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

annual report 08

* For identification purpose only

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report, for which the 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. Liu Guo Fei *(appointed on 3 July 2008)*
Mr. Li Guang Ming *(retired on 30 May 2008)*

Independent Non-Executive Directors

Mr. Gao Xiang Nong
Ms. Wang Xiao Hong *(appointed on 3 July 2008)*
Mr. Deng Xiao Bao *(appointed on 3 July 2008)*
Mr. Li Quan Sheng *(retired on 30 May 2008)*
Mr. Zhang Yu Chuan *(retired on 30 May 2008)*

Supervisors

Mr. Li Xiang
Ms. Liu Wei Qun
Mr. He Wei Ming *(appointed on 3 July 2008)*
Mr. Han Ruo Pin *(retired on 30 May 2008)*

AUDIT COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong *(appointed on 3 July 2008)*
Mr. Deng Xiao Bao *(appointed on 3 July 2008)*
Mr. Li Quan Sheng *(retired on 30 May 2008)*
Mr. Zhang Yu Chuan *(retired on 30 May 2008)*

NOMINATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
(appointed on 3 July 2008)
Ms. Wang Xiao Hong *(appointed on 3 July 2008)*
Mr. Deng Xiao Bao *(appointed on 3 July 2008)*

REMUNERATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
(appointed on 3 July 2008)
Ms. Wang Xiao Hong *(appointed on 3 July 2008)*
Mr. Deng Xiao Bao *(appointed on 3 July 2008)*

COMPANY SECRETARY

Miss. Chu Wai Fan

QUALIFIED ACCOUNTANT

Miss. Chu Wai Fan

COMPLIANCE OFFICER

Mr. Li Qi Ming

AUTHORIZED REPRESENTATIVES

Miss. Chu Wai Fan

Mr. Zhu Qing Feng

AUDITORS

KTC Partners 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 1501, Winning Commercial Building,
46-48 Hillwood Road,
Tsimshatsui, Kowloon,
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

Shenzhen Ping An Bank
Fujian Industrial Bank Co., Limited
Guangdong Development Bank

GEM STOCK CODE

8301

To our respectable shareholders,

For and on behalf of the board of directors of the Company (the "Board"), I hereby present the audited annual result of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

REVIEW OF OPERATIONS

For the year ended 31 December 2008, the turnover of the Group amounted to approximately RMB75,271,000 as compared to approximately RMB97,056,000 in the previous year, representing a decrease of 22.4%. Loss attributable to shareholders was approximately RMB5,296,000 as compared to approximately RMB63,757,000 in 2007.

BUSINESS REVIEW

In 2008, negative impact brought by the continuous aggressive pricing competition of domestic card products and the global ecomonic slowdown, had significantly affected the Group's turnover, which led to a decrease in turnover as compared to last year.

In 2008, 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 general savings 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. The Group has also reinforced the marketing of the new WLAN Authentication and Privacy Infrastructure (WAPI) products. 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 WAPI products, and supplied the equipment with successful application for the 2008 Olympic venues, so as to enable WAPI products entering into the market promotion stage. 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, the Smart Card Operating System (SCOS), Radio Frequency Identification (RFID) and WAPI, 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.

In regards of EKEY products, the Company will strengthen the R&D of TOKEN and EKEY+TOKEN (two in one) products to achieve competitive edges in the new high-end market.

The Group, as one of the founders, actively participated in the work of "WAPI Alliance" and expanded into the new high-end market with the assistance of the government, the alliance and the competitive enterprises of the alliance such as China Mobile and China Unicom.

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. The Group will develop the new standard operating system of the "ETC Non-Stop Toll Collection Systems" in accordance with the Ministry of Transportation. We will also develop the non-contact COS systems in accordance with the Ministry of Construction. We will establish a domestic leading team with the capability in UHF design.

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 also plan to develop TOKEN + EKEY (two in one) products.

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. We will develop new TOKEN as complementary products to the existing EKEY products to enlarge the market share in high-end banking field.

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.

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. We will also strengthen the management of distribution corporates and will implement more stringent and effective centralized contract distribution management.

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.

APPRECIATION

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

Li Qi Ming
Chairman

Shenzhen, the PRC, 27 March 2009

DIRECTORS

Executive Directors

李啟明 (Mr. Li Qi Ming), aged 49, 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 43, is the vice-chairman and an executive Director. He graduated from 中央中央黨校 (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 38, 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.

劉國飛 (Mr. Liu Guo Fei), aged 34, obtained a MBA degree from Columbia Southern University (US), and has about 10 years' working experience. Mr. Liu joined the Company in January 1999 and has been a vice-president of the Company since February 2007.

Independent non-executive Directors

高向農 (Mr. Gao Xiang Nong), also known as Mr. Gao Xiang Nong, Paul), aged 39, 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.

王曉紅(Ms. Wang Xiao Hong), aged 38, obtained a BA degree from Jilin University and has over 10 years' working experience in finance, investment and securities industries. Ms. Wang is currently working in Szysl Investments Limited as a deputy general manager.

鄧小寶(Mr. Deng Xiao Bao), aged 53, has over 35 working experience. Mr. Deng has spent much of his time in doing research for the products of heat energy saving and environmental protection, which have been commonly applied and recognised in the industry. Mr. Deng has been a director of Shanghai Hosel Thermal Technology Co. Limited since 1999, and in 2003 Mr. Deng has also been appointed as a general manager of Shenzhen Millhop Motors Holding Limited.

Supervisors

李翔 (Mr. Li Xiang), aged 36, 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.

何偉明(Mr. He Wei Ming), aged 54, currently the manager of the human resources and administrative department of Sihui Mingwah Aohan Technology Company Limtied, a subsidiary of the Company, has been appointed as Supervisor to fill in such vacancy with effect from 3 July 2008.

劉為群 (Ms. Liu Wei Qun), aged 53, 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 35, 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

朱蕙芬 (Miss. Chu Wai Fan), aged 36, 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.

FINANCIAL REVIEW

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB75,271,000, representing a decrease of approximately 22.4% as compared with the turnover of approximately RMB97,056,000 in the previous year. Such a decrease was mainly due to the keen competiton in card product market and the global economic slowdown.

The gross profit of the Group for the year ended 31 December 2008 amounted to approximately RMB22,909,000, with an increase of approximately 42.5% as compared with the gross profit of approximately RMB16,079,000 in the previous year, and the underlying reason of such increases is mainly attributable to the increase in gross profit from non-card products.

For the year ended 31 December 2008, the Group's general and administrative expenses decreased by approximately RMB2,135,000 or approximately 12.1% to approximately RMB15,501,000 as compared with last year. In comparing with the same in 2007, the distribution and selling expenses decreased by approximately 31% from approximately RMB6,228,000 to approximately RMB4,297,000 for the year ended 31 December 2008. The decrease was in line with the decrease in sales.

For the year ended 31 December 2008, loss attributable to shareholders was approximately RMB5,296,000 as compared to a loss of approximately RMB63,757,000 in 2007. The improvement was mainly attributable to the decrease in impairment for trade and other receivables by approximately RMB54,084,000 from approximately RMB59,547,000 to approximately RMB5,463,000 for the year ended 31 December 2008.

For the year ended 31 December 2008, the Group had equity attributable to equity holders of the Company of approximately RMB2,694,000 (2007: RMB7,990,000), bank balances and cash of approximately RMB8,734,000 (2007: RMB25,802,000), current assets of approximately RMB86,055,000 (2007: RMB92,368,000) and current liabilities of approximately RMB104,636,000 (2007: RMB88,382,000). The Group's current ratio (total current assets over total current liabilities) decreased from approximately 1.05 as at 31 December 2007 to approximately 0.82 as at 31 December 2008.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2008, the Group had net current liabilities of approximately RMB18,581,000. Current assets as at 31 December 2008 comprised inventories of approximately RMB9,955,000, trade receivables of approximately RMB42,932,000, other receivables of approximately RMB19,956,000 and bank balances and cash of approximately RMB8,734,000. Current liabilities as at 31 December 2008 comprised trade and other payables of approximately RMB55,324,000, tax liabilities of approximately RMB7,348,000, short-term borrowings of approximately RMB41,964,000.

Gearing ratio

The Group's gearing ratios were approximately 1,140% and 245% as at 31 December 2008 and 31 December 2007 respectively. The calculation of the gearing ratios was shown in note 5 to the consolidated financial statements.

Capital commitments

As at 31 December 2008, the Group had outstanding capital commitments of approximately RMB786,000 (2007: RMB786,000).

Financial resources

As at 31 December 2008, the Group had bank balances and cash of approximately RMB8,734,000. 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

Details of the capital of the Company are set out in notes 32 to the consolidated financial statements.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2008.

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.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Group had 275 full time employees, comprising 44 in administration and finance, 16 in research and development and customer services, 38 in sales, 157 in production, 8 in purchase, and 12 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.

The Company has established a remuneration committee to make recommendations on the overall strategy of remuneration policies.

SIGNIFICANT INVESTMENTS

There is no significant investment held by the Group as at 31 December 2008.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2008, the assets with a total net book value of approximately RMB14,346,000 (2007: RMB15,710,000) 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 2008.

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 2008 (2007: Nil).

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 consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

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 2008 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 82.2% of the Group's purchases. The largest supplier accounted for approximately 51% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 51.7% of the total turnover. The largest customer accounted for approximately 20.5% 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 2008 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 2008.

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 76. This summary does not form part of the audited consolidated 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 33 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 32 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 2008 are set out in notes 31 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 Wen Jun
Mr. Liu Guo Fei (appointed on 3 July 2008)
Mr. Li Guang Ming (retired on 30 May 2008)

Independent non-executive directors

Mr. Gao Xiang Nong
Ms. Wang Xiao Hong (appointed on 3 July 2008)
Mr. Deng Xiao Bao (appointed on 3 July 2008)
Mr. Li Quan Sheng (retired on 30 May 2008)
Mr. Zhang Yu Chuan (retired on 30 May 2008)

Supervisors

Mr. Li Xiang
Ms. Liu Wei Qun
Mr. He Wei Ming (appointed on 3 July 2008)
Mr. Han Ruo Pin (retired on 30 May 2008)

In accordance with the provisions of the Company's Articles of Association, the Directors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon election and re-appointment.

MANAGEMENT CONTRACTS

Mr. Li Qi Ming and Mr. Zhu Qing Feng, as executive directors have entered into service contract with the Company for a term of 3 years commencing on 17 May 2007.

Mr. Li Wen Jun and Mr. Liu Guo Fei, as executive directors have entered into a service contract with the Company for a term of 1 year commencing on 20 September 2008 and 3 July 2008 respectively.

Mr. Gao Xiang Nong, as independent non-executive director and Mr. Li Xiang and Ms. Liu Wei Qun, as supervisors, have entered into service contracts with the Company for a term of 3 years commencing on 17 May 2007.

Ms. Wang Xiao Hong and Mr. Deng Xiao Bao, as independent non-executive directors have entered into service contracts with the Company for a term of 1 year commencing on 3 July 2008.

DISCLOSURES OF INTEREST

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

As at 31 December 2008, 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. Li Wen Jun	Beneficial owner	3,380,000 domestic shares	1.06%	0.65%

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 2008.

2. Substantial Shareholders

So far as the Directors are aware, as at 31 December 2008, 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 2008, 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 2008, 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 2008.

CONNECTED AND RELATED PARTY TRANSACTIONS

Save as disclosed in note 38 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.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of the report.

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 year ended 31 December 2007 was audited by Yeung, Chan & Associates CPA Limited.

On 22 January 2009, Yeung, Chan & Associates CPA Limited resigned as auditors of the Company and KTC Partners CPA Limited was appointed by the directors to fill the casual vacancy so arising and the consolidated financial statements for the year ended 31 December 2008 were audited by KTC Partners CPA Limited. A resolution for the reappointment of KTC Partners 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, 27 March 2009

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 2008 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, 27 March 2009

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 2008.

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 7 to 8 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 2008, 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 following table sets out the attendance of the Board in 2008:

Directors	No. of meetings attended/held
Executive Directors	
Mr. Li Qi Ming (Chairman & Chief Executive Officer)	6/6
Mr. Zhu Qing Feng (Vice-chairman)	6/6
Mr. Li Guang Ming (retired on 30 May 2008)	3/3
Mr. Li Wen Jun	6/6
Mr. Liu Guo Fei (appointed on 3 July 2008)	3/3
Independent non-executive Directors	
Mr. Gao Xiang Nong	6/6
Mr. Li Quan Sheng (retired on 30 May 2008)	3/3
Mr. Zhang Yu Chuan (retired on 30 May 2008)	3/3
Ms. Wang Xiao Hong (appointed on 3 July 2008)	3/3
Mr. Deng Xiao Bao (appointed on 3 July 2008)	3/3

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2008.

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

The remuneration committee was established on 3 July 2008 for, inter alia, the following purposes:

(a) to make recommendations to the Board on policies and structure for remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to determine the remuneration packages for executive directors and senior management and to make recommendations to the board on the remuneration of non-executive directors.

The remuneration committee is made up of all of the Company's independent non-executive directors, namely, Mr. Gao Xiang Nong (chairman), Ms. Wang Xiao Hong and Mr. Deng Xiao Bao. The duty of remuneration committee is to review and determine the remuneration policy and packages of the executive directors and executives.

There was no meeting held in 2008.

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. The nomination committee was established on 3 July 2008 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 nomination committee is made up of all the Company's independent non-executive directors, namely Mr. Gao Xiang Nong (Chairman), Ms. Wang Xiao Hong and Mr. Deng Xiao Bao.

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.

There was no meeting held in 2008.

AUDITORS' REMUNERATION

An amount of approximately RMB401,000 (2007: RMB445,000) was charged to the Group's income statement for the year ended 31 December 2008. 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 2008.

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 (Chairman), Ms. Wang Xiao Hong and Mr. Deng Xiao Bao.

The audit committee held four meetings in 2008, which were attended by all members. The Group's 2008 first and third quarterly reports, 2008 half-yearly report and 2007 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 2008 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.

KTC Partners CPA Limited
Certified Public Accountants (Practising)
和信會計師事務所有限公司

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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 consolidated financial statements of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 24 to 75, which comprise the consolidated balance sheet as at 31 December 2008, 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 CONSOLIDATED THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 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 approximately RMB5,296,000 for the year ended 31 December 2008 and as of that date, the Group's current liabilities exceeded its current assets by approximately RMB18,581,000. 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. 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.

KTC Partners CPA Limited
Certified Public Accountants (Practising)
Hong Kong, 27 March 2009

Kwan Chi Fai
Practising Certificate Number : P03416

Consolidated Income Statement

For the year ended 31 December 2008
(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	**2008** **RMB'000**	2007 RMB'000
Turnover	6	**75,271**	97,056
Cost of sales		**(52,362)**	(80,977)
Gross profit		**22,909**	16,079
Other operating income	8	**1,389**	5,116
Distribution and selling expenses		**(4,297)**	(6,228)
General and administrative expenses		**(15,501)**	(17,636)
Other operating expenses		**(183)**	(122)
Impairment for trade and other receivables		**(5,463)**	(59,547)
Finance costs	9	**(4,427)**	(4,644)
Loss before taxation		**(5,573)**	(66,982)
Income tax expenses	12	**(265)**	(18)
Loss for the year	13	**(5,838)**	(67,000)
Attributable to:			
Equity holders of the Company		**(5,296)**	(63,757)
Minority interests		**(542)**	(3,243)
		(5,838)	(67,000)
Dividend	14	**—**	—
Loss per share			
Basic	15	**(1.02) cents**	(12.26) cents

The notes on pages 30 to 75 form part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2008

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2008 RMB'000	2007 RMB'000
Non-current assets			
Property, plant and equipment	16	**18,162**	20,469
Prepaid lease payments	17	**2,389**	2,471
Interest in a jointly controlled entity	18	**—**	—
Other financial assets	19	**—**	525
Long-term receivables	20	**943**	1,300
Loan receivables	21	**—**	—
		21,494	24,765
Current assets			
Inventories	22	**9,955**	14,846
Trade receivables	23	**42,932**	39,097
Other receivables	24	**19,956**	6,587
Prepaid lease 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	**467**	1,836
Pledged bank deposit	28	**3,429**	3,618
Bank balances and cash	29	**8,734**	25,802
		86,055	92,368
Current liabilities			
Trade and other payables	30	**55,324**	53,925
Tax liabilities		**7,348**	7,177
Bank borrowings	31	**41,964**	27,280
		104,636	88,382
Net current (liabilities)/assets		**(18,581)**	3,986
Total assets less current liabilities		**2,913**	28,751
Non-current liabilities			
Bank borrowings	31	**—**	20,000
Net assets		**2,913**	8,751

Consolidated Balance Sheet

As at 31 December 2008

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2008 RMB'000	2007 RMB'000
Capital and reserves			
Share capital	32	**52,000**	52,000
Reserves	33	**(49,306)**	(44,010)
Equity attributable to equity holders of the Company		**2,694**	7,990
Minority interests		**219**	761
Total equity		**2,913**	8,751

The consolidated financial statements on pages 24 to 75 were approved and authorised for issue by the Board of Directors on 27 March 2009 and are signed on its behalf by:

Li Qi Ming
Director

Zhu Qing Feng
Director

The notes on pages 30 to 75 form part of these consolidated financial statements.

	Attributable to equity holders of the Company							
	Share capital RMB'000 *(Note 32)*	Share premium RMB'000	Statutory surplus reserve RMB'000 *(Note 33)*	Statutory public welfare fund RMB'000 *(Note 33)*	Accumulated losses RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007	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
Appropriated from the accumulated losses	—	—	46	23	(69)	—	—	—
Loss for the year	—	—	—	—	(5,296)	(5,296)	(542)	(5,838)
At 31 December 2008	**52,000**	**17,574**	**5,954**	**2,978**	**(75,812)**	**2,694**	**219**	**2,913**

The notes on pages 30 to 75 form part of these consolidated financial statements.

Consolidated Cash FLow Statement

For the year ended 31 December 2008
(Expressed in Renminbi Yuan thousands except otherwise stated)

	2008 RMB'000	2007 RMB'000
OPERATING ACTIVITIES		
Loss before taxation	**(5,573)**	(66,982)
Adjustments for:		
Government grants income	**—**	(3,700)
Bank interest income	**(108)**	(139)
Finance costs	**4,446**	4,644
Depreciation of property, plant and equipment	**2,277**	2,614
Amortisation of prepaid lease payments	**82**	82
Gain on disposal of property, plant and equipment	**(17)**	(4)
Written off of obsolete inventories	**1,375**	—
Impairment for obsolete inventories	**488**	2,179
Impairment for trade and other receivables	**5,463**	59,547
Written off of property, plant and equipment	**103**	—
Operating profit/(loss) before changes in working capital	**8,536**	(1,759)
Decrease in inventories	**3,028**	1,466
Increase in trade receivables	**(6,294)**	(6,210)
(Increase)/decrease in other receivables	**(16,373)**	3,083
Decrease/(increase) in amounts due from directors	**1,369**	(867)
Increase in trade and other payables	**1,399**	13,195
Cash (used in)/generated from operations	**(8,335)**	8,908
PRC Enterprise Income Tax paid	**(94)**	(88)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(8,429)**	8,820
INVESTING ACTIVITIES		
Interest received	**108**	139
Purchases of property, plant and equipment	**(84)**	(997)
Proceeds on disposals of property, plant and equipment	**28**	561
Decrease in pledged bank deposit	**189**	78
NET CASH GENERATED FROM/ (USED IN) INVESTING ACTIVITIES	**241**	(219)

The notes on pages 30 to 75 form part of these consolidated financial statements.

	2008 RMB'000	2007 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(4,446)**	(3,941)
Finance lease charge	**—**	(3)
New bank borrowings raised	**—**	26,980
Repayment of bank borrowings	**(5,316)**	(38,110)
Decrease in long-term receivables	**357**	1,500
Decrease in other financial assets	**525**	—
Prepayment from a supplier	**—**	2,726
Government grants received	**—**	3,700
Repayment of obligations under finance leases	**—**	(32)
NET CASH USED IN FINANCING ACTIVITIES	**(8,880)**	(7,180)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(17,068)**	1,421
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**25,802**	24,381
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Represented by bank balances and cash	**8,734**	25,802

The notes on pages 30 to 75 form part of these consolidated financial statements.

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 NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued the following amendments and interpretations ("new HKFRSs") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IRFIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of the above 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 has been required.

(Expressed in Renminbi Yuan thousands except otherwise stated)

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(continued)*

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidation and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary , Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Share-based Payment - Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combination[3]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

[1] Effective for annual periods beginning on or after 1 January 2009 expect for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009.

[2] Effective for annual periods beginning on or after 1 January 2009.

[3] Effective for annual periods beginning on or after 1 July 2009.

[4] Effective for annual periods beginning on or after 1 July 2008.

[5] Effective for annual periods beginning on or after 1 October 2008.

[6] Effective for transfer on or after 1 July 2009.

The Directors of the Group anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

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 approximately RMB5,296,000 for the year ended 31 December 2008 and as of that date, the Group's current liabilities exceeded its current assets by approximately RMB18,581,000. 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, the bank loans of approximately RMB41,964,000 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;

(c) The Group will undergo new business strategies in 2009 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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

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

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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

ii) Service income is recognised when services are provided.

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

iv) 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, fixtures and equipment	5 –6 years	3 –10%
Motor vehicles	5 –10 years	3 –10%

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment *(continued)*

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 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.

Impairment of assets

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, 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 *(continued)*

Other financial liabilities

Other financial liabilities including bank borrowings and trade and other payables 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.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Government grants

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in 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.

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.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Impairment for trade and other receivables

The policy for impairment for trade and other receivables 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 impairment of approximately RMB5,463,000 was recognised during the year (2007: approximately RMB59,547,000).

Impairment for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes impairment for obsolete and slow-moving inventories 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 impairment for obsolete items amounting to approximately RMB488,000 (2007: approximately RMB2,179,000).

Taxation

The Group is subject to PRC enterprise income tax and value-added tax. Since PRC tax rules are complicated and there may be new PRC tax rules and regulations from time to time, the Group recognised tax liabilities based on estimates of tax liabilities. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Useful lives of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid.

5 FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT

(a) Categories of financial instruments

	As at 31 December	
	2008	2007
	RMB'000	RMB'000
Financial assets		
Loan and receivables (including bank balances and cash)	**76,961**	79,265
Financial liabilities		
Amortised cost	**97,288**	101,205

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including interest rate risk, foreign exchange risk and price risk), credit risk and liquidity risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

The Group's major financial instruments include loan receivables, other financial assets, long-term receivables, trade receivables, other receivables, amount due from a jointly controlled entity, amounts due from a shareholder/directors, pledged bank deposit, 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.

5 FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(continued)*

Credit risk *(continued)*

The Group's maximum exposure to credit risk in the event of counterparties failure to perform their obligations as at 31 December 2008 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 51.7% (2007: 38.2%) 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 impairment losses 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.

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. The Group currently does not have a policy to hedge against the interest rate risk as management does not expect any significant interest rate risk at at the balance sheet date.

The sensitivity analysis below has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the bank borrowings that would have a significant effect to the profit or loss. A change of 100 basis points ("bps") was applied to the yield curves at the respective balance sheet date.

At the balance sheet date, if interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's net loss would decrease/increase by approximately RMB420,000 (2007: approximately RMB470,000), but there would be no impact on the other equity reserves.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for the bank borrowings in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

5 FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(continued)*

Liquidity risk

The Group's liquidity risk management includes diversifying the funding sources. Internally generated cash flow and funds raising from bank loans during the year are the general source of funds to finance the operation of the Group. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The following table details the Group's remaining contractual maturity for its financial liabilities which are included in the maturity analysis provided internally to the key management personnel for the purpose of managing liquidity risk. For non-derivative financial liabilities, the table reflects the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average effective interest rate	Within 1 year	Over 1 year	Total undiscounted cash flows	Total carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2008					
Non-derivative financial liabilities					
Trade and other payables	**—**	**55,324**	**—**	**55,324**	**55,324**
Bank borrowings	**7.42**	**41,964**	**—**	**41,964**	**41,964**
		97,288	**—**	**97,288**	**97,288**
As at 31 December 2007					
Non-derivative financial liabilities					
Trade and other payables	—	53,925	—	53,925	53,925
Bank borrowings	7.23	27,280	20,000	47,280	47,280
		81,205	20,000	101,205	101,205

5 FINANCIAL INSTRUMENTS AND CAPITAL RISK MANAGEMENT *(continued)*

Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of bank borrowings, bank balances and cash and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

Gearing ratio

The Group reviews the capital structure on a semi-annual basis. As part of this review, the Group considers the cost of capital and the risks associated with each class of capital.

	2008	2007
	RMB'000	RMB'000
Total Debt	**41,964**	47,280
Less: Bank balances and cash *(Notes 29)*	**(8,734)**	(25,802)
Net debt	**33,230**	21,478
Total equity	**2,913**	8,751
Net debt-to-equity ratio	**1,140%**	245%

i) Debt comprises long-term and short-term bank borrowings detailed in note 31.

ii) Equity includes all capital and reserves of the Group.

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:

	2008 RMB'000	2007 RMB'000
Sales of cards	**59,644**	87,190
Sales of non-card products	**15,627**	9,866
	75,271	97,056

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 2008

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
External sales	59,644	15,627	75,271
Result			
Segment results	(1,366)	(987)	(2,353)
Unallocated bank interest income			108
Unallocated bank operating income			1,281
Unallocated corporate expenses			(182)
			(1,146)
Finance costs			(4,427)
Loss before taxation			(5,573)
Income tax expenses			(265)
Loss for the year			(5,838)
Other information			
Capital expenditure	84	—	84
Depreciation	2,188	89	2,277
Impairment for trade and other receivables	5,115	348	5,463
Impairment for obsolete inventories	386	102	488
Gain on disposal of property, plant and equipment	(17)	—	(17)
Amortisation of prepaid lease payments	82	—	82

7 SEGMENT INFORMATION *(continued)*

Business segments *(continued)*

Balance sheet as at 31 December 2008

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Assets			
Segment assets	85,104	1,441	86,545
Unallocated assets			21,004
Consolidated total assets			107,549
Liabilities			
Segment liabilities	48,202	2,705	50,907
Unallocated liabilities			53,729
Consolidated total liabilities			104,636

7 SEGMENT INFORMATION *(continued)*

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 bank 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
Impairment for trade and other receivables	57,327	2,220	59,547
Impariment for /(reversal of) obsolete inventories	2,254	(75)	2,179
Gain on disposal of property, plant and equipment	(4)	—	(4)
Amortisation of prepaid lease payments	82	—	82

7 SEGMENT INFORMATION *(continued)*

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Balance sheet as at 31 December 2007			
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

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

	2008	2007
	RMB'000	RMB'000
Government grants income *(Note(a))*	**—**	3,700
Rental income *(Note (b))*	**263**	613
Consultancy income	**250**	513
Bank interest income	**10**	139
Gain on disposals of property, plant and equipment	**17**	4
Others	**849**	147
	1,389	5,116

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

	2008	2007
	RMB'000	RMB'000
Interests on:		
Bank borrowings wholly repayable within five years	**3,727**	3,941
Imputed interest expense on other financial assets *(Note 19)*	**700**	700
Finance leases charge	**—**	3
	4,427	4,644

No interest was capitalised during the both years.

10 DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the ten (2007: seven) directors were as follows:

	Li Qing Ming RMB'000	Li Guang Ming RMB'000 *(Note 1)*	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Gao Xiang Nong RMB'000	Li Quan Sheng RMB'000 *(Note 1)*	Zhang Yu Chuan RMB'000 *(Note 1)*	Liu Guo Fei RMB'000 *(Note 2)*	Wang Xiao Hong RMB'000 *(Note 2)*	Deng Xiao Bao RMB'000 *(Note 2)*	Total RMB'000
For the year ended 31 December 2008											
Fees	—	—	—	—	—	—	—	—	—	—	—
Other emoluments											
Salaries and other benefits	277	1	77	—	12	12	12	673	6	6	1,076
Retirement benefits schemes contribution	7	—	—	—	—	—	—	7	—	—	14
Total emoluments	284	1	77	—	12	12	12	680	6	6	1,090

	Li Qing 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 contribution	13	—	4	—	—	—	—	17
Total emoluments	390	1	83	—	12	12	12	510

Notes:

1. Mr. Li Guang Ming, Mr. Li Quan Sheng and Mr. Zhang Yu Chuan retired on 30 May 2008.

2. Mr. Liu Guo Fei, Ms. Wang Xiao Hong and Mr. Deng Xiao Bao were appointed on 3 July 2008.

11 FIVE HIGHEST PAID INDIVIDUALS

Of the five individuals with highest emoluments in the Group, two (2007: one) were directors of the Company whose emoluments are included in the disclosure in Note 10 above. The emoluments of the remaining three (2007: four) individuals were as follows:

	2008 **RMB'000**	2007 RMB'000
Salaries and other benefits	**667**	983
Retirements benefits schemes contributions	**11**	39
	678	1,022

During the year, no emoluments were paid to the five highest paid individuals (including two directors and three 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:

	2008 **No. of employees**	2007 No. of employees
Nil to RMB1,000,000	**3**	4

12 INCOME TAX EXPENSES

	2008 RMB'000	2007 RMB'000
The tax charge comprises:		
PRC Enterprise Income Tax	**265**	18

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 (2007: 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% (2007: 15%). The subsidiaries in Beijing and Guangzhou are subject to Income Tax rates of 25% (2007: 33%).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (''new CIT Law'') which took effect on 1 January 2008. Under the new CIT law and in accordance with implementation rules and notices issued by the state council and the state Administration of Taxation, the income tax of the subsidiaries in Beijing and Guangzhou will be adjusted to the standard rate of 25%. The enactment of the new CIT law is not expected to have any material financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

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

	2008 RMB'000	2007 RMB'000
Loss before taxation	**(5,573)**	(66,982)
Tax at applicable income tax rate of 15%	**(836)**	(10,047)
Tax effect of expenses not deductible for tax purpose	**1,154**	9,291
Effect of different tax rates of subsidiaries	**(171)**	(66)
Tax effect of tax losses not recognised	**118**	840
Tax charge for the year	**265**	18

12 INCOME TAX EXPENSES *(continued)*

The Group had no significant unprovided deferred taxation as at 31 December 2008 and 31 December 2007.

At 31 December 2008, the Group has unused tax losses of approximately RMB14,648,000 (2007: approximately 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 profits on companies in which the losses arose.

13 LOSS FOR THE YEAR

	2008	2007
	RMB'000	RMB'000
Loss for the year has been arrived at after charging:		
Amortisation of prepaid lease payments	**82**	82
Auditors' remuneration	**401**	445
Cost of inventories recognised as an expense	**51,019**	80,464
Depreciation of property, plant and equipment	**2,277**	2,614
Impairment for trade and other receivables	**5,463**	59,547
Impairment for obsolete inventories	**488**	2,179
Net exchange losses	**319**	135
Research and development costs	**204**	1,523
Staff costs including directors' emoluments *(Note 10)*	**8,979**	11,830
Written off of obsolete inventories	**1,375**	—

14 DIVIDEND

No dividend was paid or proposed during the years ended 31 December 2008 and 2007, 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 RMB5,296,000 (2007: approximately RMB63,757,000) and the weighted average of 520,000,000 (2007: 520,000,000) ordinary shares in issue during the year.

No diluted loss per share have been presented for two years ended 31 December 2008 and 2007 as there were no diluting events existed during those years.

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements, furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 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 and 1 January 2008	19,225	21,871	3,551	1,322	8,518	54,487
Additions	—	34	50	—	—	84
Disposals	—	(292)	(5)	—	—	(297)
Written off	—	—	(970)	—	—	(970)
At 31 December 2008	**19,225**	**21,613**	**2,626**	**1,322**	**8,518**	**53,304**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 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 and 1 January 2008	6,865	15,202	2,637	796	8,518	34,018
Provided for the year	573	1,290	282	132	—	2,277
Eliminated on disposals	—	(281)	(5)	—	—	(286)
Written off	—	—	(867)	—	—	(867)
At 31 December 2008	**7,438**	**16,211**	**2,047**	**928**	**8,518**	**35,142**
CARRYING VALUE						
At 31 December 2008	**11,787**	**5,402**	**579**	**394**	**—**	**18,162**
At 31 December 2007	12,360	6,669	914	526	—	20,469

16 PROPERTY, PLANT AND EQUIPMENT *(continued)*

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

The carrying value of the Group's buildings includes an amount of approximately RMB5,183,000 (2007: approximately RMB5,227,000) 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 approximately RMB8,446,000 (2007: approximately RMB9,539,000) (Note 35(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:

	2008	2007
	RMB'000	RMB'000
Current portion	**82**	82
Non-current portion	**2,389**	2,471
	2,471	2,553

The above land use rights are pledged to secure banking facilities granted to the Group. (Note 35(a))

18 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2008	2007
	RMB'000	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)
	—	—

18 INTEREST IN A JOINTLY CONTROLLED ENTITY *(continued)*

As at 31 December 2008, 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
New Concept Technology Limited 四會新概念電子科技有限公司	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:

	2008	2007
	RMB'000	RMB'000
Non-current assets	**1,179**	1,179
Current assets	**102**	102
Current liabilities	**3,793**	3,787
Income	**—**	—
Expenses	**7**	37

19 OTHER FINANCIAL ASSETS

The balance represents the loan arrangement fee paid in 2006 to a third party, Shenzhen Credit Orienwise Co., Ltd. ("SZ Credit Orienwise") 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.

	2008	2007
	RMB'000	RMB'000
Current portion (included in other receivables *(Note 24)*)	**525**	700
Non-current portion	**—**	525
	525	1,225
Imputed interest amortised for the year *(Note 9)*	**700**	700

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

	2008	2007
	RMB'000	RMB'000
	943	1,300

The balance represents the deposit paid in 2006 to a third party, SZ Credit Orienwise 深圳中科智 to provide the guarantee to Shenzhen Commercial Bank Co. Ltd. to secure the long-term bank borrowing of approximately RMB28,000,000 granted to the Group during the year ended 31 December 2006. Details of bank borrowing the disclosed in Note 31(d).

21 LOAN RECEIVABLES

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

	2008	2007
	RMB'000	RMB'000
Current portion	**—**	894
Non-current portion	**—**	2,326
	—	3,220
Less: Accumulated impairment	**—**	(3,220)
	—	—

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

22 INVENTORIES

	2008	2007
	RMB'000	RMB'000
Raw materials	**11,041**	13,825
Work-in-progress	**—**	1,081
Finished goods	**4,282**	3,445
	15,323	18,351
Less: Accumulated impairment	**(5,368)**	(3,505)
	9,955	14,846

The cost of inventories recognised as expense and included in the cost of sales amounted to approximately RMB51,019,000 (2007: approximately RMB80,464,000).

22 INVENTORIES *(continued)*

Movements in the impairment for obsolete inventories are as follows:

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	**3,505**	1,326
Impairment for obsolete inventories during the year	**488**	2,179
Written off of obsolete inventories during the year	**1,375**	—
Balance at end of the year	**5,368**	3,505

The Directors of the Group have assessed the net realisable values and conditions of the Group's inventories as at 31 December 2008 and have considered a impairment for obsolete inventories of approximately RMB1,863,000 (2007: approximately RMB3,505,000) be made in respect of the net realisable value of the inventories.

23 TRADE RECEIVABLES

Details of the aging analysis are as follows:

	2008 RMB'000	2007 RMB'000
1 to 90 days	**19,435**	14,137
91 to 180 days	**7,454**	3,632
181 to 365 days	**11,234**	5,490
Over 365 days	**52,166**	60,736
	90,289	83,995
Less: Impairment for trade receivables	**(47,357)**	(44,898)
	42,932	39,097

23 TRADE RECEIVABLES *(continued)*

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.

(a) Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB16,043,000 (2007: approximately RMB21,328,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Details of the aging analysis of trade receivables which are past due but not impaired are as follows:

	2008	2007
	RMB'000	RMB'000
181 to 365 days	**11,230**	5,490
Over 365 days	**4,813**	15,838
	16,043	21,328

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

(b) Movements in the impairment for trade receivables are as follows:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**44,898**	2,013
Impairment recognised during the year	**2,459**	42,885
Balance at end of the year	**47,357**	44,898

In determining the recoverability of trade receivables, the Group considers that any change in the credit quality of the trade receivables from the date credit were initially granted up to the reporting date. Accordingly, the Directors have considered provision for impairment is values be made in respect of trade receivables to their recoverable values and believed that there is no further credit provision required in excess of the provision for impairment loss recognised in respect of trade receivables.

24 OTHER RECEIVABLES

	2008	2007
	RMB'000	RMB'000
Advance to suppliers	**3,792**	10,431
Other financial assets *(Note 19)*	**525**	700
Other debtors, deposits and prepayments	**18,658**	12,698
	22,975	23,829
Less: Impairment for other receivables	**(3,019)**	(17,242)
	19,956	6,587

Movements in the impairment for other receivables are as follows:

	2008	2007
	RMB'000	RMB'000
Balance at beginning of the year	**17,242**	580
Bad debt written off	**(17,227)**	—
Impairment recognised during the year	**3,004**	16,662
Balance at end of the year	**3,019**	17,242

In determining the recoverability of other receivables, the Group considers any changes in the credit quality of the other receivables. The Directors have considered provision for impairment is values be made in respect of other receivables to their recoverable values.

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 since 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 AMOUNT DUE FROM DIRECTORS

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

	Maximum amount outstanding during the year RMB'000	**Balance at 31/12/2008 RMB'000**	Balance at 31/12/2007 RMB'000
Mr. Li Qi Ming	2,368	**407**	1,836
Mr. Liu Guo Fei	60	**60**	—
		467	1,836

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 35(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 aging analysis of trade payables at the balance sheet date:

	2008	2007
	RMB'000	RMB'000
1 - 90 days	**8,595**	19,591
91 - 180 days	**2,269**	2,250
181 - 365 days	**3,386**	2,708
Over 365 days	**11,771**	7,891
Trade payables	**26,021**	32,440
Value-added tax payable	**11,159**	9,524
Deposits from customers	**1,542**	50
Other payables	**16,602**	11,911
	55,324	53,925

The fair value of the Group's trade and other payables as at 31 December 2008 approximates to the corresponding carrying amount.

31 BANK BORROWINGS

	2008	2007
	RMB'000	RMB'000
Bank loans:		
Secured	**36,359**	41,580
Unsecured	**5,605**	5,700
	41,964	47,280

Carrying amount repayable:

	2008	2007
	RMB'000	RMB'000
Within one year	**41,964**	27,280
More than one year, but not exceeding two years	**—**	20,000
	41,964	47,280
Less: Amount due within one year shown under current liabilities	**(41,964)**	(27,280)
	—	20,000

31 BANK BORROWINGS *(continued)*

Included in bank borrowings were unsecured bank loans guaranteed by:

	2008	2007
	RMB'000	RMB'000
Mr. Li Qi Ming, a director of the Company and Shenzhen Shendeking Investment Guarantee Co., Ltd. 深圳鑫德勤擔保有限公司 (2007: Mr. Li Qi Ming, a director of the Company and Shenzhen Shendeking Investment Guarantee Co., Ltd. 深圳鑫德勤擔保有限公司)*(Note 38(b))*	**5,605**	5,700

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

	2008	2007
	RMB'000	RMB'000
Fixed-rate bank borrowings		
Within one year	**19,964**	20,780
Variable-rate bank borrowings		
Within one year	**22,000**	6,500
In more than one year but not more than two years	**—**	20,000
	22,000	26,500

31 BANK BORROWINGS *(continued)*

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

	2008 **RMB'000**	2007 RMB'000
Effective interest rate		
Fixed-rate borrowings	**7.56% - 8.748%**	6.732% - 8.019%
Variable-rate borrowings	**5.94%**	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, SZ Credit Orienwise 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 SZ Credit Orienwise 深圳中科智 :

(a) Payment of RMB2,100,000, equivalent to 7.5% of the loan amounts, to SZ Credit Orienwise 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 SZ Credit Orienwise 深圳中科智 (Note 38(d)):

(c) Sihui Yufeng Development Ltd. 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 SZ Credit Orienwise 深圳中科智 as security (Note 38(c)); and

(d) Payment of RMB2,800,000, equivalent to 10% of the loan amounts, to SZ Credit Orienwise 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.

(e) Pledged the Company's equity interests in the subsidiaries to SZ Credit Orienwise 深圳中科智 (Note 35b).

32 SHARE CAPITAL

		Nominal value		
	Number of shares '000	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid:				
At 31 December 2007 (nominal value of RMB0.10 each)	520,000	31,980	20,020	52,000
At 31 December 2008 (nominal value of RMB0.10 each)	**520,000**	**31,980**	**20,020**	**52,000**

33 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.

34 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 11% 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 2008, 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:

	2008	2007
	RMB'000	RMB'000
Retirement benefit schemes contributions	**672**	1,057

35 PLEDGE OF ASSETS

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

	2008	2007
	RMB'000	RMB'000
Buildings, plants and machinery *(Note 16)*	**8,446**	9,539
Prepaid lease payments *(Note 17)*	**2,471**	2,553
Bank deposits *(Note 28)*	**3,429**	3,618
	14,346	15,710

35 PLEDGE OF ASSETS *(continued)*

(b) The following equity interests in the Company's subsidiaries have been pledged to SZ Credit Orienwise 深圳中科智 for the guarantee provided to the Group during the year:

Name of subsidiary	Equity interest pledged (%)	Carrying Value as at 31 December 2008 RMB'000
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	80	(3,341)
廣州市明華澳漢科技有限公司 Guangzhou Mingwah Aohan High Technology Co., Ltd	90	209
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	80	871
四會市明華澳漢科技有限公司 Sihui Mingwah Aohan High Technology Co., Ltd.	80	1,168

36 CAPITAL COMMITMENT

	2008 RMB'000	2007 RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	786	786

37 OPERATING LEASE ARRANGEMENT

	2008	2007
	RMB'000	RMB'000
Minimum lease payments paid under operating leases for the rented premises	**892**	1,574

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:

	2008	2007
	RMB'000	RMB'000
Within one year	**304**	874
In the second to fifth years inclusive	**5**	254
	309	1,128

Leases for office premises are negotiated for an average of two years (2007: three years) and rentals are fixed for an average of two years (2007: three years).

38 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:

	2008	2007
	RMB'000	RMB'000
Short-term benefits	**1,076**	493
Post-employment benefits	**14**	17
	1,090	510

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 Shenzhen Shendeking Investment Guarantee Co., Ltd 深圳鑫德勤擔保有限公司 provided guarantees in favour of Fujian Industrial Bank Co., Ltd. of RMB5,605,000 to secure certain banking facilities granted to the Group. As at 31 December 2008, a bank loan of approximately RMB5,605,000 (2007: approximately RMB5,700,000) is borrowed from Fujian Industrial Bank Co., Ltd. (Note 31).

(c) Pursuant to a security agreement entered during 2006, a former minority shareholder of Sihui Mingwah Aohan High Technology Co., Ltd. pledged its properties to SZ Credit Orienwise 深圳中科智 to secure the guarantee granted to Shenzhen Commercial Bank Co., Ltd. for the bank borrowings of approximately RMB22,000,000 as at 31 December 2008 (2007: approximately RMB26,500,000) (Note 31).

(d) Pursuant to a guarantee contract entered during 2006, Mr. Li Qi Ming provided unlimited guarantees in favour of SZ Credit Orienwise 深圳中科智 to secure the guarantee granted to Shenzhen Commercial Bank Co., Ltd. for the bank borrowings of approximately RMB22,000,000 as at 31 December 2008 (2007: approximately RMB26,500,00).

(e) Pursuant to guarantee contracts entered during 2007, Mr. Li Qi Ming provided guarantees for the bank borrowing of approximately RMB11,459,000 (2007: approximately RMB11,600,000) granted to the Group by Guangdong Development Bank Co., Ltd.

39 SUBSIDIARIES

Details of the Group s subsidiaries established as private limited liability companies in the PRC at 31 December 2008 are as follows:

Name of company	Place of registered/ operation	Class of share held	Issued and fully paid registered capital RMB'000	Proportion of ownership interest directly held by the Company	Registered capital held by the Company RMB'000	Principle activities
北京市明華澳漢科技有限公司 Beijing Mingwah Aohan High Technology Co., Ltd.	PRC	Contributed capital	500	80%	400	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	500	90%	450	Trading in IC cards, magnetic cards, related equipment and application systems
深圳市明華澳漢電子設備有限公司 Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.	PRC	Contributed capital	1,000	80%	800	Trading in IC cards, magnetic cards and related equipment
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	10,000	80%	8,000	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	1,000	80%	800	Manufacture of IC cards, magnetic cards and related equipment
					10,450	

None of the subsidiaries has issued any debt securities at the end of the year (2007: Nil).

40 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				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	142,604	100,313	72,059	97,056	**75,271**
Profit/(Loss) before taxation	14,627	(25,660)	13,613	(66,982)	**(5,573)**
Taxation	(2,378)	(1,194)	271	(18)	**(265)**
Profit/(Loss) for the year	12,249	(26,854)	13,884	(67,000)	**(5,838)**
Attributable to:					
Equity holders of the parent	11,614	(26,487)	(13,221)	(63,757)	**(5,296)**
Minority interests	635	(367)	(663)	(3,243)	**(542)**
Profit/(Loss) for the year	12,249	(26,854)	(13,884)	(67,000)	**(5,838)**

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	193,256	166,250	182,170	117,133	**107,549**
Total liabilities	(76,967)	(76,815)	(106,419)	(108,382)	**(104,636)**
Equity	116,289	89,435	75,751	8,751	**2,913**
Attributable to:					
Equity holders of the parent	111,455	84,968	71,747	7,990	**2,694**
Minority interests	4,834	4,467	4,004	761	**219**
	116,289	89,435	75,751	8,751	**2,913**