



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)**

**Third Quarterly Report For the Nine Months Ended 30 September 2006**

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

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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 nine months ended 30 September 2006, unaudited turnover decreased from approximately RMB73.9 million to approximately RMB65.2 million, representing a decrease of approximately 11.8% as compared to that of the same period in previous year. The Group sustained a loss of RMB1.2 million for the nine months ended 30 September 2006 as compared to a profit of RMB0.6 million in the corresponding period in 2005.
- Loss per share of the Group was approximately RMB0.23 cents for the nine months ended 30 September 2006.

To all shareholders,

The Directors are pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months and nine months ended 30 September 2006 together with comparative figures for the corresponding periods in the previous year, as follows:

## THE FINANCIAL STATEMENTS

### Unaudited Condensed Consolidated Income Statement

For the three months and nine months ended 30 September 2006 and 30 September 2005

|   | Notes | For the three months<br>ended 30 September   |  | For the nine months<br>ended 30 September    |  |
|---|-------|--|--|--|--|
|   |       | 2006<br><i>RMB'000</i><br><i>(Unaudited)</i> | 2005<br><i>RMB'000</i><br><i>(Unaudited)</i> | 2006<br><i>RMB'000</i><br><i>(Unaudited)</i> | 2005<br><i>RMB'000</i><br><i>(Unaudited)</i> |
| Turnover                                | 3     | <b>12,393</b>                                | 21,431                                       | <b>65,160</b>                                | 73,915                                       |
| Cost of sales                           |       | <u><b>(9,142)</b></u>                        | <u>(15,025)</u>                              | <u><b>(49,695)</b></u>                       | <u>(53,453)</u>                              |
| Gross profit                            |       | <b>3,251</b>                                 | 6,406  | <b>15,465</b>                                | 20,462                                       |
| Other operating income                  |       | <b>171</b>                                   | (104)  | <b>385</b>                                   | 567  |
| Distribution costs                      |       | <b>(1,448)</b>                               | (1,566)                                      | <b>(4,180)</b>                               | (5,789)                                      |
| Administrative expenses                 |       | <b>(3,926)</b>                               | (3,958)                                      | <b>(10,652)</b>                              | (12,622)                                     |
| Other operating expenses                |       | <u>—</u>                                     | <u>—</u>                                     | <u><b>(49)</b></u>                           | <u>(19)</u>                                  |
| (Loss)/profit from operations           |       | <b>(1,952)</b>                               | 778  | <b>969</b>                                   | 2,599  |
| Finance costs                           |       | <u><b>(604)</b></u>                          | <u>(605)</u>                                 | <u><b>(2,432)</b></u>                        | <u>(1,777)</u>                               |
| (Loss)/profit before taxation           |       | <b>(2,556)</b>                               | 173  | <b>(1,463)</b>                               | 822  |
| Taxation                                | 4     | <u><b>94</b></u>                             | <u>(26)</u>                                  | <u><b>60</b></u>                             | <u>(318)</u>                                 |
| (Loss)/profit before minority interests |       | <b>(2,462)</b>                               | 147  | <b>(1,403)</b>                               | 504  |
| Minority interests                      |       | <u><b>154</b></u>                            | <u>(120)</u>                                 | <u><b>190</b></u>                            | <u>87</u>                                    |
| Net (loss)/profit for the period        |       | <u><u><b>(2,308)</b></u></u>                 | <u><u>27</u></u>                             | <u><u><b>(1,213)</b></u></u>                 | <u><u>591</u></u>                            |
| Dividend                                | 5     | <u><u>—</u></u>                              | <u><u>—</u></u>                              | <u><u>—</u></u>                              | <u><u>—</u></u>                              |
| (Loss)/earning per share                |       |  |  |  |  |
| — Basic                                 | 6     | <u><u><b>(0.44) cents</b></u></u>            | <u><u>0.01 cents</u></u>                     | <u><u><b>(0.23) cents</b></u></u>            | <u><u>0.11 cents</u></u>                     |

## Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2006 and 30 September 2005

|                           | <b>Paid-up<br/>capital</b><br><i>RMB' 000</i><br><i>(unaudited)</i> | <b>Share<br/>premium</b><br><i>RMB' 000</i><br><i>(unaudited)</i> | <b>Statutory<br/>surplus<br/>reserve</b><br><i>RMB' 000</i><br><i>(unaudited)</i> | <b>Statutory<br/>public<br/>welfare fund</b><br><i>RMB' 000</i><br><i>(unaudited)</i> | <b>Retained<br/>profits</b><br><i>RMB' 000</i><br><i>(unaudited)</i> | <b>Total</b><br><i>RMB' 000</i><br><i>(unaudited)</i> |
|---------------------------|---|---|---|---|--|---|
| At 1 January 2005         | 52,000  | 17,574  | 5,786   | 2,894   | 33,201   | 111,455   |
| Net profit for the period | —   | —   | —   | —   | 591  | 591   |
| At 30 September 2005      | <u>52,000</u>   | <u>17,574</u>   | <u>5,786</u>  | <u>2,894</u>  | <u>33,792</u>  | <u>112,046</u>  |
| At 1 January 2006         | 52,000  | 17,574  | 5,908   | 2,955   | 6,531  | 84,968  |
| Net loss for the period   | —   | —   | —   | —   | (1,213)  | (1,213)   |
| At 30 September 2006      | <u>52,000</u>   | <u>17,574</u>   | <u>5,908</u>  | <u>2,955</u>  | <u>5,318</u>   | <u>83,755</u>   |

## Notes to the Condensed Financial Statement

For the nine months ended 30 September 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 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 and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and applicable disclosure requirements under 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 adopted by the Group for the preparation of its 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<br>ended 30 September |                                | For the nine months<br>ended 30 September |                                |
|---------------------------|--|--------------------------------|---|--------------------------------|
|                           | 2006<br>RMB'000<br>(Unaudited)             | 2005<br>RMB'000<br>(Unaudited) | 2006<br>RMB'000<br>(Unaudited)            | 2005<br>RMB'000<br>(Unaudited) |
| Sale of card products     | 10,221                                     | 18,716                         | 58,515                                    | 59,748                         |
| Sale of non-card products | 2,172                                      | 2,715                          | 6,645                                     | 14,167                         |
|                           | <u>12,393</u>                              | <u>21,431</u>                  | <u>65,160</u>                             | <u>73,915</u>                  |

### 4. TAXATION

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

|                                  | For the three months<br>ended 30 September |                                | For the nine months<br>ended 30 September |                                |
|----------------------------------|--|--------------------------------|---|--------------------------------|
|                                  | 2006<br>RMB'000<br>(Unaudited)             | 2005<br>RMB'000<br>(Unaudited) | 2006<br>RMB'000<br>(Unaudited)            | 2005<br>RMB'000<br>(Unaudited) |
| <b>PRC enterprise income tax</b> |  |                                |   |                                |
| Current period                   | (94)                                       | 26                             | 148                                       | 318                            |
| Over-provision in prior years    | —  | —                              | (208)                                     | —                              |
|                                  | <u>(94)</u>                                | <u>26</u>                      | <u>(60)</u>                               | <u>318</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 nine months ended 30 September 2006 (2005: Nil).

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

### 5. DIVIDEND

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

### 6. (LOSS)/EARNING PER SHARE

The calculation of basic loss per share for the nine months ended 30 September 2006 is based on the unaudited net loss for the relevant period of approximately RMB1.2 million (2005: profit of approximately RMB0.6 million) and the weighted average number of 520,000,000 shares (2005: 520,000,000 shares).

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Financial Review**

The Group's turnover for the nine months ended 30 September 2006 was approximately RMB65.2 million (2005: approximately RMB73.9 million), representing a decrease of approximately 11.8% as compared to the corresponding period in 2005. Such decrease was mainly due to the drop in sales of non-card products.

Because of the drop in sales, the Group's cost of sales for the nine months ended 30 September 2006 was also decreased from approximately RMB53.5 million to approximately RMB49.7 million, representing a decrease of approximately 7% as compared to that of the same period in 2005. The gross profit for the nine months ended 30 September 2006 was decreased by approximately 24.4% to approximately RMB15.5 million (2005: approximately RMB20.5 million), with gross profit margin of 23.7% (2005: 27.7%) as compared with the corresponding period in last year. Such decrease was mainly due to the drop in selling price resulting from severe competition in card products.

In comparison with the corresponding period of last year, the distribution costs was decreased by approximately 27.8% to approximately RMB4.2 million (2005: approximately RMB5.8 million) mainly due to the decrease in sales of non-card products. The administrative expenses was decreased by approximately 15.6% to approximately RMB10.7 million (2005: approximately RMB12.6 million) was mainly attributable to the Group's implementation of stringent measures in cost control.

For the nine months ended 30 September 2006, the Group's loss attributable to the shareholders were approximately RMB1.2 million (2005: profit of approximately RMB0.6 million). The loss was mainly due to decrease in sales.

### **Prospects**

The Group will continue to strengthen the research and development of products in order to enhance its edge in technology advancement. The Group will also put more effort in relation to the marketing of eKey and smart card products so as to lay a good foundation for technology and market development in 2006. It is hoped that not only the market share of the Group can be increased in the fields of network security certification and identification (PKI) in the PRC as well as in the application industry of traditional smart card, but its market advantage can also be maintained.

## DISCLOSURE OF INTERESTS

### (a) Directors', Chief Executives' and Supervisors' interest in shares of the Company

As at 30 September 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 5.67 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    | 71.87%                                    | 44.20%   |
| Mr. Zhu Qing Feng                           | Beneficial owner               | 50,700,000 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 ( <i>Note</i> )           | 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 shareholdings as 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 September 2006.

**(b) Interests discloseable under the SFO and substantial shareholders**

So far as the Directors are aware, as at 30 September 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:

| <b>Name of substantial shareholders</b> | <b>Capacity</b>  | <b>Number and class of securities</b> | <b>Approximate percentage of domestic shares</b> | <b>Approximate percentage of total registered share capital</b> |
|---|------------------|---------------------------------------|--|---|
| 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%   |
| Princeps MB Asset Management Corp.      | Beneficial owner | 12,368,000 H shares                   | —  | 2.38%   |

**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 conflict of interest with any member of the Group or 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 nine months ended 30 September 2006.

## **AUDIT COMMITTEE**

The Company has established an audit committee since June 2004 with written terms of reference in compliance with Rules 5.28 and 5.29 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 third quarterly result of the Group for the nine months ended 30 September 2006.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the nine months ended 30 September 2006, neither the Company nor any of its subsidiaries has 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 November 2006, Shenzhen, the PRC