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明華澳漢

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

2006 Annual Report

* For identification purpose only

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.

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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 & Chief Executive Officer)*
Mr. Zhu Qing Feng *(Vice-chairman)*
Mr. Li Wen Jun
Mr. Li Guang Ming

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. Chow Yiu Wah, Joseph

QUALIFIED ACCOUNTANT

Mr. Chow Yiu Wah, Joseph

AUDIT COMMITTEE

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

COMPLIANCE OFFICER

Mr. Li Qi Ming

AUTHORIZED REPRESENTATIVES

Mr. Chow Yiu Wah, Joseph
Mr. Zhu Qing Feng

AUDITORS

SHINEWING (HK) CPA Limited

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 228, 2/F. West
No. 202 Building
Shangbu Industrial
North Hua Qiang Road
Fu Tian District
Shenzhen, 518028
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
Rooms 1806-07, 18th Floor, 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 31st December 2006.

REVIEW OF OPERATIONS

For the year ended 31st December 2006, the turnover of the Group amounted to approximately RMB72,059,000 as compared to RMB100,313,000 in the previous year, representing a decrease of 28.2%. Loss attributable to shareholders was approximately RMB13,884,000 as compared to RMB26,854,000 in 2005.

BUSINESS REVIEW

In 2006, negative impact brought by the continuous aggressive pricing of domestic card products had significantly affected the Group's turnover. The intense price reductions from competitors of low-end card products resulted in the Group'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 2006, 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. 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.

The Company will strengthen its cooperation with non-competitive factories in the PRC, and expand its production capacity as well as production lines.

4. Overseas markets development

The Company has established an overseas sales department to develop contactless IC card and RFID electronic identification markets in the Asia-Pacific region, Europe, North America and Japan.

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.

The Group has set up a research and development team for wireless local area network products, whilst continuing to launch products to meet market needs.

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.

As for the memory product line, the Group will focus on large-scale projects for high-end customers, such as metro lines, public transport and highways.

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. It will also tap the markets in Europe, North America and Japan, as well as exploiting emerging markets in Africa, Russia and Brazil.

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. It will also reinforce its management of branches by implementing a stricter financial management system.

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.

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 47, 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 41, is the vice-chairman and an executive Director. He graduated from 中共中央黨校 (Party School of the Central Committee (of the Communist Party of China)) with an Undergraduate Qualification in Managerial Economics. He joined the Group in April 2001 and was appointed as the vice-chairman and a Director of the Board on 26th April 2001. Mr. Zhu was the chairman of the board of directors and the general manager of 深圳市大明五洲投資控股有限公司 (Shenzhen Damingwuzhou Investment Holding Corporation Limited) from March 1998 to 13th October 2002.

李文軍 (Mr. Li Wen Jun), aged 36, 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.

李光明 (Mr. Li Guang Ming), aged 42, is an executive Director. He joined the Group in April 2001 and was appointed a Director on 26th 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 Company Limited.

Independent non-executive Directors

高向農 (Mr. Gao Xiang Nong, also known as Mr. Gao Xiang Nong, Paul), aged 37, is an independent nonexecutive Director appointed on 2nd 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 Executive Officer of LottVision Limited, a listed company in Singapore.

李全聖 (Mr. Li Quan Sheng), aged 63, is an independent non-executive Director appointed on 3rd 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 48, is an independent non-executive Director appointed on 3rd 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 34, 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 36, 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 51, 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 深圳市大明五洲投資控股有限公司 (Shenzhen Damingwuzhou Investment Holding Corporation Limited) .

Senior Management

汪愚 (Mr. Wang Yu), aged 33, 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

周耀華 (Mr. Chow Yiu Wah, Joseph), aged 47, is the company secretary and qualified accountant of the Company. He graduated from University of Ulster (UK) and is a fellow member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. He has over twenty years' working experience in the accounting and auditing field. He joined the Group in May 2006.

FINANCIAL REVIEW

For the year ended 31st December 2006, the Group recorded a turnover of approximately RMB72,059,000, representing a decrease of approximately 28.2% as compared with the turnover of RMB100,313,000 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 31st December 2006 amounted to RMB17,001,000, with a decrease of approximately 33.5% as compared with the gross profit of RMB25,571,000 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 31st December 2006, the Group's administrative expenses decreased by RMB681,000 or approximately 3.6% to RMB18,378,000 as compared with last year. In comparing with the same in 2005, the distribution costs decrease by 27.9% from RMB7,678,000 to RMB5,532,000 for the year ended 31st December 2006. This was due to the drop in sales volume.

For the year ended 31st December 2006, loss attributable to shareholders was approximately RMB13,884,000 as compared to a loss of RMB26,854,000 in 2005. The loss was mainly attributable to the decrease of sales and gross margin.

For the year ended 31st December 2006, the Group had equity attributable to equity holders of the parents of RMB71,747,000 (2005: RMB84,968,000), cash and bank balance of RMB24,381,000 (2005: RMB52,177,000), current assets of RMB152,949,000 (2005: RMB136,200,000) and current liabilities of approximately RMB79,169,000 (2005: RMB76,183,000). The Group's current ratio (total current assets over total current liabilities) increased from 1.79 as at 31st December 2005 to 1.93 as at 31st December 2006.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31st December 2006, the Group had net current assets of approximately RMB73,780,000. Current assets as at 31st December 2006 comprised inventories of approximately RMB18,491,000, trade receivables of approximately RMB75,772,000, other receivables, deposits and prepayments of approximately RMB29,058,000 and bank balances and cash of approximately RMB24,381,000. Current liabilities as at 31st December 2006 comprised trade and other payables of approximately RMB39,980,000, tax liabilities of approximately RMB7,247,000, short-term borrowings of approximately RMB31,910,000 and current portion of obligations under finance leases of approximately RMB32,000.

Gearing ratio

The Group's gearing ratios were approximately 58.4% and 46.2% as at 31st December 2006 and 31st December 2005 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

Capital commitments

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

Financial resources

As at 31st December 2006, the Group had bank balances of approximately RMB24,381,000. 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 7th 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 31st December 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 31st December 2006, the Group had 403 full time employees, comprising 86 in administration an finance, 32 in research and development and customer services, 196 in sales, 76 in production, 5 in purchase, and 8 in quality control.

We place high value on our employees as they are our greatest assets to grow with the Group. We encourage our people to be the best in their roles by providing training in diversified fields that address both personal developments and work skills. We also provide workshops for staff at different levels to build team spirit and morale. Our staff were rewarded based on the Company performance as well as their personal performance and contribution.

SIGNIFICANT INVESTMENTS

There is no significant investment held by the Group as at 31st December 2006.

CHARGES ON THE GROUP'S ASSETS

As at 31st December 2006, the assets with a total net book value of approximately RMB16,939,000 (2005: RMB5,658,000) 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 31st December 2006 (2005: Nil).

COMPARISON OF BUSINESS OBJECTIVE PLANS WITH ACTUAL BUSINESS PROGRESS

The Company was successfully listed on the GEM on 7th July 2004. The business objectives of the Company for the period from 25th June 2004 (being the latest practicable date prior to the printing of the prospectus of the Company) to 31st 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 31st December 2006:

Business objectives for the year ended 31st December 2006 as mentioned in the Prospectus	**The actual progress for the year ended 31st December 2006**
Enhancement of research and development capability	
Develop new eKey enhanced products according to market demands	— Development of new eKey enhanced products have been completed.
Acquisition of new machinery and upgrading of existing production facilities	
Upgrade existing production facilities	— Expect to acquire new machinery in 2007.
Commercialisation of new products and technology	
Expanding the commercial applications of WLAN products in new applicable areas	— The commercial applications of WLAN will be expanded in 2007.

Use of Proceeds from Listing

The listing proceeds from the listing of the Group on the Growth Enterprise Market on 7th July 2004 was approximately HK$39,400,000. For the year ended 31st December 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 31st December 2006 as extracted from the Prospectus	Actual amount used up to 31st December 2006
	HK$' million	HK$' million
Enhancement of research and development capacity	8	5.5
Acquisition of new machineries and upgrading of existing production facilities	6	3.5
Commercialisation of new products and technology	7	6.5
Repayment of bank loans	13.4	13.4
General working capital	5	3.75
Total	39.4	32.65

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 presenting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31st December 2006.

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 31st December 2006 is set out in note 7 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 48.48% of the Group's purchases. The largest supplier accounted for approximately 22.15% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 36.30% of the total turnover. The largest customer accounted for approximately 11.60% 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 31st December 2006 are set out in the consolidated income statement on page 27.

The Directors do not recommend the payment of any dividend in respect of the year ended 31st December 2006.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 72. This summary does not form part of the audited financial statements.

RESERVES

Movements in the reserves of the Company during the year are set out in consolidated statement of changes in equity on page 30 and note 35 to the consolidated financial statements, respectively.

EMOLUMENTS OF DIRECTORS AND EMPLOYEES

Details of the emoluments of the Directors and employees of the Group are set out in notes 10 and 11 respectively to the consolidated 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 consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 to the consolidated financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company and the Group as at 31st December 2006 are set out in notes 31 and 32 to the consolidated 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 & Chief Executive Officer)*

Mr. Zhu Qing Feng *(Vice-chairman)*

Mr. Li Guang Ming

Mr. Guo Bao An *(resigned on 23rd June 2006)*

Mr. Wang Zheng Guo *(resigned on 23rd June 2006)*

Mr. Li Wen Jun

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 executive director and supervisor of the Company has entered into a service contract with the Company for a term of 3 years. All the service contracts of executive Director and supervisor of the Company are commencing on 7 July 2004, except Mr. Li Wen Jun is commencing on 20th September 2005 (subject to termination in certain circumstances as stipulated in the relevant contract). Each of independent non-executive director of the Company has entered into a letter of appointment for a term of 3 years commencing on 7 July 2004. 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 31st December 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 *(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 at 31st December 2006.

2. Substantial Shareholders

So far as the Directors are aware, as at 31st December 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 (H) shares	Approximate percentage of total registered share capital
UBS AG	Person having a security interest	39,922,000 H shares	19.94%	7.68%
Neon Liberty Capital Management, LLC	Beneficial owner	39,922,000 H shares	19.94%	7.68%
Wu Di	Beneficial owner	32,280,000 H shares	16.12%	6.21%
Princeps MB Asset Management Corp.	Beneficial owner	11,416,000 H shares	5.70%	2.20%

DIRECTORS' RIGHT TO ACQUIRE H SHARES

As at 31st December 2006, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 31st December 2006, none of the Directors, supervisors and chief executives of the Company had any rights to acquire H shares in the Company.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 31st December 2006.

CONNECTED AND RELATED PARTY TRANSACTIONS

Save as disclosed in note 40 to the consolidated financial statements, there were no other connected transactions, which were discussable under Chapter 20 of the GEM Listing Rules.

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 20 to 23 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 2nd 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 31st December 2006.

None of Mega, 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 31st December 2006.

AUDITORS

The consolidated financial statements for the years ended 31st December 2004 and 2005 were audited by Deloitte Touche Tohmatsu.

On 11th December 2006, Deloitte Touche Tohmatsu resigned as auditors of the Company and SHINEWING (HK) CPA Limited were appointed by the directors to fill the casual vacancy so arising and the consolidated financial statements for the year ended 31st December 2006 was audited by SHINEWING (HK) CPA Limited. A resolution for the re-appointment of SHINEWING (HK) CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board

Li Qi Ming
Chairman

Shenzhen, the PRC, 30th March 2007

Report of Supervisory Committee

To the Shareholders:

The Supervisory Committee (the "Supervisory Committee") of Shenzhen Mingwah Aohan High Technology Corporation Limited, in compliance with the relevant laws and regulations and the Articles of Association of the Company, has conducted its work in accordance with the fiduciary principle, and has taken up an active role to work seriously and with diligence to protect the interests of the Company and its shareholders.

During the year, the Supervisory Committee had reviewed cautiously the development plans of the Company and provided reasonable suggestions and opinions to the Board. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors, audited financial statements for presentation at the forthcoming annual general meeting. We are of the opinion that the Directors and other senior management of the Company are able to strictly observe their fiduciary duty, to act diligently, to exercise their authority faithfully in the best interests of the Company and to work in accordance with the Articles of Association of the Company. The operation is becoming more regulated and the internal control is becoming more perfect. The transactions between the Company and connected parties are in the interests of the shareholders as a whole and under fair and reasonable price.

Up till now, none of the Directors, chief executive and senior management staff had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of its shareholders and employees. None of them was found to be in breach of any laws and regulations or the Articles of Association of the Company. The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2006 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
Shenzhen Mingwah Aohan High Technology Corporation Limited
Mr. Li Xiang

Shenzhen, the PRC, 30th March 2007

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 31st December 2006.

BOARD OF DIRECTORS

The Board comprises seven directors, of whom four are executive directors and three are independent non-executive directors. Detail of backgrounds and qualifications of the chairman of the Company and the other Directors are set out in the pages 6 to 7 of the Annual Report. 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 31st December 2006, 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 2006 and the following table sets out the attendance of the Board:

Directors	**Attendance**
Executive Directors	
Mr. Li Qi Ming *(Chairman & Chief Executive Officer)*	4/4
Mr. Zhu Qing Feng *(Vice-chairman)*	4/4
Mr. Li Guang Ming	4/4
Mr. Li Wen Jun	4/4
Mr. Wang Zheng Guo *(resigned on 23rd June 2006)*	2/4
Mr. Guo Bao An *(resigned on 23rd June 2006)*	2/4
Independent non-executive Directors	
Mr. Gao Xiang Nong	4/4
Mr. Li Quan Sheng	4/4
Mr. Zhang Yu Chuan	4/4

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31st December 2006.

The Directors' responsibilities in the preparation of the financial statements and the auditors' responsibility are set out in the Independent Auditors' Report.

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 form the code provision in the Corporate Governance Code of not having a clear division of responsibilities. The Board is of the view that 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 facilitiate open dialogue between the Board and the management.

REMUNERATION COMMITTEE

During the year 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 year 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 2007.

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 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).

During the year 2006, Mr. Wang Zheng Guo and Mr. Guo Bao An resigned from the directorship and there was no nomination of directors during the year.

AUDITORS' REMUNERATION

An amount of approximately RMB448,000 (2005: RMB691,000) was charged to the Group's income statement for the year ended 31st December 2006. 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 31st December 2006.

The audit committee was established on 19th 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 2006, which were attended by all members. The Group's 2006 first and third quarterly reports, 2006 half-yearly report and 2005 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 2006 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.

SHINEWING (HK) CPA Limited
20/F., Shui On Centre
6-8 Harbour Road, Hong Kong

TO THE SHAREHOLDERS 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 were engaged to audit the consolidated financial statements of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") and its subsidiaries (the "Group") set out on pages 27 to 71, which comprise the consolidated balance sheet as at 31st December 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. However, because of the matter described in the basis for disclaimer of opinion paragraph, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

BASIS FOR DISCLAIMER OF OPINION

(a) Included in the consolidated income statement for the year ended 31st December 2006, turnover of approximately RMB72,059,000 were recorded sales to customers located in the Peoples' Republic of China and Hong Kong. We sought that the management has difficulties in locating certain accounting records of the sales transactions during the year ended 31st December 2006. Also we were unable to obtain the direct confirmations from the customers. Against this background, we were unable to obtain sufficient evidence to satisfy ourselves the validity, accuracy and completeness in respect of the sales transactions included in the consolidated income statement.

(b) Included in the consolidated balance sheet as at 31st December 2006, the trade receivables of approximately RMB75,772,000, which were arrived at after allowance for doubtful debts of approximately RMB2,013,000. However, we were unable to obtain direct confirmations from these debtors. Also, due to lack of adequate financial information, we were unable to satisfy ourselves the existence, accuracy and recoverability of the balances. Any adjustment to the trade receivables may have a consequential significant effect on the loss for the year and net assets as at 31st December 2006.

(c) Included in the consolidated balance sheet as at 31st December 2006, the other receivables, deposits and prepayments of approximately RMB29,058,000, which were arrived at after allowance for doubtful debts of RMB3,773,000. However, we were unable to obtain direct confirmations for certain balances. Also, due to lack of adequate financial information, we were unable to satisfy ourselves the existence, accuracy, recoverability of the balances of approximately RMB28,358,000 and whether there are any commitments should be disclosed at the balance sheet date. Any adjustment to the balances may have a consequential significant effect on the loss for the year and net assets as at 31st December 2006.

(d) Included in the consolidated balance sheet as at 31st December 2006, the inventories of approximately RMB18,491,000 which were arrived at after allowance for obsolete inventories of approximately RMB1,326,000. However, the evidence available to us was limited because we were unable to obtain the sufficient information to verify whether the inventories were fairly stated in the consolidated balance sheet as at 31st December 2006.

(e) Included in the consolidated balance sheet as at 31st December 2006, the trade and other payables of approximately RMB39,980,000. However, we were unable to obtain direct confirmations from the creditors. There were no alternative audit procedures that we could carry out to satisfy ourselves the existence and accuracy of the balances and whether there are any unrecorded liabilities at the balance sheet date. Any adjustment to the trade and other payables may have a consequential significant effect on the loss for the year and net assets as at 31st December 2006.

FUNDAMENTAL UNCERTAINTIES RELATING TO THE GOING CONCERN BASIS

In forming our opinion, we have considered the adequacy of the Group to adopt the going concern basis on which the consolidated financial statements have been prepared. As at 31st December 2006, the Group had a net current assets of approximately RMB73,780,000 and net assets of approximately RMB75,751,000. As mentioned in points (b) and (c) of the basis for disclaimer of opinion paragraph, there are significant doubt on the recoverability of the trade receivables, other receivables, deposits and prepayments. Should these amounts in an aggregate of RMB104,130,000 become irrecoverable, the Group would have had net current liabilities of approximately RMB30,350,000 and net liabilities of approximately RMB28,379,000. If the going concern basis is not appropriate, adjustments would have been made to reclassify non-current assets and liabilities as current assets and liabilities respectively, to reduce the values of assets to their immediate recoverable amounts and to provide for any further liabilities which might arise. Such adjustments may have a significant consequential effect on the loss for the year and net assets of the Group at 31st December 2006.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. In view of the uncertainties as mentioned in proceeding paragraphs, we disclaim our opinion in respect of the fundamental uncertainties relating to the going concern basis.

DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY CONSOLIDATED FINANCIAL STATEMENTS

Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of the Group's affairs as at 31st December 2006 and of its loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lo Wa Kei
Practicing Certificate Number: P03427

Hong Kong
30th March 2007

Consolidated Income Statement

(Amounts in Renminbi Yuan thousands unless otherwise stated)

	NOTES	FOR THE YEAR ENDED 31ST DECEMBER 2006 RMB'000	2005 RMB'000
Turnover	6	**72,059**	100,313
Cost of sales		**(55,058)**	(74,742)
Gross profit		**17,001**	25,571
Other operating income	8	**1,071**	752
Distribution and selling expenses		**(5,532)**	(7,678)
General and administrative expenses		**(18,378)**	(19,059)
Other operating expenses		**(70)**	(446)
Allowance for bad and doubtful debts		**(3,516)**	(13,995)
Impairment loss on property, plant and equipment		**—**	(8,518)
Impairment loss on interest in a jointly controlled equity		**(647)**	—
Share of loss of a jointly controlled entity		**(42)**	(9)
Finance costs	9	**(3,500)**	(2,278)
Loss before taxation		**(13,613)**	(25,660)
Income tax expenses	12	**(271)**	(1,194)
Loss for the year	13	**(13,884)**	(26,854)
Attributable to:			
Equity holders of the parent		**(13,221)**	(26,487)
Minority interests		**(663)**	(367)
		(13,884)	(26,854)
Dividend	14	**—**	—
Loss per share			
Basic	15	**(2.54) cents**	(5.09) cents

Consolidated Balance Sheet

(Amounts in Renminbi Yuan thousands unless otherwise stated)

		AS AT 31ST DECEMBER	
	NOTES	**2006**	2005
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	16	**22,643**	24,400
Prepaid lease payments	17	**2,553**	2,635
Interest in a jointly controlled entity	18	**—**	689
Other financial assets	19	**1,225**	—
Long-term receivables	20	**2,800**	—
Loan receivables	21	**—**	2,326
		29,221	30,050
Current assets			
Inventories	22	**18,491**	22,477
Trade receivables	23	**75,772**	45,242
Other receivables deposits and prepayments	24	**29,058**	15,589
Prepaid leases payments	17	**82**	82
Notes receivable		**—**	200
Amount due from a jointly controlled entity	25	**—**	133
Amount due from a shareholder	26	**500**	300
Amounts due from directors	27	**969**	—
Pledged bank deposits	28	**3,696**	—
Bank balances and cash	29	**24,381**	52,177
		152,949	136,200
Current liabilities			
Trade and other payables	30	**39,980**	42,093
Amount due to a director	27	**—**	621
Tax liabilities		**7,247**	7,272
Borrowings	31	**31,910**	26,100
Obligations under finance leases	32	**32**	97
		79,169	76,183
Net current assets		**73,780**	60,017
Total assets less current liabilities		**103,001**	90,067

Consolidated Balance Sheet

(Amounts in Renminbi Yuan thousands unless otherwise stated)

	NOTES	2006	2005
		AS AT 31ST DECEMBER	
		RMB'000	RMB'000
Non-current liabilities			
Borrowings	31	**26,500**	—
Obligations under finance leases	32	**—**	32
Government grants received	33	**750**	600
		27,250	632
		75,751	89,435
Capital and reserves			
Paid-in capital	34	**52,000**	52,000
Reserves	35	**19,747**	32,968
Equity attributable to equity holders of the parent		**71,747**	84,968
Minority interests		**4,004**	4,467
		75,751	89,435

The consolidated financial statements on pages 27 to 71 were approved and authorised for issue by the Board of Directors on 30th March 2007 and are signed on its behalf by:

Li Qi Ming
Director

Zhu Qing Feng
Director

Consolidated Statement of Changes In Equity

(Amounts in Renminbi Yuan thousands unless otherwise stated)

FOR THE YEAR ENDED 31ST DECEMBER 2006

	Attributable to equity holders of the parent							
	Paid-in capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	(Accumulated loss) retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January 2005	52,000	17,574	5,786	2,894	33,201	111,455	4,834	116,289
Loss for the year	—	—	—	—	(26,487)	(26,487)	(367)	(26,854)
Appropriated from the retained profits	—	—	122	61	(183)	—	—	—
At 31st December 2005	52,000	17,574	5,908	2,955	6,531	84,968	4,467	89,435
Loss for the year	—	—	—	—	(13,221)	(13,221)	(663)	(13,884)
Capital contribution from a minority shareholder of a subsidiary	—	—	—	—	—	—	200	200
At 31st December 2006	52,000	17,574	5,908	2,955	(6,690)	71,747	4,004	75,751

Consolidated Cash Flow Statement

(Amounts in Renminbi Yuan thousands unless otherwise stated)

FOR THE YEAR ENDED 31ST DECEMBER 2006

	2006	2005
	RMB'000	RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(13,613)**	(25,660)
Adjustments for:		
Share of loss of a jointly controlled entity	**42**	9
Bank interest income	**(41)**	(109)
Finance costs	**3,500**	2,278
Depreciation of property, plant and equipment	**2,785**	3,204
Amortisation of prepaid lease payments	**82**	82
Impairment loss on interest in a jointly controlled entity	**647**	—
Impairment loss on property, plant and equipment	**—**	8,518
Loss on disposal of property, plant and equipment	**32**	180
Allowance for obsolete inventories	**2,346**	746
Allowance for bad and doubtful debts	**3,516**	13,995
Operating cash flows before movements in working capital	**(704)**	3,243
Decrease in inventories	**1,640**	4,922
Increase in trade receivables	**(26,456)**	(2,854)
Increase in other receivables, deposits and prepayments	**(17,814)**	—
Decrease in notes receivable	**200**	430
Increase in amount due from a jointly controlled entity	**(87)**	(78)
Increase in amount due from a shareholder	**(200)**	(300)
Increase in amounts due from directors	**(969)**	—
(Decrease)/increase in trade and other payables	**(2,112)**	9,264
Decrease in bills payable	**—**	(3,680)
Cash (used in) generated from operations	**(46,502)**	10,947
PRC enterprise income tax paid	**(296)**	(9)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(46,798)**	10,938

Consolidated Cash Flow Statement

(Amounts in Renminbi Yuan thousands unless otherwise stated)

	2006 RMB'000	2005 RMB'000
INVESTING ACTIVITIES		
Interest received	**41**	109
Purchase of property, plant and equipment	**(1,060)**	(798)
Proceeds on disposal of property, plant and equipment	**—**	133
(Increase) decrease in pledged bank deposits	**(3,696)**	228
NET CASH USED IN INVESTING ACTIVITIES	**(4,715)**	(328)
FINANCING ACTIVITIES		
Interest paid	**(3,318)**	(2,267)
Capital contribution from a minority shareholder of a subsidiary	**200**	—
Finance lease charge	**(7)**	(11)
New borrowings raised	**61,970**	26,100
Repayment of borrowings	**(29,660)**	(33,855)
Increase in long-term receivables	**(2,800)**	—
Payment of loan arrangement fee	**(2,100)**	—
Decrease in loan receivables	**—**	894
Advance to supplier	**—**	(40,000)
Prepayment from a supplier	**—**	40,000
(Repayment to) advance from a director	**(621)**	527
Government grants received	**150**	400
Repayment of obligations under finance leases	**(97)**	(93)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**23,717**	(8,305)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(27,796)**	2,305
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**52,177**	49,872
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Represented by bank balances and cash	**24,381**	52,177

1. GENERAL

The Company is a public limited company incorporated in the People's Republic of 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 section of "Corporate Information" to the annual report.

The consolidated 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.

(Amounts in Renminbi Yuan thousands unless otherwise stated)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendments and interpretations that have been issued but are not yet effective as at 31st December 2006. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IFRIC)-Interpretation ("Int") 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1st January 2007.
2 Effective for annual periods beginning on or after 1st January 2009.
3 Effective for annual periods beginning on or after 1st March 2006.
4 Effective for annual periods beginning on or after 1st May 2006.
5 Effective for annual periods beginning on or after 1st June 2006.
6 Effective for annual periods beginning on or after 1st November 2006.
7 Effective for annual periods beginning on or after 1st March 2007.
8 Effective for annual periods beginning on or after 1st January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value, as explained in the accounting policies set out below:

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of The Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 entities.

The results and assets and liabilities of a jointly controlled entity are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, interest 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 a jointly controlled entity, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interests 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.

Where 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

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

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

Service income is recognised when services are provided.

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 subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of 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%

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure

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

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

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

Impairment

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

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

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. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial assets

The Group's financial assets are mainly loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted in respect of loans and receivables is set out below.

Loans and receivables

Loans and receivables 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 (including loan receivables, other financial assets, long-term receivables, trade receivables, other deposits and prepayments, notes receivable, amount due from a jointly controlled entity/ directors/ a shareholder) 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.

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. The Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including borrowings, trade and other payables, amount due to a director and obligation under finance leases are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as 'other income'.

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 profit as reported in the consolidated 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 recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on interest in a jointly controlled entity, except where the Group 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 profits 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 year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Foreign currencies

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 the respective 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, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Renminbi) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Prepaid lease payments

Prepaid lease payments represent lease prepayment paid or payable for the right to use the land on which various plants and buildings are situated for a definite period, are carried at cost less accumulated amortisation. Amortisation of prepaid lease payments is calculated on a straight-line basis over the expected period of the rights.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

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 RMB3,516,000 was recognised during the year (2005: RMB13,995,000).

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 sales or use in production. The management estimates the net realisable value for such finished goods and raw materials 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 RMB2,346,000 (2005: RMB746,000).

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include loan receivables, other financial assets, long-term receivables, trade receivables, other receivables, deposits and prepayments, notes receivable, amount due from a jointly controlled entity, amount due from a shareholder/directors, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a director and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors theses exposures to ensure appropriate measures are implemented on a timely and effective manner.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31st December 2006 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 36.30% (2005: 30.74%) 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.

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 is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rates and terms of repayment of bank borrowings of the Group are disclosed in Note 31.

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:

	2006	2005
	RMB'000	RMB'000
Sales of cards	**63,587**	83,913
Sales of non-card products	**8,472**	16,400
	72,059	100,313

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:

For the year ended 31st December 2006

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
External sales	63,587	8,472	72,059
Result			
Segment results	(11,196)	124	(11,072)
Unallocated bank interest income			41
Unallocated other operating income			1,030
Unallocated corporate expenses			(70)
			(10,071)
Share of loss of a jointly controlled entity			(42)
Finance costs			(3,500)
Loss before taxation			(13,613)
Income tax expenses			(271)
Loss for the year			(13,884)
Other information			
Capital expenditure	1,044	16	1,060
Depreciation	2,655	130	2,785
Allowance for bad and doubtful debts	3,516	—	3,516
Allowance for obsolete inventories	2,346	—	2,346
Loss on disposal of property, plant and equipment	32	—	32
Amortisation of prepaid lease payments	82	—	82

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Balance Sheet as at 31st December 2006

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Assets			
Segment assets	147,467	5,157	152,624
Unallocated assets			29,546
Consolidated total assets			182,170
Liabilities			
Segment liabilities	37,384	3,378	40,762
Unallocated liabilities			64,657
Consolidated total liabilities			106,419

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31st December 2005

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
External sales	83,913	16,400	100,313
Result			
Segment results	(23,153)	(526)	(23,679)
Unallocated bank interest income			109
Unallocated other operating income			643
Unallocated corporate expenses			(446)
			(23,373)
Share of loss of a jointly controlled entity			(9)
Finance costs			(2,278)
Loss before taxation			(25,660)
Income tax expenses			(1,194)
Loss for the year			(26,854)
Other information			
Capital expenditure	783	15	798
Depreciation	3,062	142	3,204
Allowance for (reversal of) bad and doubtful debts	14,062	(67)	13,995
Allowance for obsolete 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 payments	82	—	82

7. SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

For the year ended 31st December 2005 *(continued)*

	Card products RMB'000	Non-card products RMB'000	Total RMB'000
Assets			
Segment assets	108,465	5,608	114,073
Unallocated assets			52,177
Consolidated total assets			166,250
Liabilities			
Segment liabilities	40,159	3,284	43,443
Unallocated liabilities			33,372
Consolidated total liabilities			76,815

Geographical segments

All of the Group's operations are carried out in the PRC and accordingly, the revenue, expenses, assets, liabilities and capital expenditure are all situated in that region.

8. OTHER OPERATING INCOME

	2006	2005
	RMB'000	RMB'000
Bank interest income	**41**	109
Government grants (Note)	**252**	300
Consultancy income	**516**	—
Others	**262**	343
	1,071	752

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

	2006	2005
	RMB'000	RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**3,318**	2,267
Imputed interest expense on other financial assets	**175**	—
Finance leases charge	**7**	11
	3,500	2,278

No interest was capitalised during the both years.

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the nine (2005: ten) directors were as follows:

	Li Qi Ming	Li Guang Ming	Guo Bao An (Note 1)	Wang Zheng Guo (Note 1)	Li Wen Jun	Zhu Qing Feng	Gao Xiang Nong	Li Quan Sheng	Zhang Yu Chuan	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31st December 2006										
Fees										
Other emoluments										
Salaries and other benefits	444	1	21	—	106	35	12	12	12	643
Retirement benefits schemes contributions	9	—	—	—	2	—	—	—	—	11
Total emoluments	453	1	21	—	108	35	12	12	12	654

	Li Qi Ming	Li Guang Ming	Guo Bao An	Wang Zheng Guo	Li Wen Jun (Note 2)	Zhu Qing Feng	Zheng Wen (Note 3)	Gao Xiang Nong	Li Quan Sheng	Zhang Yu Chuan	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
For the year ended 31st December 2005											
Fees											
Other emoluments											
Salaries and other benefit	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

Note 1. Resigned on 23rd June 2006.

Note 2. Appointed on 20th September 2005.

Note 3. Resigned on 18th July 2005.

11. EMPLOYEES' EMOLUMENTS

Employees' emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: one) was director of the Company whose emoluments are included in the disclosure in Note 10 above. The emoluments of the remaining four (2005: four) individuals were as follows:

	2006 **RMB'000**	2005 RMB'000
Salaries and other benefits	**838**	761
Retirement benefits schemes contributions	**35**	36
	873	797

During the year, no emoluments were paid to the five highest paid individuals (including a director and other employees) as inducement to join or upon joining the Group or as compensation for loss of office.

Their emoluments were within the following bands:

	2006 **No. of employees**	2005 No. of employees
Nil to RMB1,000,000	**4**	4

12. INCOME TAX EXPENSES

	2006 RMB'000	2005 RMB'000
The tax charge comprises:		
PRC enterprise income tax	459	1,194
Over-provision in prior year	(188)	—
	271	1,194

The Group is subject to income tax rate ranging from 15% to 33% (2005: 15% to 33%) on the estimated assessable profit for the year.

Hong Kong Profits Tax has not been provided as the Group's income neither arises in nor is derived from Hong Kong.

The tax charge for the years can be reconciled to the loss per the consolidated income statement as follows:

	2006 RMB'000	2005 RMB'000
Loss before taxation	(13,613)	(25,660)
Tax at domestic tax rate of 15%	(2,042)	(3,849)
Overprovision in prior year	(188)	—
Tax effect of expenses not deductible for tax purpose	134	4,934
Effect of different tax rates of subsidiaries	(553)	218
Tax effect of tax losses not recognised	2,903	—
Others	17	(109)
Tax charge for the year	271	1,194

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

The Group had no significant unprovided deferred taxation as at 31st December 2006 and 31st December 2005.

At 31st December 2006, the Group has unused tax losses of RMB11,735,000 (2005: Nil) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams. Pursuant to the relevant laws and regulations in the PRC, all unused tax losses will be expired in 2011.

13. LOSS FOR THE YEAR

	2006 RMB'000	2005 RMB'000
Loss for the year has been arrived at after charging (crediting):		
Depreciation		
- owned assets	**2,739**	3,158
- assets under finance leases	**46**	46
	2,785	3,204
Amortisation of prepaid lease payments	**82**	82
Auditors' remuneration	**448**	691
Loss on disposal of property, plant and equipment	**32**	180
Cost of inventory recognised as expenses	**55,058**	74,742
Allowance for obsolete inventories	**2,346**	746
Research and development costs	**1,064**	2,509
Staff costs including directors' emoluments (Note 10)	**9,792**	11,675

14. DIVIDEND

No dividend was paid or proposed during the years ended 31st December 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

15. LOSS PER SHARE

The calculation of the basic loss per share for the year is based on the loss for the year attributable to the equity holders of the parent of approximately RMB13,221,000 (2005: RMB26,487,000) and the weighted average of 520,000,000 (2005: 520,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for two years ended 31st December 2006 and 2005 as there were no diluting events existed during those years.

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 1st January 2005	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 31st December 2005 and 1st January 2006	19,215	23,531	5,368	2,550	8,518	59,182
Reclassification	—	(242)	242	—	—	—
Additions	—	833	153	74	—	1,060
Disposals	(4)	(1,037)	(53)	—	—	(1,094)
At 31st December 2006	19,211	23,085	5,710	2,624	8,518	59,148
DEPRECIATION AND IMPAIRMENT						
At 1st January 2005	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 31st December 2005 and 1st January 2006	5,598	15,660	3,582	1,424	8,518	34,782
Reclassification	—	(242)	242	—	—	—
Provided for the year	552	1,207	756	270	—	2,785
Eliminated on disposals	(4)	(957)	(101)	—	—	(1,062)
At 31st December 2006	6,146	15,668	4,479	1,694	8,518	36,505
CARRYING VALUES						
At 31st December 2006	13,065	7,417	1,231	930	—	22,643
At 31st December 2005	13,617	7,871	1,786	1,126	—	24,400

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

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

The carrying values of the Group's motor vehicles includes an amount of RMB249,000 (2005: RMB295,000) in respect of assets held under finance leases.

The carrying values of the Group's buildings includes an amount of RMB5,573,000 (2005: RMB5,707,000) in which the Group has not obtained the legal title from the relevant government authority. In the opinion of the directors, as the Group has paid most of the purchase price of the said property, the Group can occupy the said property for its own use.

The Group has pledged buildings, plant and machinery having a carrying amount of approximately RMB10,608,000 (2005: RMB2,941,000) to secure banking facilities granted to the Group (Note 37(a)).

As at 31st December 2005, the directors reviewed the recoverable amount 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:

	2006	2005
	RMB'000	RMB'000
Current portion	**82**	82
Non-current portion	**2,553**	2,635
	2,635	2,717

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2006	2005
	RMB'000	RMB'000
Cost of investment in an unlisted jointly controlled entity	**836**	836
Share of post-acquisition loss	**(189)**	(147)
	647	689
Less: accumulated impairment	**(647)**	—
	—	689

As at 31st December 2006, the Group had interest in the following jointly controlled entity:

Name of entity	Form of business structure	Place of incorporation / registration	Principal place of operation	Class of share held	registered capital held by the Group	Proportion of registered capital held by the Group	Principal activity
New Concept Technology Limited	Incorporated	PRC	PRC	Contributed capital	49%	49%	Development, manufacture and trading in computer hardware and software

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

	2006	2005
	RMB'000	RMB'000
Current assets	**3,810**	3,810
Non-current assets	**1,179**	1,179
Current liabilities	**3,669**	3,583
Income	**—**	—
Expenses	**86**	19

19. OTHER FINANCIAL ASSETS

The amount represents the loan arrangement fee paid to a third party, 深圳中科智擔保投資有限公司 ("深圳中科智") to provide the guarantee to Shenzhen Commercial Bank Co. Ltd to secure the long-term bank borrowing of RMB28,000,000 granted to the Group during the year. Details of bank borrowings are disclosed in Note 31.

	2006 RMB'000	2005 RMB'000
Current portion (included in other receivables, deposit and prepayments (Note 24))	**700**	—
Non-current portion	**1,225**	—
	1,925	—
Imputed interest amortised for the year	**175**	—

The other financial asset is amortised over the bank borrowing period for 3 years using the straight-line method. The other financial assets at the balance sheet date approximate to the carrying amount.

20. LONG-TERM RECEIVABLES

The balance represented the deposit paid to a third party, 深圳中科智 to provide the guarantee to Shenzhen Commercial Bank to secure the long-term bank borrowing of RMB28,000,000 granted to the Group during the year. Details of bank borrowing are disclosed in Note 31.

The fair value of the long-term receivables at the balance sheet date approximate their carrying value.

21. LOAN RECEIVABLES

The amount represented loans to staff. Analysis of the carrying amount analysed for reporting purposes:

	2006 RMB'000	2005 RMB'000
Current portion (note 24)	**894**	894
Non-current portion	**1,432**	2,326
	2,326	3,220
Less: accumulated impairment	**(2,326)**	—
	—	3,220

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

22. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	**10,077**	14,694
Work-in-progress	**1,380**	340
Finished goods	**7,034**	7,443
	18,491	22,477

The following inventories included in the above figures are carried at the net realisable value:

	2006 RMB'000	2005 RMB'000
Finished goods	**403**	11

23. TRADE RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	**77,785**	51,329
Less: accumulated impairment	**(2,013)**	(6,087)
	75,772	45,242

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 receivables net of impairment losses at the reporting date is as follows:

	2006 RMB'000	2005 RMB'000
1-90 days	**13,874**	26,825
91-180 days	**6,148**	9,846
181-365 days	**10,604**	8,129
Over 365 days	**45,146**	442
Trade debtors	**75,772**	45,242

The fair value of the Group's trade receivables as at 31st December 2006 approximates to the corresponding carrying amount.

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2006 RMB'000	2005 RMB'000
Advance to suppliers	**13,157**	7,155
Loan receivables (Note 21)	**—**	894
Other financial assets (Note 19)	**700**	—
Other debtors, deposits and prepayments	**15,201**	7,540
	29,058	15,589

The fair value of the Group's other receivables, deposits and prepayments as at 31st December 2006 approximates to the corresponding carrying amount.

25. 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. As at 31st December 2006, the balance has been fully written off to the consolidated income statement.

26. 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.

27. AMOUNTS DUE FROM (TO) DIRECTORS

Directors' current accounts/loans to officers disclosed pursuant to section 161B of the Companies Ordinance are as follows:

Director	**Maximum amount outstanding during the year**	**Balance at 31/12/2006 RMB'000**	Balance at 31/12/2005 RMB'000
Li Qi Ming	**965**	**965**	(621)
Li Wen Jun	**4**	**4**	—
	969	**969**	(621)

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

28. PLEDGED BANK DEPOSITS

The amount represented deposits pledged to banks to secure short-term bank borrowings (Note 37(a)). The deposits carry fixed interest rate of 2.625%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

29. 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.

30. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	2006 RMB'000	2005 RMB'000
1-90 days	**12,463**	12,433
91-180 days	**1,301**	3,953
181-365 days	**2,657**	3,474
Over 365 days	**9,428**	2,391
Trade creditors	**25,849**	22,251
Value-added tax payable	**3,659**	7,544
Deposits from customers	**2,587**	2,184
Other payables	**7,885**	10,114
	39,980	42,093

The fair value of the Group's trade and other payables as at 31st December 2006 approximates to the corresponding carrying amount.

31. BORROWINGS

	2006	2005
	RMB'000	RMB'000
Bank loans:		
Secured	**51,710**	18,900
Unsecured	**6,700**	7,200
	58,410	26,100

Carrying amount repayable:

	2006	2005
	RMB'000	RMB'000
Within one year	**31,910**	26,100
More than one year, but not exceeding two years	**6,500**	—
More than two years, but not exceeding five years	**20,000**	—
	58,410	26,100
Less: Amount due within one year shown under current liabilities	**(31,910)**	(26,100)
	26,500	—

Included in borrowings were unsecured bank loans guaranteed by:

	2006	2005
	RMB'000	RMB'000
Mr. Li Qi Ming, a director of the Company and 深圳市德力投資有限公司 Shenzhen City Tung Nin Investments Co., Ltd. ("Shenzhen City") (Note 40(b) &(c))	**6,700**	7,200

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

31. BORROWINGS *(Continued)*

The exposure of the Group's fixed rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	2006 RMB'000	2005 RMB'000
Fixed-rate borrowings		
Within one year	**30,410**	26,100
Variable-rate borrowings		
Within one year	**1,500**	—
In more than one year but not more than two years	**6,500**	—
In more than two years but not more than three year	**20,000**	—
	28,000	—

The ranges of effective interest rates (which are also equal to contracted interest rate) on the Group's borrowings are as follows:

	2006	2005
Effect interest rate		
Fixed-rate borrowings	**6.215% - 7.344%**	5.22% - 9.03%
Variable-rate borrowings	**6.93%**	—

In addition, the Group has variable-rate borrowings which carry interest at the lending rate of The People's Bank of China + 10%. Interest is repricing every three months.

The Group's borrowings are denominated in Renminbi.

31. BORROWINGS *(Continued)*

During the year, the Group obtained new bank borrowings in amounts of RMB28,000,000. The bank borrowing was borrowed from Shenzhen Commercial Bank. Pursuant to the guarantee contracts, 深圳中科智 provided guarantees in favour of Shenzhen Commercial Bank of RMB28,000,000 to secure the bank loan granted to the Group. In return, the Group should fulfilled the following five conditions in order to obtain the guarantee from 深圳中科智 :

a) Paid 7.5% of the loan balance (RMB2,100,000) to 深圳中科智 as the arrangement fee (Note 19);

b) Mr. Li Qi Ming, the director of the Group should provide the "unlimited guarantee" to 深圳中科智 (Note 40(e));

c) 四會市裕豐發展有限公司, the company owned by a former minority shareholder of Sihui Mingwah Aohan High Technology Co., Ltd. should pledge its property (fair value of RMB35 million) to 深圳中科智 as security (Note 40(d));

d) Payment of RMB2,800,000 (10% of the loan amounts) to 深圳中科智 as the pledged deposit. This deposit would be released upon the settlement of the bank loan in September 2009 (Note 20); and

e) Pledged the Company' equity interests of the subsidiaries to 深圳中科智 (Note 37).

32. OBLIGATIONS UNDER FINANCE LEASES

	Maximum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	**35**	104	**32**	97
In more than one year, but not more than two years	**—**	35	**—**	32
	35	139	**32**	129
Less: future finance charges	**(3)**	(10)		
Present value of lease obligations	**32**	129		
Less: amount due for settlement within twelve months (shown under current liabilities)			**(32)**	(97)
Amount due for settlement after twelve months			**—**	32

The average lease term is 5 years (2005: 5 years). The average effective borrowing rate was 0.42% (2005: 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.

The Group's obligation under finance leases are secured by the lessor's charge over the leased assets.

All finance lease obligations are denominated in Renminbi.

33. GOVERNMENT GRANTS RECEIVED

	2006 RMB'000	2005 RMB'000
科技研究開發項目經費	**750**	600

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.

34. PAID-IN CAPITAL

	2006 RMB'000	2005 RMB'000
Authorised, registered, issued and fully paid:		
520 million H shares of RMB0.1 each	**52,000**	52,000

At the time of conversion of the Company into a joint stock limited company on 17th 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 1st 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 5th 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 7th July 2004, 200,200,000 H shares were issued at a price of RMB0.28 per share.

35. 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

Prior to 1st January 2006, the company is required in each year to transfer 5% to 10% of the profit after taxation to the Statutory public welfare fund. Starting from 1st January 2006 the Group is not required to transfer any profit after taxation to statutory public welfare fund in accordance with the amendment in the PRC Companies Ordinance.

36. RETIREMENT BENEFITS

The employees of the Group are members of the state-managed retirement benefit scheme operated 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 31st December 2006, 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:

	2006	2005
	RMB'000	RMB'000
Retirement benefit schemes contributions	**915**	942

37. PLEDGE OF ASSETS

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

	2006	2005
	RMB'000	RMB'000
Buildings, plants and machinery (Note 16)	**10,608**	2,941
Prepaid lease payment (Note 17)	**2,635**	2,717
Bank deposits (Note 28)	**3,696**	—
	16,939	5,658

(b) The following equity interests of the subsidiaries have been pledged to 深圳中科智 for the guarantee provided to the Group during the year:

Name of the subsidiary	**Equity interest pledged**	**Carrying value as at 31st December 2006**
	(%)	RMB'000
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	80	(674)
廣州市明華澳漢科技有限公司 Guangzhou Mingwah Aohan High Technology Co., Ltd.	90	399
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	80	813
四會市明華澳漢科技有限公司 Sihui Mingwah Aohan High Technology Co., Ltd.	80	5,680

38. CAPITAL COMMITMENT

	2006	2005
	RMB'000	RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	**786**	786

39. OPERATING LEASE ARRANGEMENT

	2006	2005
	RMB'000	RMB'000
Minimum lease payments paid under operating leases for the rented premises	**1,430**	1,257

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

	2006	2005
	RMB'000	RMB'000
Within one year	**790**	937
In the second to fifth years inclusive	**773**	862
	1,563	1,799

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

40. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

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

	2006	2005
	RMB'000	RMB'000
Short-term benefits	**643**	750
Post-employment benefits	**11**	11
	654	761

The remuneration of directors and key executives is determined by the Board of Directors having regard to the performance of individuals and market trends.

(b) 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 31st 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. (Note 31).

(c) Pursuant to two guarantee contracts entered during 2006, 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 31st December 2006, a bank loan of RMB6,700,000 is borrowed from Industrial Bank Corporation. The guarantee provided by Mr. Li Qi Ming is the borrowed amount (Note 31).

(d) Pursuant to a pledged agreement entered during 2006, a former minority shareholder of Sihui Mingwah Aohan High Technology Co., Ltd. pledged its properties to 深圳中科智 to secure the guarantee granted to Shenzhen Commercial Bank Co. Ltd. for the bank borrowing of RMB28,000,000 (Note 31).

(e) Pursuant to a guarantee contract entered during 2006, Mr. Li Qi Ming provided unlimited guarantees in favour of 深圳中科智 to secure the guarantee granted to Shenzhen Commercial Bank Co. Ltd. for the bank borrowing of RMB28,000,000 granted to the Group by Shenzhen Commercial Bank Co., Ltd (Note 31).

(Amounts in Renminbi Yuan thousands unless otherwise stated)

41. SUBSIDIARIES

Details of the Company's subsidiaries established as private limited liability companies in the PRC at 31st December 2006 are as follows:

Name of company	Place of registration/ operation	Class of share held	Issued and fully paid share capital	Proportion of ownership interest directly held by the Company	Principal activities
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	PRC	Contributed capital	RMB500,000	80%	Design, development and trading of IC cards, magnetic cards, related equipment and application systems
廣州市明華澳漢科技有限公司 Guangzhou Mingwah Aohan High Technology Co., Ltd.	PRC	Contributed capital	RMB500,000	90%	Trading in IC cards, magnetic cards, related equipment and application systems
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	PRC	Contributed capital	RMB1,000,000	80%	Trading in IC cards, magnetic cards and related equipment
四會市明華澳漢科技有限公司 Sihui Mingwah Aohan High Technology Co., Ltd.	PRC	Contributed capital	RMB10,000,000	80%	Manufacture of IC cards, magnetic cards and related equipment
深圳市明華澳漢數據科技有限公司 Shenzhen Mingwah Aohan Digital Security Tchnology Co., Ltd.	PRC	Contributed capital	RMB1,000,000	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 31st December				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	134,698	125,250	142,604	100,313	**72,059**
Profit (loss) before taxation	15,224	14,450	14,627	(25,660)	**(13,613)**
Taxation	(1,203)	(2,935)	(2,378)	(1,194)	**(271)**
Profit (loss) for the year	14,021	11,515	12,249	(26,854)	**(13,884)**
Attributable to:					
Equity holders of the parent	14,037	10,514	11,614	(26,487)	**(13,221)**
Minority interests	(16)	1,001	635	(367)	**(663)**
Profit (loss) for the year	14,021	11,515	12,249	(26,854)	**(13,884)**

ASSETS AND LIABILITIES

	As at 31st December				
	2002	2003	2004	2005	**2006**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	181,483	166,021	193,256	166,250	**182,170**
Total liabilities	(124,865)	(97,755)	(76,967)	(76,815)	**(106,419)**
Equity	56,618	68,266	116,289	89,435	**75,751**
Attributable to:					
Equity holders of the parent	53,553	64,067	111,455	84,968	**71,747**
Minority interests	3,065	4,199	4,834	4,467	**4,004**
	56,618	68,266	116,289	89,435	**75,751**

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