews the recoverable amount of each individual trade receivable at each balance sheet date to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

Credit risk *(Continued)*

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings.

Interest rate risk

Interest rate risk reflects the risk that the Group might expose through the impact of rate changes on interest-bearing financial assets and liabilities. The Group's fair value interest rate risk relates primarily to fixed-rate borrowings. The Group will continue to maintain fixed rate borrowings and take actions to hedge against any foreseeable interest rate exposure, if necessary. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in note 27.

Fair value

The carrying amount of the Group's major financial instruments approximates their fair value due to their immediate or short-term to maturity or their ability for liquidation at comparable amounts.

6. TURNOVER

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

	2005 RMB'000	2004 RMB'000
Sales of cards	83,913	129,009
Sales of non-card products	16,400	13,595
	100,313	142,604

7. SEGMENT 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:

2005

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
INCOME STATEMENT			
Revenue			
External sales	83,913	16,400	100,313
Result			
Segment results	(23,153)	(526)	(23,679)
Unallocated bank interest income			109
Unallocated other income			643
Unallocated corporate expenses			(446)
			(23,373)
Share of results of a jointly controlled entity			(9)
Finance costs			(2,278)
Loss before taxation			(25,660)
Taxation			(1,194)
Loss for the year			(26,854)
BALANCE SHEET			
Assets			
Segment assets	108,465	5,608	114,073
Unallocated assets			52,177
			166,250
Liabilities			
Segment liabilities	40,159	3,284	43,443
Unallocated liabilities			33,372
			76,815

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Other information			
Capital expenditure	783	15	798
Depreciation and amortisation	3,062	142	3,204
Allowance for (reversal of) bad and doubtful debts	14,062	(67)	13,995
Allowance for inventories	746	—	746
Impairment loss on construction in progress	8,518	—	8,518
Loss on disposal of property, plant and equipment	180	—	180
Amortisation of prepaid lease	82	—	82

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

2004

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
INCOME STATEMENT			
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 income			891
Unallocated corporate expenses			(60)
			18,368
Share of results of a jointly controlled entity			(14)
Finance costs			(3,727)
Profit before taxation			14,627
Taxation			(2,378)
Net profit for the year			12,249
BALANCE SHEET			
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

7. SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Other information			
Capital expenditure	5,379	51	5,430
Depreciation and amortisation	4,162	163	4,325
Allowance for bad and doubtful debt	218	—	218
Allowance for inventories	1,011	—	1,011
Loss on disposal of property, plant and equipment	13	—	13
Amortisation of prepaid lease	82	—	82

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.

8. OTHER INCOME

	2005 RMB'000	2004 RMB'000
Bank interest income	109	162
Government grants *(note)*	300	800
Others	343	91
	752	1,053

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.

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on		
banking borrowings wholly repayable within five years	2,267	3,714
obligations under finance leases	11	13
	2,278	3,727

No interest was capitalised during the either year.

10. (LOSS) PROFIT BEFORE TAXATION

	2005 RMB'000	2004 RMB'000
(Loss) profit before taxation has been arrived at after charging (crediting):		
Depreciation and amortisation		
— owned assets	3,158	4,279
— assets under finance leases	46	46
	3,204	4,325
Amortisation of prepaid lease	82	82
Auditors' remuneration	691	477
Loss on disposal of property, plant and equipment	180	13
Minimum lease payments under operating leases in respect of rented premises	1,257	1,335
Allowance for inventories	746	1,011
Research and development costs	2,509	2,388
Staff costs	11,675	11,776

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the ten (2004: nine) directors were as follows:

	Li Qi Ming RMB'000	Li Guang Ming RMB'000	Guo Bao An RMB'000	Wang Zheng Guo RMB'000	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Zheng Wen RMB'000	Gao Xiang Nong RMB'000	Li Quan Sheng RMB'000	Zhang Yu Chuan RMB'000	Total RMB'000
2005											
Fees											
Other emoluments											
Salaries and other benefits	443	1	52	1	115	106	—	12	12	8	750
Retirement benefits schemes contributions	8	—	—	—	3	—	—	—	—	—	11
Total emoluments	451	1	52	1	118	106	—	12	12	8	761
2004											
Fees											
Other emoluments											
Salaries and other benefits	386	1	224	1	—	53	306	6	6	6	989
Retirement benefits schemes contributions	3	—	—	—	—	—	3	—	—	—	6
Total emoluments	389	1	224	1	—	53	309	6	6	6	995

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2004: three) was director of the Group whose emoluments is set out above. The emoluments of the remaining four (2004: two) individuals were as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other benefit	761	488
Retirement benefits schemes contributions	36	4
	797	492

12. RETIREMENT BENEFITS

The Group participates in defined contribution retirement schemes organised by the relevant local government authorities in the PRC. The Group is 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 2005, 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:

	2005 RMB'000	2004 RMB'000
Contributions to retirement schemes	942	557

13. TAXATION

	2005 RMB'000	2004 RMB'000
The tax charge comprises:		
PRC enterprise income tax	1,194	2,456
Overprovision in prior years	—	(78)
	1,194	2,378

The Group are subject to income tax rate ranging from 15% to 33% on the estimated assessable profit for the year.

13. TAXATION *(Continued)*

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

	2005 RMB'000	2004 RMB'000
(Loss) profit before taxation	(25,660)	14,627
Tax at domestic tax rate of 15%	(3,849)	2,194
Overprovision in prior year	—	(78)
Tax effect of expenses that are non-deductible in determining taxable profits	4,934	86
Effect of different tax rates of subsidiaries	218	21
Others	(109)	155
Tax charge for the year	1,194	2,378

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

The Group had no significant unprovided deferred taxation as at 31 December 2005 and 31 December 2004.

14. DIVIDEND

No dividend was paid or proposed during the year, nor has any dividend been proposed since the balance date (2004: Nil).

15. (LOSS) EARNING PER SHARE

The calculation of basic (loss) earning attributable to the ordinary equity holders of the parent per share is based on the loss for the year of RMB26,487,000 (2004: profit for the year of RMB11,614,000) and on the weighted average number of 520,000,000 (2004: 426,756,164) shares.

Diluted earning per share is not presented as there were no dilutive potential ordinary shares outstanding during either 2004 and 2005.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvements, furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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
Additions	608	21	169	—	—	798
Disposals	—	(172)	(1,451)	(398)	—	(2,021)
At 31 December 2005	19,215	23,531	5,368	2,550	8,518	59,182
DEPRECIATION AND IMPAIRMENT						
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
Provided for the year	581	1,289	954	380	—	3,204
Eliminated on disposals	—	(166)	(1,303)	(239)	—	(1,708)
Impairment loss recognised	—	—	—	—	8,518	8,518
At 31 December 2005	5,598	15,660	3,582	1,424	8,518	34,782
CARRYING VALUES						
At 31 December 2005	13,617	7,871	1,786	1,126	—	24,400
At 31 December 2004	13,590	9,145	2,719	1,665	8,518	35,637

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

The carrying amount of the Group's fixtures and equipment includes an amount of RMB295,000 (2004: RMB341,000) in respect of assets held under finance leases.

The Group has pledged buildings and plant and machinery having a carrying amount of approximately RMB5,658,000 (2004: RMB10,790,000) to secure banking facilities granted to the Group.

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

At 31 December 2005, the Directors reviewed the recoverable amount of the Group's construction in progress. The recoverable amount is determined from value in use calculations. As the construction in progress has been suspended, no cashflow is estimated to be generated from that asset in the foreseeable future. The construction in progress has therefore fully impaired and an impairment loss of RMB8,518,000 has been recognised during the year.

17. PREPAID LEASE PAYMENTS

The amount represents prepaid lease payments relating to land use rights in the PRC which are held under medium-term leases. Analysis of the carrying amount of prepaid lease payments are as follows:

	2005 RMB'000	2004 RMB'000 (restated)
Current portion	82	82
Non-current portion	2,635	2,717
	2,717	2,799

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2005 RMB'000	2004 RMB'000 (restated)
Cost of investment in an unlisted jointly controlled entity	836	836
Share of post-acquisition results and reserves	(147)	(138)
	689	698

Details of the Group's jointly controlled entity at 31 December 2005 are as follows:

Name of company	Place of registration and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
四會新概念電子科技有限公司 New Concept Technology Limited	PRC	49%	49%	Development, manufacture and trading in computer hardware and software

18. INTEREST IN A JOINTLY CONTROLLED ENTITY *(Continued)*

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using the equity method is set out below:

	2005 RMB'000	2004 RMB'000
Current assets	3,810	3,756
Non-current assets	1,179	1,182
Current liabilities	3,583	3,513
Income	—	—
Expenses	19	28

19. LOAN RECEIVABLE

	2005 RMB'000	2004 RMB'000 (restated)
The amount represents loans to staff. Analysis of the carrying amount analysed for reporting purposes:		
Current portion *(note 21)*	894	894
Non current portion	2,326	3,220
	3,220	4,114

The amounts are unsecured, interest-free, and repayable in accordance with the agreed terms. The fair value of the Group's loan receivable at 31 December 2005 was approximate to the corresponding carrying amount.

20. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	14,694	17,431
Work-in-progress	340	1,001
Finished goods	7,443	9,713
	22,477	28,145
Included above are the following inventories carried at the net realisable value:		
Finished goods	11	22

21. 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:

	2005 RMB'000	2004 RMB'000 (Restated)
1–90 days	26,825	47,792
91–180 days	9,846	2,145
181–365 days	8,129	2,460
Over 365 days	442	128
Trade debtors	45,242	52,525
Advance to suppliers	7,155	1,993
Loan receivable *(note 19)*	894	894
Other debtors, deposits and prepayments	7,540	16,560
	60,831	71,972

The fair value of the Group's debtors, deposits and prepayments at 31 December 2005 approximates to the corresponding carrying amount.

22. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

The directors consider that the carrying amount approximates its fair value. The amount is unsecured, interest free and repayable on demand.

23. AMOUNT DUE FROM A SHAREHOLDER

The directors consider that the carrying amount approximates its fair value. The amount is unsecured, interest free and repayable on demand.

24. 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.

25. CREDITORS AND ACCRUED CHARGES

The aged analysis of the trade creditors is as follows:

	2005 RMB'000	2004 RMB'000
1–90 days	12,433	13,739
91–180 days	3,953	1,406
181–365 days	3,474	511
Over 365 days	2,391	2,629
Trade creditors	22,251	18,285
Value-added tax payable	7,544	7,949
Deposits from customers	2,184	211
Other creditors and accrued charges	10,114	6,384
	42,093	32,829

The fair value of the Group's creditors and accrued charges at 31 December 2005 approximates to the corresponding carrying amount.

26. AMOUNT DUE TO A DIRECTOR

The amount due to a director, Mr. Li Qi Ming is unsecured, interest-free and repayable on demand. The directors consider that the fair value a approximates its carrying amount.

27. BORROWINGS

	2005 RMB'000	2004 RMB'000
Bank loans *(note)*	26,100	33,855
Secured	18,900	3,500
Unsecured	7,200	30,355
	26,100	33,855

Note: Included in borrowings were unsecured bank loans guaranteed by:

	2005 RMB'000	2004 RMB'000
深圳市德力投資有限公司 Shenzhen City Tung Nin Investments Co., Ltd. ("Shenzhen City") (see note 35c)	7,200	—
Properties owned as to 90% by a minority shareholder of Sihui Mingwah Aohan Electronic Equipment Co., Ltd ("Sihui Mingwah") (see note 35d)	—	15,900
廣東銀達按資擔保投資有限公司 Guangdong Yinda Guarantee Investment Co., Ltd. ("Guangdong Yinda")	—	6,455
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 35e)	—	8,000
	7,200	30,355

The contractual maturity dates of the Group's fixed-rate borrowings are within one year.

The range of effective interest rates (which are equal to contractual interest rates) on the Group's borrowings is 5.22% to 9.03% (2004: 5.31% to 9.03%).

A borrowing is denominated in Renminbi.

During the year, the Group obtained new loans in the amount of RMB7,200,000. The loans bear interest at market rates and will be repayable in 2006. The proceeds were used to finance the business operations of the Group.

28. OBLIGATIONS UNDER FINANCE LEASES

	Maximum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**104**	104	**97**	94
In the second to fifth year inclusive	**35**	139	**32**	128
	139	243	**129**	222
Less: Future finance charges	**(10)**	(21)		
Present value of lease obligations	**129**	222		
Less: Amount due for settlement within one year shown under current liabilities			**(97)**	(94)
Amount due for settlement after one year			**32**	128

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.

29. GOVERNMENT GRANTS RECEIVED

	2005	2004
	RMB'000	RMB'000
科技研究開發項目經費	**600**	200

In accordance with the notices issued by 廣東省財政廳 and 四會市科學技術局, the subsidies were 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.

30. PAID-IN CAPITAL

	2005 RMB'000	2004 RMB'000
Authorised:		
520 million H shares of RMB0.1 each	**52,000**	52,000
Registered, issued and fully paid:		
At the beginning of the year	**52,000**	33,800
Conversion into H shares of RMB0.1 each	—	(1,820)
Domestic shares of RMB0.1 each	—	31,980
Issuance of H shares of RMB0.1 each upon listing on the GEM during 2004	—	20,020
At the end of the year	**52,000**	52,000

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 RMB0.28 per share.

31. 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.

(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 2005 was RMB24,193,000 (2004: RMB25,157,000).

32. PLEDGE OF ASSETS

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

	2005 RMB'000	2004 RMB'000
Buildings and machinery equipment	5,658	10,790
Deposits	—	228

33. CAPITAL COMMITMENT

	2005 RMB'000	2004 RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	786	786

34. 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:

	2005 RMB'000	2004 RMB'000
Within one year	937	950
In the second to fifth years inclusive	862	1,551
	1,799	2,501

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

35. RELATED PARTY TRANSACTIONS

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

Name of related party	Nature of transactions	2005 RMB'000	2004 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	—	151

35. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Compensation of key management personal

The remuneration of directors other numbers of key management during the year was as follows:

	2005 RMB'000	2004 RMB'000
Short-term benefits	750	989
Post-employment benefits	11	6
	761	995

(c) Pursuant to a guarantee contract entered during 2005, Mr. Li Qi Ming and Shenzhen City provided guarantees in favour of Industries Bank Corporation of RMB7,200,000 to secure certain banking facilities granted to the Group. As at 31 December 2005, a bank loan of RMB7,200,000 is borrowed from Industrial Bank Corporation. The guarantee provided by Mr. Li Qi Ming is the borrowed amount. (see note 27).

(d) 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 27).

(e) 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 was borrowed from Industrial Bank Corporation. The borrowings have were repaid during the year.

36. SUBSIDIARIES

Details of the Company's subsidiaries established as private limited liability companies in the PRC at 31 December 2005 are as follows:

Name of subsidiary	Place of registration and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	PRC	80%	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	90%	90%	Trading in IC cards, magnetic cards, related equipment and application systems

36. SUBSIDIARIES *(Continued)*

Name of subsidiary	Place of registration and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	PRC	80%	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	80%	80%	Manufacture of IC cards, magnetic cards and related equipment

None of the subsidiaries has issued any debt securities at the end of the year.

RESULTS

	For the year ended 31 December			
	2002	2003	2004	**2005**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	134,698	125,250	142,604	**100,313**
Profit before taxation	15,224	14,450	14,627	**(25,660)**
Taxation	(1,203)	(2,935)	(2,378)	**(1,194)**
Profit for the year	14,021	11,515	12,249	**(26,854)**
Attributable to:				
Equity holders of the parent	14,037	10,514	11,614	**(26,487)**
Minority interests	(16)	1,001	635	**(367)**
Profit for the year	14,021	11,515	12,249	**(26,854)**

ASSETS AND LIABILITIES

	As at 31 December			
	2002	2003	2004	**2005**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	181,483	166,021	193,256	**166,250**
Total liabilities	(124,865)	(97,755)	(76,967)	**(76,815)**
Equity	56,618	68,266	116,289	**89,435**
Attributable to:				
Equity holders of the parent	53,553	64,067	111,455	**84,968**
Minority interests	3,065	4,199	4,834	**4,467**
	56,618	68,266	116,289	**89,435**

The results of the Group for each of the two year 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 Group.

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 17th Floor, Unit A, Skyworth Plaza, Gaoxin Avenue 1 South, Nanshan District, Shenzhen, 518057, the PRC on Friday, 23 June 2006 at 2:30 p.m. for the following purposes:

A. To consider and, if though fit, passing the following matters as ordinary resolutions:

Ordinary Resolutions

1. To review and approve the report of the directors of the Company (the "Directors") for the year ended 31 December 2005;

2. To review and approve the audited consolidated accounts and the report of the auditors of the Company for the year ended 31 December 2005;

3. To consider and declare a final dividend for the year ended 31 December 2005 (if any), and to authorize the board of Directors (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 2006 with a term of office until the conclusion of the next annual general meeting and to authorize the Board to fix their remunerations;

B. To consider and, if thought fit, passing the following matters as special resolutions:

Special Resolutions

5. Subject to the approval of China Securities Regulatory Commission and/or other relevant statutory authorities in the People's Republic of China and/or the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited for the proposed allotment and issue of new H shares and/or domestic shares, the Board be authorised:

   (a) to issue and/or place H Shares and/or domestic Shares within a period of 12 months from the date of this resolution, provided that the total number of H shares and/or domestic shares to be placed and/or issued shall not exceed 20% (the "20% Limit") of the number of H shares and/or domestic shares of the Company in issue respectively;

   (b) subject to the 20% Limit, to decide the number of H shares and/or domestic shares to be placed and/or issued and to deal with any matter arising from or related to the placing or issue of the new shares mentioned above;

   (c) to amend the relevant articles contained in the Articles of Association of the Company (the "Articles of Association") in relation to the registered capital of the Company and any other articles that require corresponding amendments; and

(d) if any chronological variation of the wordings or numbering of the articles contained in the Articles of Association is necessary upon application to the companies examination and approval authority authorised by the State Council and China Securities Regulatory Commission for examination and approval, to make corresponding amendments to the Articles of Association as required by such authority and China Securities Regulatory Commission.

6. The Articles of Association be and is hereby amended by deleting the first sentence of Article 10.01 and substituting the following therefore:

(a) "The board of directors of the Company shall consist of 7 directors, including 3 independent (non-executive) directors (meaning directors independent to the shareholders of the Company and not working internally in the Company). The board of directors of the Company shall have 1 chairman and 1 vice-chairman. The directors of the Company shall be responsible for issues authorized by the board of directors of the Company."

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

Shenzhen, The PRC, 31 March 2006

Notes:

(A) The register of members of the Company will be closed from Tuesday, 23 May 2006 to Friday, 23 June 2006 (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 Monday, 22 May 2006 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, 2 June 2006. 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.