深圳市明華澳漢科技股份有限公司

Shenzhen Mingwah Aohan High Technology Corporation Ltd.*

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

Stock Code: 8301

*For identification purpose only

Annual Report 2007

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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

Miss Chu Wai Fan

QUALIFIED ACCOUNTANT

Miss Chu Wai Fan

AUDIT COMMITTEE

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

COMPLIANCE OFFICER

Mr. Li Qi Ming

AUTHORIZED REPRESENTATIVES

Miss Chu Wai Fan
Mr. Zhu Qing Feng

AUDITORS

Yeung, Chan & Associates 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

Room 505, 5/F
Nan Fung Tower
173 Des Voeux Road
Central
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

CHAIRMAN'S STATEMENT

To our respectable shareholders,

For and on behalf of the board of directors of the Company (the "Board"), I hereby present the audited annual result of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

REVIEW OF OPERATIONS

For the year ended 31 December 2007, the turnover of the Group amounted to approximately RMB97,056,000 as compared to approximately RMB72,059,000 in the previous year, representing an increase of 34.7%. Loss attributable to shareholders was approximately RMB63,757,000 as compared to approximately RMB13,221,000 in 2006.

BUSINESS REVIEW

Amidst the continuous aggressive pricing competition of domestic card products, the Group managed to obtain some achievements in the operation and recorded a significant rally in the Company's sales, by adjusting the structure of products.

In 2007, the Group's business development was consistent with its established goals: becoming a leader in the PRC's card industry; making "M&W" a renowned brand in the PRC's smart card industry; focusing on high-end products in the security communication field. The Group responded and adjusted to product diversity and the development trend of market subdivision, in an active manner.

1. Adjustment of Key Sales Strategies

As the Group's card business was facing aggressive pricing competition, the Group has gradually strengthened its R&D and sales of high profit value-added products such as CPU Card and eKey. With the further implementation of the national Electronic Signature Law in various fields and industries, eKey, the Group's high-end security communication product, has achieved higher market share and more competitive edges in such markets.

On the industrial application front, we continued to solidify and expand the market share of eKey in the PRC e-Government program, online banking, social insurance and code security, laying a solid foundation for our high-end products to further expand and achieve higher profit in the security communication market in the future.

The Company continued to maintain a steady growth in the sales of IC card and logical coded card products through our sales channels, expand our sales effort on the franchise business and maintain our relationship with key clients, so as to ensure a steady stream of orders.

We expanded our effort on the R&D and co-operation of WLAN products, and took the initiative to participate in the governmental security communication procurement program of WLAN products for the Olympics 2008. This product will become a new profit generator and highlight in the expansion of new market for the Group.

2. R&D and Technical Support

We continued contributing to the R&D of high-end products such as eKey and the Smart Card Operating System (SCOS), and upgraded the SCOS to meet the changing needs of industrial applications and new research platform. We strengthened our after-sale services by adopting a one-station technical support strategy, so as to ensure a full coverage of technical support for key clients from various industries, in a timely and considerable manner.

3. **External Cooperation**

The Group continued to strengthen the technical cooperation with renowned chip companies in and out of the PRC. We have cooperated successfully with Mitsubishi and Richon to launch a heat-variable & rewritable RFID smart card product and promoted the sales of such product in domestic and international market, so as to enhance its added value and comprehensive competitiveness.

4. **Overseas Market Expansion**

The Company continued to expand its effort on international market expansion and sales promotion, and solidified its sales channels and strategic relationships, so as to enlarge its market share.

BUSINESS PROSPECT

The Group's established goal is to become a leader in the PRC's card industry, make "M&W" a renowned brand in the PRC's smart card industry and focus on high-end products in the security communication field. In order to release the great potential in the security communication market, the Group is committed to maintain a leading position in relevant field by leveraging on its expertise and competitive edge in the smart card business.

1. **Technical Development**

The Group will continue to contribute to the R&D of SCOS, completing the SCOS to meet the upgrading standards of Europay Master Card and Visa standard, Code Division Multiple Access (CDMA), and the fingerprint OS and Java OS.

We will continue to upgrade and complete our eKey products, and complete the R&D of broadband eKey and security smart card by plan.

We will continue to promote the serialization and marketization of the RFID products, and enhance the compatibility of RFID antenna.

The Group will enhance its sales and marketing for overseas brand by strengthening its overseas promotion and operation. In the meanwhile, we will realize the complementation effect of advantages through overseas cooperation, making every effort to build "M&W" a renowned brand in the international smart card industry.

2. **Marketing Strategy**

On the premise of a solidified market share, the Group will continue to expand the application of its eKey products in the commercial bank network and e-government in the PRC, so as to enlarge its market share and expand its application in other fields of security communication.

It is the marketing strategy of CPU Card to solidify and promote its application in the key industries such as social insurance and banking, on a continuous basis.

We will expand our effort on exploring overseas markets, and enhance the international coverage of the M&W brand. We will implement our agency system across the world, and establish distribution relationships with leading corporates in the industry from various countries.

We will commence the marketing of WLAN (WIFI) in accordance with national and international standards in an overall way, and seek to establish a leading position in such markets within one to two years.

3. Management Operation

The Group will complete its system, promote its corporate management, implement a centralized procurement and distribution system and implement a central capital allocating system, so as to maximize the utility of its capital resources.

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. We will strengthen our review on contracts and the control and management over receivables in the financial operation, so as to control the risks associated with the Group's operation.

The Group will be committed to build up a more comprehensive formality in internal management, complete its internal legal filings and regularize its administrative management. Moreover, the Group will further protect the interest of the Company from infringement by further enhancing the Company's internal and external confidentiality system, and mitigate all operational risks through legal documentations. The Group will conduct performance evaluation for each of the departments in accordance to the needs of development, so as to improve the management efficiency and maximize the return for the shareholders.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

李啟明 (Mr. Li Qi Ming), aged 48, 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 42, 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 26 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 13 October 2002.

李文軍 (Mr. Li Wen Jun), aged 37, 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 43, is an executive Director. He joined the Group in April 2001 and was appointed a Director on 26 April 2001. He was the executive director and assistant general manager of 山西安泰集團股份有限公司 from October 1986 to 1999. He is currently the chairman of the board of directors and general manager of Jianheng Holding Company Limited.

Independent non-executive Directors

高向農 (Mr. Gao Xiang Nong, also known as Mr. Gao Xiang Nong, Paul), aged 38, is an independent non-executive Director appointed on 2 February 2004. He holds a Master Degree in Business Administration from the California State University, Long Beach and is a certified public accountant of the State Board of Accountancy of the State of Colorado. He previously worked for Platt College as international marketing director from March 1999 to March 2003. He worked for Amdec LLC as the chief accounting officer from October 1997 to February 1999. He had worked in David Lu & Co., CPA from September 1996 to September 1997 and Compec International, Inc. from 1992 to 1996. Currently, he is the Chief Executive Officer of LottVision Limited, a listed company in Singapore.

李全聖 (Mr. Li Quan Sheng), aged 64, is an independent non-executive Director appointed on 3 August 2002. He graduated from 西安交通大學 (Xian Jiaotong University) with a specialty in Radio Engineering. He is working for 中國科學院微電子中心 (Microelectronics R&D Centre Chinese Academy of Sciences). He has been awarded the 北京市科學技術進步獎二等獎 (Beijing Sciences and Technology Advancement Grade II Award).

張玉川 (Mr. Zhang Yu Chuan), aged 49, is an independent non-executive Director appointed on 3 August 2002. He graduated from 武漢大學 (Wuhan University) with a Bachelor Degree in Library Science. He established 北京歐文公眾事務研究所 (Beijing Ouwen Public Affairs Research Centre) and acted as the head of the research center in 1998. He has been acting as the Chairman of the board of directors of 北京眾星聯合科技發展有限公司 (Beijing Chung Hsing Lien He Technology Development Company Limited) since May 2000.

Supervisors

李翔 (Mr. Li Xiang), aged 35, 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 37, 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 52, 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 34, 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

朱惠芬 (Miss. Chu Wai Fan), aged 35, is the company secretary and qualified accountant of the Company. She graduated from University of Hong Kong and is a associate member of the Hong Kong Institute of Certified Public Accountants and Association of Chartered Certified Accountants. She has over ten years' working experience in the accounting and auditing field. She joined the Group in November 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB97,056,000, representing an increase of approximately 34.7% as compared with the turnover of approximately RMB72,059,000 in the previous year.

The gross profit of the Group for the year ended 31 December 2007 amounted to approximately RMB16,079,000, with a decrease of approximately 5.4% as compared with the gross profit of approximately RMB17,001,000 in the previous year, and the underlying reason of such decrease is due to the drop of selling price and the increase in cost of sales.

For the year ended 31 December 2007, the Group's general and administrative expenses decreased by approximately RMB2,921,000 or approximately 4% to approximately RMB15,457,000 as compared with last year. In comparing with the same in 2006, the distribution and selling expenses increased by approximately 12.6% from approximately RMB5,532,000 to approximately RMB6,228,000 for the year ended 31 December 2007. The increase was in line with the increase in sales.

For the year ended 31 December 2007, loss attributable to shareholders was approximately RMB63,757,000 as compared to a loss of approximately RMB13,221,000 in 2006. The loss was mainly attributable to the significant increase in allowance for bad and doubtful debts of approximately RMB59,547,000 as compared with the allowance for bad and doubtful debts of approximately RMB3,516,000 in 2006.

For the year ended 31 December 2007, the Group had equity attributable to equity holders of the Company of approximately RMB7,990,000 (2006: RMB71,747,000), bank balances and cash of approximately RMB25,802,000 (2006: RMB24,381,000), current assets of approximately RMB92,368,000 (2006: RMB152,949,000) and current liabilities of approximately RMB88,382,000 (2006: RMB79,169,000). The Group's current ratio (total current assets over total current liabilities) decreased from approximately 1.93 as at 31 December 2006 to approximately 1.05 as at 31 December 2007.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2007, the Group had net current assets of approximately RMB3,986,000. Current assets as at 31 December 2007 comprised inventories of approximately RMB14,846,000, trade receivables of approximately RMB39,097,000, other receivables, deposits and prepayments of approximately RMB6,587,000 and bank balances and cash of approximately RMB25,802,000. Current liabilities as at 31 December 2007 comprised trade and other payables of approximately RMB53,925,000, tax liabilities of approximately RMB7,177,000, short-term borrowings of approximately RMB27,280,000.

Gearing ratio

The Group's gearing ratios were approximately 92.5% and 58.4% as at 31 December 2007 and 31 December 2006 respectively. The gearing ratios were calculated based on total liabilities over total assets as at the respective balance sheet dates.

Capital commitments

As at 31 December 2007, the Group had outstanding capital commitments of approximately RMB786,000 (2006: RMB786,000).

Financial resources

As at 31 December 2007, the Group had bank balances and cash of approximately RMB25,802,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances and the listing proceeds.

Capital structure

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2007.

SEGMENTAL INFORMATION

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

EMPLOYEE INFORMATION

As at 31 December 2007, the Group had 373 full time employees, comprising 71 in administration an finance, 30 in research and development and customer services, 190 in sales, 70 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 31 December 2007.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2007, the assets with a total net book value of approximately RMB15,710,000 (2006: RMB16,939,000) were pledged as collateral for the Group's bank loans.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed herein, the Group did not have any details of future plans for material investment or capital assets as at 31 December 2007.

FOREIGN EXCHANGE EXPOSURE

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

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2007 (2006: Nil).

DIRECTORS' REPORT

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 31 December 2007.

PRINCIPAL ACTIVITIES

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

SEGMENTAL INFORMATION

An analysis of the Group's turnover and results by products for the year ended 31 December 2007 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 76.2% of the Group's purchases. The largest supplier accounted for approximately 34.6% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 38.2% of the total turnover. The largest customer accounted for approximately 12.1% of the turnover of the Group.

None of the directors, the supervisors, their associates or any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital had any interest in the five largest suppliers or customers.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 24.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2007.

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 64. 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 27 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 31 December 2007 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. 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, Mr. Li Guang Ming, Mr. Li Quan Sheng, Mr. Zhang Yu Chuan and Mr. Han Ruo Pin shall retire but they do not seek for re-election at the forthcoming annual general meeting. Details of which is disclosed in the circular which is sent to Shareholders together with this annual report.

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 17 May 2007, except Mr. Li Wen Jun is commencing on 20 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 17 May 2007. Under each service contract, subject to shareholders' approval in general meeting, either party may terminate the contract at any time by giving to the other not less than 3 months' prior written notice.

DISCLOSURES OF INTEREST

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

As at 31 December 2007, 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 31 December 2007.

2. **Substantial Shareholders**

So far as the Directors are aware, as at 31 December 2007, 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
Princeps MB Asset Management Corp.	Beneficial owner	11,416,000 H shares	5.70%	2.20%

DIRECTORS' RIGHT TO ACQUIRE H SHARES

As at 31 December 2007, none of the Directors, supervisors and chief executive of the Company was granted options to subscribe for H shares of the Company. As at 31 December 2007, 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 31 December 2007.

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

Except for the deviations disclose below, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in the GEM Listing Rules during the year under review.

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.

AUDITORS

The consolidated financial statements for the years ended 31 December 2005 and 2006 were audited by Deloitte Touche Tohmatsu and SHINEWING (HK) CPA Limited respectively.

On 18 February 2008, SHINEWING (HK) CPA Limited resigned as auditors of the Company and Yeung, Chan & Associates CPA Limited were appointed by the directors to fill the casual vacancy so arising and the consolidated financial statements for the year ended 31 December 2007 were audited by Yeung, Chan & Associates CPA Limited. A resolution for the re-appointment of Yeung, Chan & Associates 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, 31 March 2008

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 2007 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, 31 March 2008

CORPORATE GOVERNANCE REPORT

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

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors of the Company, all Directors of the Company confirm that they complied with such code of conduct throughout the period from the listing date of the Company to 31 December 2007.

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 31 December 2007, 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 five meetings in 2007 and the following table sets out the attendance of the Board:

Directors	**Attendance**
Executive Directors	
Mr. Li Qi Ming *(Chairman & Chief Executive Officer)*	5/5
Mr. Zhu Qing Feng *(Vice-chairman)*	5/5
Mr. Li Guang Ming	5/5
Mr. Li Wen Jun	5/5
Independent non-executive Directors	
Mr. Gao Xiang Nong	5/5
Mr. Li Quan Sheng	5/5
Mr. Zhang Yu Chuan	5/5

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2007.

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

Except for the deviations disclosed below, the Company has complied with all the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in the GEM Listing Rules during the year under review.

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 2008.

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).

AUDITORS' REMUNERATION

An amount of approximately RMB445,000 (2006: RMB448,000) was charged to the Group's income statement for the year ended 31 December 2007. There was no significant non-audit service assignment undertaken by the auditors during the year.

AUDIT COMMITTEE

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants, written terms of reference which describe the authority and duties of the audit committee were prepared and adopted by the Board of the Company. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the directors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the audited annual result of the Company for the year ended 31 December 2007.

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

The audit committee comprises three independent non-executive Directors, namely Mr. Gao Xiang Nong, Mr. Li Quan Sheng and Mr. Zhang Yu Chuan.

The audit committee held four meetings in 2007, which were attended by all members. The Group's 2007 first and third quarterly reports, 2007 half-yearly report and 2006 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 2007 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.

INDEPENDENT AUDITOR'S REPORT

Y C & A
Certified Public Accountants
楊陳會計師事務所有限公司
YEUNG, CHAN & ASSOCIATES CPA LIMITED

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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 incorporated in the People's Republic of China)

We have audited the financial statements of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") set out on pages 24 to 63, which comprise the consolidated balance sheet as at 31 December 2007, 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 FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these 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 true and fair presentation of 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body 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 as described in the basis for qualified opinion, 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Scope limitation-Prior year's audit scope limitations for the year ended 31 December 2006 affecting opening balances

The former auditors issued a disclaimer of opinion on the financial statements of the Group for the year ended 31 December 2006 for the significance of possible effects of certain limitations on the scope of their audit as further detailed in their independent auditors' report dated 30 March 2007. In summary, those scope limitations included:

(a) Neither certain accounting records of sales transactions nor direct confirmations from the customers was available to confirm the validity, accuracy and completeness of certain sales to customers located in the People's Republic of China (the "PRC") amounting to RMB72,059,000;

(b) Inadequate direct confirmations from certain debtors and financial information to confirm the existence, accuracy and recoverability of trade receivables of balances of approximately RMB75,772,000, net of allowance of RMB2,013,000;

(c) Inadequate direct confirmations and financial information to confirm the existence, accuracy and recoverability of other receivables, deposits and prepayments of balances of approximately RMB29,058,000, net of allowance of RMB3,773,000;

(d) Insufficient information to confirm the carrying value of inventories of approximately RMB18,491,000, net of allowance of RMB1,326,000; and

(e) Inadequate direct confirmations from certain creditors and financial information to confirm the existence and accuracy of trade and other payables of approximately RMB39,980,000 and unrecorded liabilities as at 31 December 2006.

Any adjustments found to be necessary in respect of the above scope limitations as at 31 December 2006 would have had a consequential impact on the net assets of the Group as at 31 December 2006, the results of the Group for the years ended 31 December 2007 and 2006 and the related disclosures thereof in the financial statements.

QUALIFIED OPINION ARISING FROM LIMITATION OF AUDIT SCOPE

In our opinion, except for the effect on the consolidated financial statements of the matters described in the basis for qualified opinion paragraph, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

MATERIAL UNCERTAINTY CONCERNING GOING CONCERN BASIS OF ACCOUNTING

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements, which indicates that the Group incurred a loss attributable to the equity holders of the Company of RMB63,757,000 for the year ended 31 December 2007. The consolidated financial statements of the Group have been prepared on a going concern basis in the light of existence of a written intention of continuing financial support from two major shareholders of the Company and written intentions of not withdrawing the guarantees from a director and third parties. Notwithstanding, the validity of the consolidated financial statements being prepared on a going concern basis depends upon the success of the measures to improve profitability and cash flows, the successful renewal and/or extension of certain bank loans. These conditions, along with other matters as set forth in note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

YEUNG, CHAN & ASSOCIATES CPA LIMITED
Certified Public Accountants
Chan Chun Wai
Practising Certificate Number: P03808

Hong Kong, 31 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	**2007 RMB'000**	2006 RMB'000
Turnover	6	**97,056**	72,059
Cost of sales		**(80,977)**	(55,058)
Gross profit		**16,079**	17,001
Other operating income	8	**5,116**	1,071
Distribution and selling expenses		**(6,228)**	(5,532)
General and administrative expenses		**(17,636)**	(18,378)
Other operating expenses		**(122)**	(70)
Allowance for bad and doubtful debts		**(59,547)**	(3,516)
Impairment loss on interest in a jointly controlled entity		**–**	(647)
Share of loss of a jointly controlled entity		**–**	(42)
Finance costs	9	**(4,644)**	(3,500)
Loss before taxation		**(66,982)**	(13,613)
Income tax expenses	12	**(18)**	(271)
Loss for the year	13	**(67,000)**	(13,884)
Attributable to:			
Equity holders of the Company		**(63,757)**	(13,221)
Minority interests		**(3,243)**	(663)
		(67,000)	(13,884)
Dividend	14	**–**	–
Loss per share			
Basic	15	**(12.26) cents**	(2.54) cents

The notes on pages 30 to 63 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	16	**20,469**	22,643
Prepaid lease payments	17	**2,471**	2,553
Interest in a jointly controlled entity	18	**–**	–
Other financial assets	19	**525**	1,225
Long-term receivables	20	**1,300**	2,800
Loan receivables	21	**–**	–
		24,765	29,221
Current assets			
Inventories	22	**14,846**	18,491
Trade receivables	23	**39,097**	75,772
Other receivables, deposits and prepayments	24	**6,587**	29,058
Prepaid leases payments	17	**82**	82
Amount due from a jointly controlled entity	25	**–**	–
Amount due from a shareholder	26	**500**	500
Amounts due from directors	27	**1,836**	969
Pledged bank deposit	28	**3,618**	3,696
Bank balances and cash	29	**25,802**	24,381
		92,368	152,949
Current liabilities			
Trade and other payables	30	**53,925**	39,980
Tax liabilities		**7,177**	7,247
Bank borrowings	31	**27,280**	31,910
Obligations under finance leases	32	**–**	32
		88,382	79,169
Net current assets		**3,986**	73,780
Total assets less current liabilities		**28,751**	103,001
Non-current liabilities			
Bank Borrowings	31	**20,000**	26,500
Government grants received	33	**–**	750
		20,000	27,250
Net assets		**8,751**	75,751

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	**2007 RMB'000**	2006 RMB'000
Capital and reserves			
Paid-in capital	34	**52,000**	52,000
Reserves	35	**(44,010)**	19,747
Equity attributable to equity holders of the Company		**7,990**	71,747
Minority interests		**761**	4,004
		8,751	75,751

The consolidated financial statements on pages 24 to 63 were approved and authorised for issue by the Board of Directors on 31 March 2008 and are signed on its behalf by:

Li Qi Ming	**Zhu Qing Feng**
Director	*Director*

The notes on pages 30 to 63 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Attributable to equity holders of the Company							
	Paid-in capital RMB'000 (Note 34)	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note 35)	Statutory public welfare fund RMB'000 (Note 35)	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	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 31 December 2006	52,000	17,574	5,908	2,955	(6,690)	71,747	4,004	75,751
Loss for the year	–	–	–	–	(63,757)	(63,757)	(3,243)	(67,000)
At 31 December 2007	52,000	17,574	5,908	2,955	(70,447)	7,990	761	8,751

The notes on pages 30 to 63 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi Yuan thousands except otherwise stated)

	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(66,982)**	(13,613)
Adjustments for:		
Share of loss of a jointly controlled entity	**–**	42
Government grants income	**(3,700)**	(252)
Bank interest income	**(139)**	(41)
Finance costs	**4,644**	3,500
Depreciation of property, plant and equipment	**2,614**	2,785
Amortisation of prepaid lease payments	**82**	82
Impairment loss on interest in a jointly controlled entity	**–**	647
(Gain)/loss on disposal of property, plant and equipment	**(4)**	32
Allowance for obsolete inventories	**2,179**	2,346
Allowance for bad and doubtful debts	**59,547**	3,516
Operating cash flows before movements in working capital	**(1,759)**	(956)
Decrease in inventories	**1,466**	1,640
Increase in trade receivables	**(6,210)**	(26,456)
Decrease/(increase) in other receivables, deposits and prepayments	**3,083**	(17,814)
Decrease in notes receivable	**–**	200
Increase in amount due from a jointly controlled entity	**–**	(87)
Increase in amount due from a shareholder	**–**	(200)
Increase in amounts due from directors	**(867)**	(969)
Increase/(decrease) in trade and other payables	**13,195**	(2,112)
Cash generated from/(used in) operations	**8,908**	(46,754)
PRC Enterprise Income Tax paid	**(88)**	(296)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**8,820**	(47,050)
INVESTING ACTIVITIES		
Interest received	**139**	41
Purchase of property, plant and equipment	**(997)**	(1,060)
Proceeds on disposal of property, plant and equipment	**561**	–
Decrease /(increase) in pledged bank deposit	**78**	(3,696)
NET CASH USED IN INVESTING ACTIVITIES	**(219)**	(4,715)

The notes on pages 30 to 63 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

(Expressed in Renminbi Yuan thousands except otherwise stated)

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(3,941)**	(3,318)
Finance lease charge	**(3)**	(7)
Capital contribution from a minority shareholder of a subsidiary	**–**	200
New bank borrowings raised	**26,980**	61,970
Repayment of bank borrowings	**(38,110)**	(29,660)
Decrease/(increase) in long-term receivables	**1,500**	(2,800)
Payment of loan arrangement fee	**–**	(2,100)
Prepayment from a supplier	**2,726**	–
Repayment to a director	**–**	(621)
Government grants received	**3,700**	402
Repayment of obligations under finance leases	**(32)**	(97)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(7,180)**	23,969
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**1,421**	(27,796)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**24,381**	52,177
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Represented by bank balances and cash	**25,802**	24,381

The notes on pages 30 to 63 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

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.

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") below, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 March 2006 or 1 January 2007.

HKFRS 7	Financial Instruments: Disclosure
HKAS 1 Amendment	Capital Disclosure
HK(IRFIC) – Int 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRS had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

The impact of the adoption of HKFRS 7 "Financial Instruments: Disclosure" and the HKAS 1 Amendment "Capital Disclosure" has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital.

(Expressed in Renminbi Yuan thousands except otherwise stated)

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS *(Cont'd)*

Certain new standards, amendments and interpretations to the published standards are mandatory for accounting period beginning on or after 1 March 2007 or later periods. The Group was not required to adopt these new standards, amendments and interpretations in the financial statements for the year ended 31 December 2007 as below:

HKAS 23 (Revised)	Borrowing Costs[1]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Shares Transactions[2]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 March 2007.
3 Effective for annual periods beginning on or after 1 January 2008.
4 Effective for annual periods beginning on or after 1 July 2008.

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

Going concern basis

The Group incurred a loss attributable to the equity holders of the Company of RMB63,757,000 for the year ended 31 December 2007. Nevertheless, the directors have adopted the going concern basis in the preparation of these consolidated financial statements based on the following:

(a) The written intention of continuing financial support provided by the Group's two major shareholders, namely Mr Li Qi Ming and Mr Zhu Qing Feng in the future 12 months from the date of approval of the consolidated financial statements;

(b) As disclosed in note 31, certain bank loans of RMB27,280,000, are due for repayment in 2008. Subsequent to the balance sheet date, bank loans of RMB3,480,000 have been rolled over and will be due for repayment in 2009 and none of the banks have withdrawn their facilities granted to the Group to date. The directors are of the opinion that, the Group will succeed in negotiating with its bankers to renew its outstanding bank loans as they fall due and/or to extend their repayment terms to meet its future working capital and financial requirements. Nevertheless, the Group is also actively exploring the availability of alternative sources of financing;

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Going concern basis *(Cont'd)*

(c) Mr Li Qi Ming, 深圳中科智擔保投資有限公司 and 四會市裕豐發展有限公司 (collectively the "Guarantors") have written intentions of not withdrawing the guarantees granted to Group's bank borrowings of RMB26,500,000 as at 31 December 2007 (Note 31). The directors are of the opinion that, the Guarantors will continue to provide assistance to procure the Group in obtaining adequate banking facilities; and

(d) The Group will undergo new business strategies in 2008 to improve its profitability and cash flows. New business strategies include exploring new income streams by exploitation of new technologies developed by the Group during prior years.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and remain as a going concern in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

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 any 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.

Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

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

Interest in a jointly controlled entity

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Interest in a jointly controlled entity *(Cont'd)*

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.

Rental income is recognised in accordance with the terms of agreement.

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.

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%

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Property, plant and equipment *(Cont'd)*

Residue values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet.

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.

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.

No development costs have been deferred during the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method, and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisation value is based on estimated selling prices less any estimated cost to be incurred to completion and disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exits, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount , the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Provisions and contingent liabilities *(Cont'd)*

Contingent liabilities are recognized in the course of the allocation of purchases price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognized in a comparable provision as described above and the amount initially recognized less any accumulated amortization, if appropriate.

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 and 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.

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 receivables, deposits and prepayments, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables and obligation under finance leases are subsequently measure at amortised cost, using the effective interest method, unless the effect of discounting is immaterial, in which case they are stated at cost. The related interest expense is recognized within finance cost in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modeified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

Equity Instruments

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Taxation *(Cont'd)*

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.

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 the 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 financial 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

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

Pursuant to the relevant regulations of the PRC government, the Group participates in a local municipal government retirement benefits scheme (the "Scheme"), whereby the Group is required to contribute a certain percentage of the basis salaries of its employees to the Scheme to fund their retirement benefits. The local municipal government undertakes to assume the retirement benefits obligations of all existing and future retired employees of the Group. The only obligation of the Group with respect to the Scheme is to pay the ongoing required contributions under the Scheme mentioned above. Contributions under the Scheme are charged to the income statement as incurred. There were no provisions under the Scheme whereby forfeited contributions may be used to reduce future 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.

Related parties

A party is considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party:

- controls, is controlled by, or is under common control with, the Company or the Group;
- has an interest in the Company that gives it significant influence over the Company or the Group; and
- has joint control over the Company or the Group.

(ii) the party is an associate;

(iii) the party is a jointly-controlled entity;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Company or Group, or of any entity that is a related party of the Company or Group.

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 judgements 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 judgement. A considerable amount of judgement 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 RMB59,547,000 was recognised during the year (2006: RMB3,516,000).

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes provision and 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 provision and allowance for obsolete items amounting to RMB2,179,000 (2006: RMB2,346,000).

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, amount due from a jointly controlled entity, amounts due from a shareholder/directors, pledged bank deposits, bank balances and cash, trade and other payables and bank 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 these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31 December 2007 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 38.2% (2006: 36.30%) 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 counterparties are banks with high credit-ratings.

Currency risk

Currency risk to the Group is minimal as most of the Group's transactions are carried out in Renminbi.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Cont'd)*

Interest rate risk

Interest rate risk reflects the risk 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.

Liquidity risk and capital management

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities and capital management. The Group's capital management objective are to safeguard the Group's ability to continue as a going concern and to provide an adequate return to shareholders commensurately with the level of risk. The Group manages liquidity risks by monitoring its liquidity position through periodic preparation of cash flows and cash balances forecasts and periodic evaluation of the ability of the Group and the Company to meet its financial obligations, measured by the debt-to-equity capital ratio, which is calculated as net debt over total equity. Net debt is calculated as total debt less cash and cash equivalents.

	2007 **RMB'000**	2006 RMB'000
Total debt	**108,382**	106,419
Less: Cash and cash equivalents	**(25,802)**	(24,381)
Net debt	**82,580**	82,038
Total equity	**8,751**	75,751
Net debt-to-adjusted capital ratio	**944%**	108%

To meet these abjectives, the Group manages the equity capital structure and makes adjustments to it in the light of changes in economic conditions by issuing new equity shares and raising or repaying debts as appropriate.

Fair value

The carrying amount of the Group's major financial instruments approximates their fair value due to their immediate or short-term 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:

	2007 **RMB'000**	2006 RMB'000
Sales of cards	**87,190**	63,587
Sales of non-card products	**9,866**	8,472
	97,056	72,059

7. SEGMENT INFORMATION

Business segments

For management purpose, the Group's products are divided into two kinds, namely card and non-card products. Card 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 31 December 2007

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
External sales	87,190	9,866	97,056
Result			
Segment results	(66,904)	(285)	(67,189)
Unallocated bank interest income			139
Unallocated other operating income			4,977
Unallocated corporate expenses			(265)
			(62,338)
Finance costs			(4,644)
Loss before taxation			(66,982)
Income tax expenses			(18)
Loss for the year			(67,000)
Other information			
Capital expenditure	984	13	997
Depreciation	2,504	110	2,614
Allowance for bad and doubtful debts	57,327	2,220	59,547
Allowance/(reversal of) for obsolete inventories	2,254	(75)	2,179
Gain on disposal of property, plant and equipment	(4)	–	(4)
Amortisation of prepaid lease payments	82	–	82
Assets			
Segment assets	99,967	3,818	103,785
Unallocated assets			13,348
Consolidated total assets			117,133
Liabilities			
Segment liabilities	37,354	3,378	40,732
Unallocated liabilities			67,650
Consolidated total liabilities			108,382

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

7. SEGMENT INFORMATION *(Cont'd)*

Business segments *(Cont'd)*

For the year ended 31 December 2006

	Cards 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

Balance sheet as at 31 December 2006

	Cards 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			65,657
Consolidated total liabilities			106,419

7. SEGMENT INFORMATION *(Cont'd)*

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

	2007 RMB'000	2006 RMB'000
Government grants income (Note (a))	**3,700**	252
Rental income (Note (b))	**613**	–
Consultancy income	**513**	516
Bank interest income	**139**	41
Gain on disposals of property, plant and equipment	**4**	–
Others	**147**	262
	5,116	1,071

Note: (a) The government grants were given unconditionally for the purpose of immediate financial support to the Group's research and development project which is considered as high technology project by the government authority.

(b) The rental income represents the gross rental of Group's rented office premise being further sub-let to a third party.

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**3,941**	3,318
Imputed interest expense on other financial assets (Note 19)	**700**	175
Finance leases charge	**3**	7
	4,644	3,500

No interest was capitalised during the both years.

(Expressed in Renminbi Yuan thousands except otherwise stated)

10. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2006: nine) directors were as follows:

	Li Qi Ming RMB'000	Li Guang Ming RMB'000	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Gao Xiang Nong RMB'000	Li Quan Sheng RMB'000	Zhang Yu Chuan RMB'000	Total RMB'000
For the year ended 31 December 2007								
Fees								
Other emoluments								
Salaries and other benefits	377	1	79	–	12	12	12	493
Retirement benefits schemes contributions	13	–	4	–	–	–	–	17
Total emoluments	390	1	83	–	12	12	12	510

	Li Qi Ming RMB'000	Li Guang Ming RMB'000	Guo Bao An (Note 1) RMB'000	Wang Zheng Guo (Note 1) RMB'000	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Gao Xiang Nong RMB'000	Li Quan Sheng RMB'000	Zheng Yu Chuan RMB'000	Total RMB'000
For the year ended 31 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

Note 1: Resigned on 23 June 2006.

11. FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with highest emoluments in the Group, one (2006: one) was director of the Company whose emoluments are included in the disclosure in Note 10 above. The emoluments of the remaining four (2006: four) individuals were as follows:

	2007 RMB'000	2006 RMB'000
Salaries and other benefits	**983**	838
Retirements benefits schemes contributions	**39**	35
	1,022	873

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

Their emoluments were within the following bands:

	2007 No. of employees	2006 No. of employees
Nil of RMB1,000,000	**4**	4

12. INCOME TAX EXPENSES

	2007 RMB'000	2006 RMB'000
The tax charge comprises:		
PRC Enterprise Income Tax	**18**	459
Over-provision in prior year	**–**	(188)
	18	271

No provision for Hong Kong profits tax has been made as the Company and its subsidiaries have not generated any assessable profits in Hong Kong during the year (2006: Nil). Taxes on profits assessable in Mainland China, where the Group operates, have been calculated at the rates of tax prevailing in Mainland China, based on existing legislation, interpretations and practices in respect thereof. According to the relevant PRC Income Tax Law, the Company and its subsidiaries, being registered as new and high technology enterprises in Shenzhen and Sihui are entitled to concessionary Income Tax rates of 15% (2006: 15%). The subsidiaries in Beijing and Guangzhou are subject to Income Tax rates of 33% (2006: 33%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

12. INCOME TAX EXPENSES *(Cont'd)*

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

	2007 RMB'000	2006 RMB'000
Loss before taxation	**(66,982)**	(13,613)
Tax at applicable income tax rate of 15%	**(10,047)**	(2,042)
Overprovision in prior year	**–**	(188)
Tax effect of expenses not deductible for tax purpose	**9,291**	134
Effect of different tax rates of subsidiaries	**(66)**	(553)
Tax effect of tax losses not recognised	**840**	2,903
Others	**–**	17
Tax charge for the year	**18**	271

The Group had no significant unprovided deferred taxation as at 31 December 2007 and 31 December 2006.

At 31 December 2007, the Group has unused tax losses of RMB16,776,000 (2006: RMB11,735,000) 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. The tax losses are available for 5 years for offsetting against future taxable profts on companies in which the losses arose.

13. LOSS FOR THE YEAR

	2007 RMB'000	2006 RMB'000
Loss for the year has been arrived at after charging/(crediting):		
Depreciation		
– owned assets	**2,614**	2,739
– assets held under finance leases	**–**	46
	2,614	2,785
Amortisation of prepaid lease payments	**82**	82
Auditors' remuneration	**445**	448
Loss on disposal of property, plant and equipment	**–**	32
Allowance for bad and doubtful debts	**59,547**	3,516
Allowance for obsolete inventories	**2,179**	2,346
Research and development costs	**1,523**	1,064
Net exchange losses	**135**	336
Staff costs including directors' emoluments (Note 10)	**11,830**	9,972

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

14. DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2007 and 2006, 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 Company of approximately RMB63,757,000 (2006: RMB13,221,000) and the weighted average of 520,000,000 (2006: 520,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for two years ended 31 December 2007 and 2006 as there were no diluting events existed during those years.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvement, furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 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 31 December 2006 and 1 January 2007	19,211	23,085	5,710	2,624	8,518	59,148
Additions	14	687	289	7	–	997
Disposals	–	(1,901)	(2,448)	(1,309)	–	(5,658)
At 31 December 2007	19,225	21,871	3,551	1,322	8,518	54,487
DEPRECIATION AND IMPAIRMENT						
At 1 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 31 December 2006 and 1 January 2007	6,146	15,668	4,479	1,694	8,518	36,505
Provided for the year	719	1,283	417	195	–	2,614
Eliminated on disposals	–	(1,749)	(2,259)	(1,093)	–	(5,101)
At 31 December 2007	6,865	15,202	2,637	796	8,518	34,018
CARRYING VALUES						
At 31 December 2007	12,360	6,669	914	526	–	20,469
At 31 December 2006	13,065	7,417	1,231	930	–	22,643

16. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

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

The carrying value of the Group's motor vehicles in respect of assets held under finance leases is RMB Nil (2006: RMB249,000).

The carrying value of the Group's buildings includes an amount of RMB5,227,000 (2006: RMB5,573,000) 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 carrying value of the Group's building, plant and machinery which are pledged to secure banking facilities granted to the Group is RMB9,539,000 (2006: RMB10,608,000) (Note 37(a)).

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:

	2007 **RMB'000**	2006 RMB'000
Current portion	**82**	82
Non-current portion	**2,471**	2,553
	2,553	2,635

The above land use rights are pledged to secure banking facilities granted to the Group.

18. INTEREST IN A JOINTLY CONTROLLED ENTITY

	2007 RMB'000	2006 RMB'000
Cost of investment in an unlisted jointly controlled entity	**836**	836
Share of post-acquisition loss	**(189)**	(189)
	647	647
Less: accumulated impairment	**(647)**	(647)
	–	–

As at 31 December 2007, the Group had interest in the following jointly controlled entity:

Name of entity	Place of incorporation/ and operation	Class of share held	Issued and fully paid registered capital	Proportion of registered capital held by the Group	Principal activities
四會新概念電子科技有限公司 New Concept Technology Limited	PRC	Contributed capital	US$101,018	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:

	2007 RMB'000	2006 RMB'000
Non-current assets	**1,179**	1,179
Current assets	**102**	3,810
Current liabilities	**3,787**	3,669
Income	**–**	–
Expenses	**37**	86

(Expressed in Renminbi Yuan thousands except otherwise stated)

19. OTHER FINANCIAL ASSETS

The balance represents the loan arrangement fee paid in 2006 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 ended 31 December 2006. Details of bank borrowings are disclosed in Note 31.

	2007 **RMB'000**	2006 RMB'000
Current portion (included in other receivables, deposits and prepayments (Note 24))	**700**	700
Non-current portion	**525**	1,225
	1,225	1,925
Imputed interest amortised for the year (Note 9)	**700**	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 represents the deposit paid in 2006 to a third party, 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 ended 31 December 2006. Details of bank borrowing the 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:

	2007 **RMB'000**	2006 RMB'000
Current portion	**894**	894
Non-current portion	**2,326**	2,326
	3,220	3,220
Less: accumulated impairment	**(3,220)**	(3,220)
	–	–

The amounts are unsecured, interest-free, and repayable in accordance with the agreed terms.

22. INVENTORIES

	2007 RMB'000	2006 RMB'000
Raw materials	**13,825**	10,077
Work-in-progress	**1,081**	1,380
Finished goods	**3,445**	8,360
	18,351	19,817
Less: accumulated impairment	**(3,505)**	(1,326)
	14,846	18,491

The cost of inventories recognised as expense and included in the cost of sales amounted to approximately RMB80,464,000 (2006: approximately RMB55,058,000). As at 31 December 2007, inventories of RMB7,331,000 were carried at net realisable value (2006: RMB403,000).

23. TRADE RECEIVABLES

	2007 RMB'000	2006 RMB'000
Trade receivables	**83,995**	77,785
Less: accumulated impairment	**(44,898)**	(2,013)
	39,097	75,772

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:

	2007 RMB'000	2006 RMB'000
1–90 days	**14,137**	13,874
91–180 days	**3,632**	6,148
181–365 days	**5,490**	10,604
Over 365 days	**15,838**	45,146
	39,097	75,772

The fair value of the Group's trade receivables as at 31 December 2007 approximates to the corresponding carrying amount.

(Expressed in Renminbi Yuan thousands except otherwise stated)

24. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2007	2006
	RMB'000	RMB'000
Advance to suppliers	**10,431**	13,157
Loan receivables (Note 21)	**–**	–
Other financial assets (Note 19)	**700**	700
Other debtors, deposits and prepayments	**12,698**	15,781
	23,829	29,638
Less: accumulated impairment	**(17,242)**	580
	6,587	29,058

The fair value of the Group's other receivables, deposits and prepayments as at 31 December 2007 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. The balance has been fully written off to the consolidated income statement for the year ended 31 December 2006.

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 DIRECTORS

Loans to officers disclosed pursuant to section 161B of the Companies Ordinance are as follows:

	Maximum amount outstanding during the year	**Balance at 31/12/2007**	**Balance at 31/12/2006**
	RMB'000	RMB'000	RMB'000
Li Qi Ming	1,836	1,836	965
Li Wen Jun	4	–	4
		1,836	969

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

28. PLEDGED BANK DEPOSIT

The amount represented deposit pledged to a bank to secure short-term bank borrowings (Note 37(a)). The deposit 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 be subject to any restriction.

30. TRADE AND OTHER PAYABLES

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

	2007	2006
	RMB'000	RMB'000
1–90 days	**19,591**	12,463
91–180 days	**2,250**	1,301
181–365 days	**2,708**	2,657
Over 365 days	**7,891**	9,428
Trade payables	**32,440**	25,849
Value-added tax payable	**9,524**	3,659
Deposits from customers	**50**	2,587
Other payables	**11,911**	7,885
	53,925	39,980

The fair value of the Group's trade and other payables as at 31 December 2007 approximates to the corresponding carrying amount.

31. BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
Bank loans:		
Secured	**41,580**	51,710
Unsecured	**5,700**	6,700
	47,280	58,410

Carrying amount repayable:

	2007 RMB'000	2006 RMB'000
Within one year	**27,280**	31,910
More than one year, but not exceeding two years	**20,000**	6,500
More than two years, but not exceeding five years	**–**	20,000
	47,280	58,410
Less: Amount due within one year shown under current liabilities	**(27,280)**	(31,910)
	20,000	26,500

Included in bank borrowings were unsecured bank loans guaranteed by:

	2007 RMB'000	2006 RMB'000
Mr. Li Qi Ming, a director of the Company and 深圳鑫德勤擔保有限公司 (2006: 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.) (Note 40(b) & (c))	**5,700**	6,700

31. BANK BORROWINGS *(Cont'd)*

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

	2007 RMB'000	2006 RMB'000
Fixed-rate bank borrowings		
Within one year	**20,780**	30,410
Variable-rate bank borrowings		
Within one year	**6,500**	1,500
In more than one year but not more than two years	**20,000**	6,500
In more than two years but not more than three years	**–**	20,000
	26,500	28,000

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

	2007 RMB'000	2006 RMB'000
Effective interest rate		
Fixed-rate borrowings	**6.732% – 8.019%**	6.215% – 7.344%
Variable-rate borrowings	**6.93%**	6.93%

In addition, the Group has variable-rate bank 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 bank borrowings are denominated in Renminbi.

The amount represents the balance of bank loans of RMB28,000,000 borrowed from Shenzhen Commercial Bank Co.,Ltd. in 2006. Pursuant to the guarantee contracts signed in 2006, 深圳中科智 provided guarantees in favour of Shenzhen Commercial Bank Co., Ltd. of RMB28,000,000 to secure the bank loan granted to the Group. In return, the Group should fulfill the following five conditions in order to obtain the guarantee from 深圳中科智:

a) Payment of RMB2,100,000, equivalent to 7.5% of the loan amounts, 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)):

31. BORROWINGS *(Cont'd)*

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 properties to 深圳中科智 as security (Note 40(d));

d) Payment of RMB2,800,000, equivalent to 10% of the loan amounts, to 深圳中科智 as the pledged deposit (Note 20). This deposit would be released upon the settlement of the bank loan in September 2009. During the year ended 31 December 2007, 深圳中科智 released a pledged deposit of RMB1,500,000 for the repayment of the bank loan on behalf of the Group; and

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

32. OBLIGATIONS UNDER FINANCE LEASES

	Maximum lease payments		Present value of minimum lease payments	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases:				
Within one year	–	35	–	32
Less: future finance charges	–	(3)		
Present value of lease obligations	–	32		
Less: amount due for settlement within twelve months (shown under current liabilities)			–	(32)
Amount due for settlement after twelve months			–	–

The average lease term is 5 years (2006: 5 years). The average effective borrowing rate was 0.42% (2006: 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 in 2006 are secured by the lessor's charge over the leased assets.

All finance lease obligations are denominated in Renminbi.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

33. GOVERNMENT GRANTS RECEIVED

	2007	2006
	RMB'000	RMB'000
科技研究開發項目經費	**–**	750

In accordance with the notices issued by 廣東省財政廳 and 四會市科學技術局, the 2006 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".

34. PAID-IN CAPITAL

	2007	2006
	RMB'000	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 17 May 2001, the registered capital for the Company was increased from RMB21,800,000 to RMB33,800,000 divided into 33,800,000 Domestic shares with a nominal amount of RMB1 each.

The Company had on 1 July 2002 submitted an application to the China Securities Regulatory Commission (the "CSRC") for approval of the subdivision of each Domestic share with a nominal value of RMB0.1 each. The share subdivision was approved and granted by the CSRC on 5 May 2003. Accordingly, each Domestic share of RMB1 will on the listing date be sub-divided into 10 Domestic shares of RMB0.1.

Taking into account of the placing of H shares became unconditional, and immediately following completion of the placing and the share subdivision had taken effect, but without taking into account the H shares to be issued pursuant to the exercise of the offer size adjustment option under the placing, the registered capital of the Company will be increased from RMB33,800,000 to RMB52,000,000 divided into 319,800,000 Domestic shares of RMB0.1 each and 200,200,000 H shares of RMB0.1 each (including 18,200,000 H shares be converted from Domestic shares).

On 7 July 2004, 200,200,000 H shares were issued at a price of RMB0.28 per share.

35. RESERVES

(i) Basis of appropriations to reserves

The transfer to statutory surplus reserve and statutory public welfare fund are based on the profit under the financial statements prepared in accordance with the 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 1 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 1 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 31 December 2007, 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:

	2007 **RMB'000**	2006 RMB'000
Retirement benefit schemes contributions	**1,057**	915

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan thousands except otherwise stated)

37. PLEDGE OF ASSETS

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

	2007 RMB'000	2006 RMB'000
Buildings, plants and machinery (Note 16)	**9,539**	10,608
Prepaid lease payments (Note 17)	**2,553**	2,635
Bank deposits (Note 28)	**3,618**	3,696
	15,710	16,939

(b) The following equity interests in the Company's 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 31 December 2007** RMB'000
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	80	(2,629)
廣州市明華澳漢科技有限公司 Guangzhou Mingwah Aohan High Technology Co., Ltd.	90	107
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	80	1,207
四會市明華澳漢科技有限公司 Sihui Mingwah Aohan High Technology Co., Ltd.	80	1,719

38. CAPITAL COMMITMENT

	2007 RMB'000	2006 RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	**786**	786

39. OPERATING LEASE ARRANGEMENT

	2007	2006
	RMB'000	RMB'000
Minimum lease payments paid under operating leases for the rented premises	**1,574**	1,430

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:

	2007	2006
	RMB'000	RMB'000
Within one year	**874**	790
In the second to fifth years inclusive	**254**	773
	1,128	1,563

Leases for office premises are negotiated for an average of three years (2006: three years) and rentals are fixed for an average of three years (2006: three years).

40. RELATED PARTY TRANSACTIONS

(a) Compensation of key management personnel

The remuneration of directors and other members of key management during the year were as follows:

	2007	2006
	RMB'000	RMB'000
Short-term benefits	**493**	643
Post-employment benefits	**17**	11
	510	654

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 two guarantee contracts entered during 2007 and 2006, Mr. Li Qi Ming and 深圳鑫德勤擔保有限公司 provided guarantees in favour of Fujian Industrial Bank Co., Ltd. of RMB5,700,000 to secure certain banking facilities granted to the Group. As at 31 December 2007, a bank loan of RMB5,700,000 is borrowed from Fujian Industrial Bank Co., Ltd. (Note 31).

(Expressed in Renminbi Yuan thousands except otherwise stated)

40. RELATED PARTY TRANSACTIONS *(Cont'd)*

(c) Pursuant of two guarantee contracts entered during 2006, Mr. Li Qi Ming and Shenzhen City provided guarantees in favour of Industrial Bank Corporation of RMB6,700,000 to secure certain banking facilities granted to the Group. As at 31 December 2006, a bank loan of RMB6,700,000 is borrowed from Industries Bank Corporation.

(d) Pursuant to a security 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 borrowings of RMB26,500,000 and RMB28,000,000 as at 31 December 2007 and 2006 respectively (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 borrowings of RMB26,500,000 and RMB28,000,000, as at 31 December 2007 and 2006 respectively.

(f) Pursuant to guarantee contracts entered during 2007, Mr. Li Qi Ming provided guarantees for the bank borrowing of RMB11,600,000 granted to the Group by Guangdong Development Bank Co., Ltd.

41. SUBSIDIARIES

Details of the Company's subsidiaries established as private limited liability companies in the PRC at 31 December 2007 are as follows:

Name of company	Place of registration/ operation	Class of share held	Issued and fully paid registered 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
深圳市明華澳漢科技有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	PRC	Contributed capital	RMB1,000,000	80%	Trading in IC cards, magnetic cards and related equipment

41. SUBSIDIARIES (Cont'd)

Name of company	Place of registration/ operation	Class of share held	Issued and fully paid registered capital	Proportion of ownership interest directly held by the Company	Principal activities
四會市明華澳漢數據安全科技有限公司 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安全科技有限公司 Shenzhen Mingwah Aohan Digital Security Technology 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 (2006: Nil).

42. COMPARATIVE FIGURES

Certain comparatives are reclassified during the year to conform with current year's presentation.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	125,250	142,604	100,313	72,059	**97,056**
Profit (loss) before taxation	14,450	14,627	(25,660)	(13,613)	**(66,982)**
Taxation	(2,935)	(2,378)	(1,194)	(271)	**(18)**
Profit (loss) for the year	11,515	12,249	(26,854)	(13,884)	**(67,000)**
Attributable to:					
Equity holders of the parent	10,514	11,614	(26,487)	(13,221)	**(63,757)**
Minority interests	1,001	635	(367)	(663)	**(3,243)**
Profit (loss) for the year	11,515	12,249	(26,854)	(13,884)	**(67,000)**

ASSETS AND LIABILITIES

	As at 31 December				
	2003	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	166,021	193,256	166,250	182,170	**117,133**
Total liabilities	(97,755)	(76,967)	(76,815)	(106,419)	**(108,382)**
Equity	68,266	116,289	89,435	75,751	**8,751**
Attributable to:					
Equity holders of the parent	64,067	111,455	84,968	71,747	**7,990**
Minority interests	4,199	4,834	4,467	4,004	**761**
	68,266	116,289	89,435	75,751	**8,751**

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