



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

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

(Stock code: 8301)

Interim Report For the Six Months Ended 30 June 2006

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This report, for which the board of directors (the “Directors”) of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “Company”, together with its subsidiaries, the ‘Group’) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

* For identification purpose only

HIGHLIGHTS

- For the six months ended 30 June 2006, unaudited turnover increased to approximately RMB52.8 million, which represents an approximate 0.54% increase as compared to that of the same period last year. The net profit increased by approximately 94.1% to approximately RMB1.1 million, as compared to that of the same period last year.
- Earnings per share of the Group was approximately RMB0.21 cents for the six months ended 30 June 2006.

To all shareholders,

The Directors are pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months and six months ended 30 June 2006 together with comparative figures for the corresponding periods ended 30 June 2005, as follows:

THE FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Income Statement

For the three months and six months ended 30 June 2006 and 30 June 2005

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Turnover	3	27,543	26,807	52,767	52,484
Cost of sales		(21,913)	(20,626)	(40,553)	(38,428)
Gross profit		5,630	6,181	12,214	14,056
Other operating income		202	513	214	671
Distribution costs		(1,334)	(1,939)	(2,732)	(4,223)
Administrative expenses		(3,180)	(3,894)	(6,726)	(8,664)
Other operating expenses		(48)	(16)	(49)	(19)
Profit from operations	5	1,270	845	2,921	1,821
Finance costs		(551)	(524)	(1,828)	(1,172)
Share of results of a jointly controlled entity		—	—	—	—
Profit before taxation		719	321	1,093	649
Taxation	6	63	(178)	(34)	(292)
Profit before minority interests		782	143	1,059	357
Minority interests		(239)	66	36	207
Net profit for the period		543	209	1,095	564
Dividend	7	—	—	—	—
Earnings per share — Basic	8	0.10 cents	0.04 cents	0.21 cents	0.11 cents

Unaudited Condensed Consolidated Balance Sheet

At 30 June 2006 and 31 December 2005

		As at 30 June 2006 <i>RMB'000</i> <i>(Unaudited)</i>	As at 31 December 2005 <i>RMB'000</i> <i>(Audited)</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		23,144	24,400
Prepaid lease payments		2,594	2,635
Interests in a jointly controlled entity		689	689
Loan receivable		<u>1,879</u>	<u>2,326</u>
		<u>28,306</u>	<u>30,050</u>
Current assets			
Inventories		30,497	22,477
Debtors, deposits and prepayment	9	62,650	60,831
Prepaid lease payments		82	82
Notes receivable		—	200
Amount due from a jointly controlled entity		172	133
Amount due from a shareholder		400	300
Cash and bank balance		<u>35,318</u>	<u>52,177</u>
		<u>129,119</u>	<u>136,200</u>
Current Liabilities			
Creditors and accrued charges	10	(30,001)	(42,093)
Amount due to a director		(126)	(621)
Tax liabilities		(5,841)	(7,272)
Borrowings	11	(30,260)	(26,100)
Obligations under finance leases		(103)	(97)
Government grants received		<u>(600)</u>	<u>(600)</u>
		<u>(66,931)</u>	<u>(76,783)</u>
Net current assets		<u>62,188</u>	<u>59,417</u>
Total assets less current liabilities		90,494	89,467
Non-current liability			
Obligations under finance leases		<u>—</u>	<u>(32)</u>
		<u>90,494</u>	<u>89,435</u>

	<i>Notes</i>	As at 30 June 2006 RMB'000 (Unaudited)	As at 31 December 2005 RMB'000 (Audited)
Capital and reserves			
Paid-in capital	12	52,000	52,000
Reserves		34,063	32,968
Equity attributable to equity holders of the parent			
Minority interests		86,063	84,968
		4,431	4,467
Total equity		90,494	89,435

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2006 and 30 June 2005

	Paid-up capital RMB'000 (unaudited)	Share premium RMB'000 (unaudited)	Statutory surplus reserve RMB'000 (unaudited)	Statutory public welfare fund RMB'000 (unaudited)	Retained profits RMB'000 (unaudited)	Total RMB'000 (unaudited)
At 1 January 2005	52,000	17,574	5,786	2,894	33,201	111,455
Net profit for the period	—	—	—	—	564	564
At 30 June 2005	52,000	17,574	5,786	2,894	33,765	112,019
Net loss for the period	—	—	—	—	(27,051)	(27,051)
Appropriations	—	—	122	61	(183)	—
At 31 December 2005	52,000	17,574	5,908	2,955	6,531	84,968
Net profit for the period	—	—	—	—	1,095	1,095
At 30 June 2006	52,000	17,574	5,908	2,955	7,626	86,063

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2006 and 30 June 2005

	Six months ended	
	30 June	
	2006	2005
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(21,326)	(9,519)
Net cash used in investing activities	(114)	(50)
Net cash generated from/(used in) financing activities	<u>4,581</u>	<u>(5,320)</u>
Net decrease in cash and cash equivalents	(16,859)	(14,889)
Cash and cash equivalents at beginning of the period	<u>52,177</u>	<u>49,872</u>
Cash and cash equivalents at end of the period		
— represented by bank balances and cash	<u><u>35,318</u></u>	<u><u>34,983</u></u>

Notes to the Condensed Financial Statement

For the period ended 30 June 2006

1. GENERAL

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

2. BASIS OF PREPARATION

The accompanying unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”), Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and applicable disclosure requirements of Hong Kong Companies Ordinance and the GEM Listing Rules. They have been prepared under historical cost convention. The accounting policies adopted are consistent with those followed in preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2005.

The condensed consolidated results are unaudited but have been reviewed by the Company’s audit committee.

3. TURNOVER

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

	For the three months ended 30 June		For the six months ended 30 June	
	2006	2005	2006	2005
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
Sales of card products	24,802	22,475	48,294	41,032
Sales of non-card products	2,741	4,332	4,473	11,452
	<u>27,543</u>	<u>26,807</u>	<u>52,767</u>	<u>52,484</u>

4. SEGMENTAL INFORMATION

Business segments

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

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

Segmental information about the business is presented below:

For the six months ended 30 June 2006

	Card products <i>RMB'000</i>	Non-card products <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Revenue			
External sales	<u>48,294</u>	<u>4,473</u>	<u>52,767</u>
Results			
Segment results	<u>2,720</u>	<u>36</u>	2,756
Unallocated bank interest income			11
Unallocated other operating income			203
Unallocated corporate expenses			<u>(49)</u>
Profit from operations			2,921
Finance costs			(1,828)
Share of result of a jointly controlled entity			<u>—</u>
Profit before taxation			1,093
Taxation			<u>(34)</u>
Profit before minority interests			1,059
Minority interests			<u>36</u>
Net profit for the period			<u>1,095</u>

For the six months ended 30 June 2005

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

5. PROFIT FROM OPERATIONS

Profit from operations has been arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)	2005 RMB'000 (Unaudited)
Depreciation of property, plant and equipment				
— owned assets	674	786	1,315	1,592
— assets under finance leases	28	18	55	35
Amortisation of prepaid lease payments	<u>21</u>	<u>21</u>	<u>41</u>	<u>41</u>
Total depreciation and amortization	<u>723</u>	<u>825</u>	<u>1,411</u>	<u>1,668</u>

6. TAXATION

The charge/(credit) represents enterprise income tax in the PRC.

	For the three months ended 30 June 2006		For the six months ended 30 June 2006	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax				
Current period	(59)	178	242	292
Over-provision in prior years	<u>(4)</u>	<u>—</u>	<u>(208)</u>	<u>—</u>
	<u><u>(63)</u></u>	<u><u>178</u></u>	<u><u>34</u></u>	<u><u>292</u></u>

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

There is no share of taxation of the jointly controlled entity as the jointly controlled entity did not have any assessable profits for the six months ended 30 June 2006 (2005: Nil).

The Group does not have any significant unprovided deferred taxation as at 30 June 2005 and 30 June 2006.

7. DIVIDEND

No dividend was paid during the period. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

8. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2006 is based on the unaudited net profit for the relevant period of approximately RMB1.1 million (2005: approximately RMB0.6 million) and the weighted average number of 520,000,000 shares (2005: 520,000,000 shares).

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

9. DEBTORS, DEPOSITS AND PREPAYMENTS

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

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
1-90 days	25,004	26,825
91-180 days	11,258	9,846
181-365 days	9,230	8,129
Over 365 days	1,086	442
	<hr/>	<hr/>
Trade receivables	46,578	45,242
Advance to suppliers	10,518	7,155
Loan receivable	894	894
Other debtors and payments	4,660	7,540
	<hr/>	<hr/>
	62,650	60,831
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the Group's trade receivables at 30 June 2006 approximates to the corresponding carrying amount.

10. CREDITORS AND ACCRUED CHARGES

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

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
1-90 days	10,329	12,433
91-180 days	6,109	3,953
181-365 days	1,715	3,474
Over 365 days	2,003	2,391
	<hr/>	<hr/>
Trade payables	20,156	22,251
Other creditors and accrued charges	9,845	19,842
	<hr/>	<hr/>
	30,001	42,093
	<hr/> <hr/>	<hr/> <hr/>

The fair value of the Group's trade payables at 30 June 2006 approximates to the corresponding carrying amount.

11. BORROWINGS

During the six months ended 30 June 2006, the Group obtained new bank loans of RMB7,560,000 and repaid bank loans of RMB3,400,000. The loans bear interest at market rates and are repayable within one year. The proceeds were used to finance the operations of the Group.

12. PAID-IN CAPITAL

The paid-in capital represents the nominal value of the Company of RMB0.1 each as at 30 June 2006.

13. CAPITAL COMMITMENTS

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	<u><u>786</u></u>	<u><u>786</u></u>

14. PLEDGE OF ASSETS

The following asset has been pledged to secure bank loans granted to the Group:

	30 June 2006 RMB'000 (Unaudited)	31 December 2005 RMB'000 (Audited)
Property, plant and equipment	<u><u>29,722</u></u>	<u><u>5,658</u></u>

15. RELATED PARTY TRANSACTIONS

- (a) There were no related party transactions incurred during the period under review.
- (b) Pursuant to a guarantee contract entered during 2006, Mr. Li Qi Ming and a third party provided guarantees in favour of Industries Bank Corporation in an amount of RMB7,200,000 to secure banking facilities granted to the Group. As at 30 June 2006, a bank loan of RMB7,200,000 has been drawn by the Group from Industries Bank Corporation.
- (c) Certain credit facilities and pledges granted to the Group were secured by properties owned as to 90% by a minority shareholder of Sihui Mingwah Aohan High Technology Co., Limited ("Sihui Mingwah").

MANAGEMENT DISCUSSION AND ANALYSIS

(I) Review of operations

For the period ended 30 June 2006, the Group's turnover was approximately RMB52,767,000, representing an increase of approximately 0.54% as compared to RMB52,484,000 for the corresponding period of the previous year. The turnover for the period showed a similar figure as compared to the same period last year. The net profit for the period was RMB1,095,000, representing an increase of approximately 94.1% due to the decrease in distribution and administrative cost of the Company. Such decrease was mainly attributed to the Company's product entering the matured stage, which lowered the cost of distribution and administrative expenses, particularly in pre-marketing and promotional expenses.

(II) Business review

For the first half year of 2006, the Group's turnover was still affected by the severe price competition in card products. Despite this, the Group had made a slight increase in sales for the first six months. This was the result of the adjustment in the Group's sales focus, which had shifted to eKey, a more competitive and high value-added product with which the Group enjoys strong market competitiveness.

For the periods ended 30 June 2006 and 30 June 2005, the Group's cost of sales were approximately RMB40,553,000 and RMB38,428,000 respectively, representing a growth of 5.5%. The rise in cost of sales was mainly due to increase in purchase cost. Given the cost of sales and the turnover in the corresponding periods, the gross profit margin for the periods ended 30 June 2006 and 30 June 2005 were 23.1% and 26.8%, respectively. The fall in gross profit margin was mainly attributable to the drop in selling price resulting from the severe market competition in card products as detailed above.

For the period under review, the Group's distribution costs of approximately RMB2,732,000 was decreased by 35.3% as compared to approximately RMB4,223,000 for the corresponding period last year. The decrease was mainly due to the measurement of cost control.

The Group's operations for the first half of 2006 was in line with the Group's development objective of becoming the leading player in the PRC's card industry, promoting the brand name of "M&W" as a recognized brand in the PRC's card industry and placing great emphasis on the development of high-end products in the field of information security. The Group has made proactive response and adjustment to the development trend of different product lines and market segments.

1. *Adjustment to its marketing focus*

In response to the severe price competition the Group's card operation in the first half year of 2006, the Group has promptly shifted its marketing focus to eKey, a high value-added product. Given the fact that 中國電子簽名法 (China's Law on Electronic Signature) became effective in April 2005, the Group's high ended encrypted product, eKey, has acquired a significant market share and the competitive edge in the area, the Group will be able to extend its effort in expanding the market share and maintain its leading position in terms of market share and technology.

In addition to consolidate the market share in the existing application area, the Group has also made efforts in expanding the market share in the area of e-government, on-line banking, social insurance and password security for laying a strong foundation to expand the Group's high-ended products to the arena of information security and to generate a higher profit margin.

The Group has maintained a steady growth through established sales channels and the Group will extend its marketing efforts in licensing operation. In particular, the Group has been awarded the 銀聯標識卡類產品企業資格證書 (China Unionpay Card Product Enterprise Qualification Certificate) and such award has strengthened the Group's competitive edge in the high ended market. The Group will continue to secure the business relationship with existing major clients with an aim to assure the stability of orders.

2. *Research and technical support*

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

3. *External cooperation*

The Group will continue its co-operation with renowned overseas and local chip manufacturers to grasp the technology development trend and to search for new point-of-growth. Being the only partner (TEAM MEMBER) of TEXAS INSTRUMENT, an equipment company in Texas, the United States, in the PRC, the Group is developing progressively in the radio frequency identification ("RFID") market at the same time engaging in batching and mass production to a greater extent.

4. *Overseas market development*

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

(III) Future prospect

The Group aims at becoming the leading player in the PRC's 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. In recognition of the huge market potential in the area of information security, the Group plans to secure a dominant position in such field by leveraging on its expertise and competitive advantages in the card business with an objective to achieve business diversification of the Group.

1. *Technology development*

The Group will further its efforts in the research and development of its smart card operation system and introduce Smart Card Operating System which satisfies with the standard of Europay Master Card and Visa and Code Division Multiple Access as well as fingerprint operation system and Java operation system.

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

The Group will continue to commercialize and serialize its RFID electronic products, enhancing the compatibility of label antenna.

The Group will continue the promotion and operation of overseas market in order to enhance the sales and marketing of the Group's products in overseas market. It will also create the synergy of external cooperation with a view to establishing "M&W" as an international brand name in the smart card industry.

2. *Marketing strategy*

Maintaining our present market share, the Group will continue to expand the application of eKey products in major commercial banking networks in the PRC and also explore its application into other information security products.

Marketing strategy of CPU Cards is to strengthen and promote the card's application in the PRC's social insurance, bank and other major fields of business.

The Group will strengthen its promotion as an international brand name through participation in exhibitions and advertisement. The Group will also improve the effectiveness of cooperation with international system integration producers to take up a larger quantity of orders.

3. *Management work*

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

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

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

4. *Conclusion*

For the second half year of 2006, the Company will enter peak season of sales, especially with the overseas orders during the participation of International Smart Card and RFID Exhibition. The Group expects that better results could be achieved in the second half of the year. The Board has every confidence in the Group's prospects.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 30 June 2006, the Group had net current assets of approximately RMB62,188,000. Current assets as at 30 June 2006 comprised inventories of approximately RMB30,497,000, debtors, deposits and prepayment of approximately RMB62,650,000, prepaid lease payments of approximately RMB82,000, amount due from a jointly controlled entity of approximately RMB172,000, amount due from a shareholder of approximately RMB400,000 and bank balances and cash of approximately RMB35,318,000. Current liabilities as at 30 June 2006 comprises creditors and accrued charges of approximately RMB30,001,000, amount due to a director of approximately RMB126,000, tax liabilities of approximately RMB5,841,000, short-term borrowings of approximately RMB30,260,000, current portion of obligations under finance lease of approximately RMB103,000 and government grants received of approximately RMB600,000.

CAPITAL COMMITMENTS

As at 30 June 2006, the Group had outstanding capital commitments of approximately RMB786,000 (as at 31 December 2005: approximately RMB786,000).

FINANCIAL RESOURCES

As at 30 June 2006, the Group had bank balances of approximately RMB35,318,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing cash and bank balances and the listing proceeds.

GEARING RATIO

The Group's gearing ratios were approximately 42.5% and 46.2% as at 30 June 2006 and 31 December 2005 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the six months ended 30 June 2006.

SEGMENTAL INFORMATION

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

EMPLOYEE INFORMATION

As at 30 June 2006, the Group had 335 full time employees, comprising 83 in administration and finance, 35 in research and development and customer services, 36 in sales, 160 in production, 7 in purchases, and 14 in quality control.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2006, property, plant and equipment with a total net book carrying amount of approximately RMB29,722,000 (as at 31 December 2005:RMB5,658,000) were pledged as collateral for the Group's bank loans.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

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

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2006 and it is the same for the six months ended 30 June 2005.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment held as at 30 June 2006.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The Company was successfully listed on the GEM on 7 July 2004. The business objectives of the Company for the period from 25 June 2004 (being the latest practicable date prior to the printing of the prospectus of the Company) to 31 December 2006 have been set out in the Company's prospectus. Set out below is the actual progress in the implementation of the Company's business objectives during the period from the above latest practicable date to 30 June 2006:

Business objectives for the period ended 30 June 2006 as mentioned in the Prospectus	The actual progress for the period ended 30 June 2006
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Enhancement of research and development capability

Develop new eKey enhanced products according to market demand	— Some new eKey enhanced products are being developed
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Acquisition of new machinery and upgrading of existing production facilities

Upgrade existing production facilities	— Some existing production facilities are being updated
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Commercialisation of new products and technology

Expanding the commercial applications of WLAN products in new applicable areas	— The commercial applications of WLAN products have not yet expanded
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USE OF PROCEEDS

The listing proceeds from the listing of the Group on the Growth Enterprise Market on 7 July 2004 was approximately HK\$39,400,000. As at 30 June 2006, the Group substantially applied the proceeds in the following manner to achieve the business objectives set out in the Prospectus:

	Budgeted amount to be used up to 30 June 2006 as extracted from the Prospectus <i>HK\$' million</i>	Actual amount used up to 30 June 2006 <i>HK\$' million</i>
Enhancement of research and development capacity	7.5	4.5
Acquisition of new machineries and upgrading of existing production facilities	5.5	3
Commercialisation of new products and technology	6.5	6.5
Repayment of bank loans	13.4	13.4
General working capital	4.75	4.75
	<hr/>	<hr/>
Total	<u>37.65</u>	<u>32.15</u>

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

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

None of the Directors or supervisors (the "Supervisors") of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2006.

DISCLOSURE OF INTERESTS

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

As at 30 June 2006, the interests and long positions of the Directors, the Chief Executive and the Supervisors and their respective associates in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong) (the "SFO"), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept under section 352 of the SFO; or (c) to be

notified to the Company and the Stock Exchange pursuant to the minimum standards of dealings by directors referred to in Rule 5.46 to 5.68 of the GEM Listing Rules were as follows:

Long positions in shares of the Company

Name of Director/Chief Executive/Supervisor	Capacity	Number and class of securities	Approximate percentage of domestic shares	Approximate percentage of total registered share capital
Mr. Li Qi Ming	Beneficial owner	229,840,000 domestic shares	71.87%	44.20%
Mr. Zhu Qing Feng	Beneficial owner	50,700,700 domestic shares	15.85%	9.75%
Mr. Han Ruo Pin	Beneficial owner	3,380,000 domestic shares	1.06%	0.65%
Mr. Li Wen Jun	Beneficial owner	3,380,000 domestic shares	1.06%	0.65%
Mr. Li Guang Ming (Note)	Held by controlled corporation	11,830,000 domestic shares	3.70%	2.27%

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

Other than the holdings disclosed above, none of the Company’s directors, chief executives, supervisors, and their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 30 June 2006.

(b) Interests discloseable under SFO and substantial shareholders

So far as the Directors are aware, as at 30 June 2006, 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	—	7.93%
Wong Pak Hung	Beneficial owner	24,744,000 H shares	—	4.76%
Princes MB Asset Management Corp.	Beneficial owner	12,360,000 H shares	—	2.38%

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 30 June 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

COMPETING INTERESTS

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

SPONSORS' INTERESTS

Pursuant to a sponsor agreement dated 2 July 2004 made between the Company and Mega Capital (Asia) Company Limited ("Mega") (formerly known as Barits Securities (Hong Kong) Limited), Mega 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 Mega, its directors, employees or any of their associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had accrued any material benefits or had a directorship in or had any interest in any class of securities of any member of the Group (including options or rights to subscribe for such securities but excluding interests in such securities subscribed by any director or employee of Mega pursuant to an offer by way of public subscription made by the Company) as a result of the listing or any transaction of the Company for the six months ended 30 June 2006.

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 30 June 2006.

AUDIT COMMITTEE

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

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the unaudited interim results of the Company for the six month ended 30 June 2006.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules of the Stock Exchange save for the deviation from code provision A.2.1, B.1, A.4.4.

Chairman and the Chief Executive Officer

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 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS

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

By Order of the Board

Li Qi Ming

Chairman

14 August 2006, Shenzhen, the PRC