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 2009

* For identification purpose only

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-todate information on GEM-listed issuers.

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.

Contents

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

Independent Non-Executive Directors

Mr. Gao Xiang Nong
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao

Supervisors

Mr. Li Xiang
Ms. Liu Wei Qun
Mr. He Wei Ming

AUDIT COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao

NOMINATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao

REMUNERATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao

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

AUDITOR

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
46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

Ping An Bank
China Merchants Bank
Shenzhen Development Bank

COMPANY'S WEBSITE ADDRESS

www.mwcard.com

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 results of the Company and its subsidiaries (collectively referred to hereinafter as the "Group") as at 31 December 2009

OPERATION REVIEW

As at 31 December 2009, the annual turnover of the Group amounted to approximately RMB62,666,000 as compared to approximately RMB75,271,000 in the previous year, representing a decrease of 16.7%. The profit attributable to owners of the Company amounted to approximately RMB375,000 (2008: loss of RMB5,296,000).

BUSINESS REVIEW

Significantly affected by the negative impact brought about by the persistent keen competition for the prices of domestic card and non-card products and the global economic downturn in 2009, the Group's turnover, incurred a substantial decrease as compared to last year.

In 2009, the Group developed its business in line with its established goals, that is, to be the leader in the PRC's card industry; and turn "M&W" into a renowned brand in the PRC's smart card industry; with emphasis on the development of high-end products in the sector of information security. The Group made positive responses and adjustments to the market development trend for the diversification of various products in a progressive manner.

1. Adjustment of Key Sales Strategies

As the Group's general memory card business faced keen competition for the market prices, the Group has gradually strengthened its R&D and sales of high profit value-added products such as CPU Card and eKey, and also reinforced the marketing of WLAN Authentication and Privacy Infrastructure (WAPI) products of the new WLAN Series. Following the deepening implementation of the National Electronic Signature Law in various fields and industries, eKey, the Group's high-end encrypted information security product, has secured a bigger market share and greater strengths over its competitiveness in such markets.

In the aspect of industrial applications, we continued to consolidate and explore the market share of eKey in the PRC's e-Government program, online banking, social insurance and code security, laying a solid foundation for further expansion of our high-end products in the sector of information security and creation of higher profits in the future.

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

We reinforced our efforts in the R&D and technical co-operation for the technical products of WAPI under the WLAN Series in compliance with the PRC's specifications, and supplied the equipment already successfully used in the 2008 Olympic venues, which led to the introduction of WAPI products to the market. The Company has become the WAPI equipment supplier of China Mobile and China Unicom, with successful installation in various provinces. Following the comprehensive installation of WLAN (that is, WAPI) equipment by the top three telecommunication operators in the PRC in 2010, this technical product will become a new profit generator and highlight in the exploration of new markets for the Group.

2. R&D and Technical Support

We continued to proceed with the R&D of high-end products such as eKey, the Smart Card Operating System (SCOS), Radio Frequency Identification (RFID) electronic label system and WAPI in compliance with the national specifications for WLAN equipment as well as the mobile payment terminal system. The SCOS has been upgraded to meet the changing needs of industrial applications and development platforms for new chips. We have strengthened our after-sale services by adopting a one-stop technical support strategy to ensure the support for our key clients in various industries by providing them with technical solutions on prompt and comprehensive basis. The Group has made substantial breakthrough in the field of mobile payment to enter the uncontested vast market of mobile small amount payment, in coordination with various major telecommunication operators.

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

The Group, as one of the advocates, actively participated in the work of "WAPI Alliance" and entered the new high-end market with the assistance of the Government, the alliance and the dominating enterprises in the alliance such as China Mobile and China Unicom.

3. External Cooperation

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

4. Exploration of Overseas Markets

The Company continued to enhance its efforts in international marketing and sales, strengthen its sales channels and establish relationship with strategic partners, so as to enlarge its market share.

BUSINESS PROSPECT

The Group's established goal is to become the leader in the PRC's card industry, turn "M&W" into a renowned brand in the PRC's smart card industry and focus on high-end products in the sector of information security. In order to obtain the benefits of the great potentials in the information security market, the Group has planned to maintain a leading position in the relevant sector by leveraging its expertise and competitive edges in the smart card business.

1. Technical Research and Development

The Group will continue to launch the R&D of optimizing the SCOS to meet the standards of Europay Master Card and Visa specifications, develop the operating system in compliance with the new specifications of the "ETC Non-Stop Toll Collection Systems" in accordance with the Ministry of Transportation as well as the non-contact COS systems in accordance with the Ministry of Construction, and establish a leading domestic team with the capabilities of the wireless UHF design as well as the leading edge capabilities in the research and development of the PRC's mobile small amount payment terminal system.

We will continue to upgrade and optimize our eKey products, with the plan to complete the R&D of broadband eKey and smart security chips. We also plan to develop TOKEN + EKEY (two in one) products.

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

The Group will launch vigorous sales and publicity of its overseas brands by strengthening its promotion and operation in the overseas market. Meanwhile, we will achieve the complementary strengths through overseas cooperation, make every effort to build up "M&W" as a renowned brand in the international smart card industry, and reinforce the promotion in the new market sector of the mobile payment system.

2. Marketing Strategy

On the premise of consolidating the existing market share, the Group will continue to explore the applications of its eKey products for the major commercial bank networks and e-government in the PRC, enlarge its market share and explore its applications for other sectors of information security. We will develop new TOKEN complementary to the existing EKEY products and seek to enlarge the market share in the high-end banking sector.

The marketing strategy of CPU Card is to consolidate and promote its applications for the key industries such as social insurance and banking on a continuous basis and cooperate with three major telecommunication operators for the promotion of its mobile payment sector.

We will reinforce our efforts in exploring overseas markets, and enhance the international coverage of the M&W brand. We will implement our agency system on global basis and establish distribution relationships with leading enterprises in the industry in various countries.

3. Management and Operation

The Group will optimize its corporate ERP system, upgrade its corporate management standard, and carry out a centralized procurement and distribution system as well as a central fund-allocating system for the Group, so as to further maximize its application of capital resources.

The Group will continue to reinforce the implementation of a budget control system for administration expenses and impose an expense status feedback mechanism for designated projects. We will strengthen examination on contracts as well as the control and management of receivables in the financial operation, in order to control the risks associated with the Group's operation. We will also strengthen the management of various distribution branches and implement more stringent and effective centralized management regarding contracts and distribution.

Enhanced management is provided for various sales branches, complemented with more stringent and effective centralization of contracts and unified management of distribution.

The Group will continue to reinforce the internal management and legal establishment, optimize its internal corporate legal documentation and standardize its administrative management. Moreover, the Group will protect its interests by further enhancing the Company's internal and external confidentiality system and eliminating operational risks through legal documentation. The Group will conduct performance appraisal for each of the departments, improve the management efficiency and secure better returns for our 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 on-going dedication to our development.

Li Qi Ming
Chairman
Shenzhen, the PRC, 30 March 2010

DIRECTORS

Executive Directors

李啟明 (Mr. Li Qi Ming), aged 50, 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 44, 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 39, 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 35, 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 40, 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 39, is an independent non-executive Director appointed on 3 July 2008. She obtained a BA degree from Jilin University and has over 10 years' working experience in finance, investment and securities industries. She is currently working in Szysl Investments Limited as a deputy general manager.

鄧小寶(Mr. Deng Xiao Bao), aged 54, is an independent non-executive Director appointed on 3 July 2008, and has over 35 working experience. He 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. He has been a director of Shanghai Hosel Thermal Technology Co. Limited since 1999, and in 2003 he has also been appointed as a general manager of Shenzhen Millhop Motors Holding Limited.

Supervisors

李翔 (Mr. Li Xiang), aged 37, 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.

劉為群 (Ms. Liu Wei Qun), aged 54, 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) .

何偉明(Mr. He Wei Ming), aged 55, 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.

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 37, is the company secretary and qualified accountant of the Company. She graduated from University of Hong Kong and is an 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 2009, the Group recorded a turnover of approximately RMB62,666,000, representing a decrease of approximately 16.7% as compared with the turnover of approximately RMB75,271,000 in the previous year. Such a decrease was mainly due to the global economic slowdown which caused a decrease in demand for the non-card products.

The gross profit of the Group for the year ended 31 December 2009 amounted to approximately RMB13,214,000, with an decrease of approximately 42.3% as compared with the gross profit of approximately RMB22,909,000 in the previous year, and its percentage of gross profit for the year dropped from 30% to 21% as compared with last year. The underlying reason of such decrease is mainly attributable to the keen competition for the prices of card products.

For the year ended 31 December 2009, the Group's general and administrative expenses decreased by approximately RMB4,240,000 or approximately 32.1% to approximately RMB8,976,000 as compared with last year. In comparing with the same in 2008, the distribution and selling expenses decreased by approximately 30.3% from approximately RMB4,297,000 to approximately RMB2,995,000 for the year ended 31 December 2009. The decrease was in line with the decrease in sales.

For the year ended 31 December 2009, profit attributable to shareholders was approximately RMB375,000 as compared to a loss of approximately RMB5,296,000 in 2008. The improvement was mainly attributable to a significant impairment loss on trade and other receivables of RMB5,463,000 made in 2008.

For the year ended 31 December 2009, the Group had equity attributable to owners of the Company of approximately RMB3,069,000 (2008: RMB2,694,000), bank balances and cash of approximately RMB3,622,000 (2008: RMB8,734,000), current assets of approximately RMB61,974,000 (2008: RMB86,055,000) and current liabilities of approximately RMB76,885,000 (2008: RMB104,636,000). The Group's current ratio (total current assets over total current liabilities) remained at approximately 0.81 as at 31 December 2009 (2008: 0.81).

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2009, the Group had net current liabilities of approximately RMB14,911,000. Current assets as at 31 December 2009 comprised inventories of approximately RMB9,476,000, trade receivables of approximately RMB40,060,000, other receivables of approximately RMB8,013,000, prepaid lease payments of approximately RMB82,000, amount due from a shareholder of approximately RMB500,000, amount due from directors of approximately RMB221,000 and bank balances and cash of approximately RMB3,622,000. Current liabilities as at 31 December 2009 comprised trade and other payables of approximately RMB54,312,000, amount due to a director of RMB3,000, tax liabilities of approximately RMB7,035,000, short-term borrowings of approximately RMB15,535,000.

Gearing ratio

The Group's gearing ratios were approximately 355% and 1,141% as at 31 December 2009 and 31 December 2008 respectively. The calculation of the gearing ratios was shown in note 6 to the consolidated financial statements.

Capital commitments

As at 31 December 2009, the Group had outstanding capital commitments of approximately RMB786,000 (2008: RMB786,000).

Financial resources

As at 31 December 2009, the Group had bank balances and cash of approximately RMB3,622,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing bank balances.

Capital structure

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

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2009.

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 2009, the Group had 283 full time employees, comprising 44 in administration and finance, 16 in research and development and customer services, 43 in sales, 157 in production, 8 in purchase, and 15 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 2009.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2009, the assets with a total net book value of approximately RMB10,473,000 (2008: RMB14,346,000) 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 2009.

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 2009 (2008: 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 2009.

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 2009 is set out in note 9 to the consolidated financial statements.

MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Company accounted for approximately 86.9% of the Group's purchases. The largest supplier accounted for approximately 56.4% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 66.9% of the total turnover. The largest customer accounted for approximately 23.9% 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 2009 are set out in the consolidated statement of comprehensive income on page 24.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2009.

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 84. 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, SUPERVISORS, AND EMPLOYEES

Details of the emoluments of the Directors, supervisors and employees of the Group are set out in notes 15 and 16 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 19 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 2009 are set out in note 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

Independent non-executive directors

Mr. Gao Xiang Nong
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao

Supervisors

Mr. Li Xiang
Ms. Liu Wei Qun
Mr. He Wei Ming

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 2009 and 3 July 2009 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 2009.

DISCLOSURES OF INTEREST

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

As at 31 December 2009, 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 2009.

2. Substantial Shareholders

So far as the Directors are aware, as at 31 December 2009, 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' AND SUPERVISORS' RIGHT TO ACQUIRE H SHARES

As at 31 December 2009, 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 2009, none of the Directors, supervisors and chief executives of the Company had any rights to acquire H shares in the Company.

DIRECTORS' AND SUPERVISORS' 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 or a supervisor 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 2009.

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.

MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year ended 31 December 2009, and they have all confirmed their respective full compliance with the required standard set out in the Model Code.

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.

AUDITOR

The consolidated financial statements for the year ended 31 December 2009 was audited by Messrs. KTC Partners CPA Limited. A resolution for the reappointment of Messr. 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, 30 March 2010

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 2009 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, 30 March 2010

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 2009.

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 on the page 7 of the Annual Report. The participation of non-executive directors in the Board brings independent judgement on issues relating to the Group's strategy, performance, conflicts of interest and management process to ensure that the interests of all shareholders of the Company have been duly considered.

For the year ended 31 December 2009, 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 2009:

Directors	No. of meetings attended/held
Executive Directors	
Mr. Li Qi Ming (Chairman & Chief Executive Officer)	5/5
Mr. Zhu Qing Feng (Vice-chairman)	5/5
Mr. Li Wen Jun	5/5
Mr. Liu Guo Fei	5/5
Independent non-executive Directors	
Mr. Gao Xiang Nong	5/5
Ms. Wang Xiao Hong	5/5
Mr. Deng Xiao Bao	5/5

ACCOUNTABILITY AND AUDIT

The Directors were responsible for overseeing the preparation of the financial statements for the year ended 31 December 2009.

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 2009.

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 2009.

AUDITORS' REMUNERATION

An amount of approximately RMB479,000 (2008: RMB401,000) was charged to the Group's consolidated statement of comprehensive income for the year ended 31 December 2009. 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 Group and provide advice and comments to the directors.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters. The audit committee has also reviewed the audited annual result of the Group for the year ended 31 December 2009.

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 2009, which were attended by all members. The Group's 2009 first and third quarterly reports, 2009 half-yearly report and 2008 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 2009 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

Tel 電話: (852) 2770 8232 Fax 傳真: (852) 2770 8378
E-mail 電子郵箱: info@ktccpa.com.hk
Room 501, 502 & 508, 5/F., Mirror Tower,
61 Mody Road, Tsimshatsui East, Kowloon, Hong Kong
香港九龍尖沙咀東部麼地道61號冠華中心五樓501, 502及508室

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 83, which comprise the consolidated statement of financial position as at 31 December 2009, consolidated statement of comprehension income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE 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.

AUDITORS' 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 2009 and of the Group's profit 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.

EMPHASIS OF MATTER IN RELATION TO THE GOING CONCERN BASIS FOR PREPARATION OF FINANCIAL STATEMENTS

Without qualifying our opinion, we draw attention that as at 31 December 2009 the Group had significant accumulated losses of approximately RMB75,437,000 and its current liabilities exceeded its current assets by approximately RMB14,911,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis based on the considerations as set out in note 2 to the consolidated financial statements, the validity of which primarily depends upon the financial support from the substantial shareholders to cover the Group's operating costs and to meet its financing commitments. The consolidated financial statements do not include any adjustments that would result from a failure to obtain such financial support.

KTC Partners CPA Limited
Certified Public Accountants (Practising)
Hong Kong, 30 March 2010

Kwan Chi Fai
Practising Certificate Number : P03416

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009
(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2009 RMB'000	2008 RMB'000
Turnover	8	**62,666**	75,271
Cost of sales		**(49,452)**	(52,362)
Gross profit		**13,214**	22,909
Other income	10	**1,209**	1,372
Other gains and losses	11	**214**	(7,731)
Distribution and selling expenses		**(2,995)**	(4,297)
General and administrative expenses		**(8,976)**	(13,216)
Other operating expenses		**—**	(183)
Finance costs	12	**(2,260)**	(4,427)
Profit/(Loss) before tax		**406**	(5,573)
Income tax credit/(expense)	13	**37**	(265)
Profit/(Loss) for the year	14	**443**	(5,838)
Other comprehensive income for the year		**—**	—
Total comprehensive income/(loss) for the year		**443**	(5,838)
Profit/(Loss) attributable to:			
Owners of the Company		**375**	(5,296)
Non-controlling interests		**68**	(542)
		443	(5,838)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		**375**	(5,296)
Non-controlling interests		**68**	(542)
		443	(5,838)
Profit/(Loss) per share			
Basic	17	**0.07 cents**	(1.02) cents
Diluted		**N/A**	N/A

The notes on pages 30 to 83 form part of these financial statements.

Consolidated Statement of Financial Position

As At 31 December 2009

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2009 RMB'000	2008 RMB'000
Non-current Assets			
Property, plant and equipment	19	**15,959**	18,162
Prepaid lease payments	20	**2,308**	2,389
Interest in a jointly controlled entity	21	**—**	—
Long-term receivables	22	**—**	943
		18,267	21,494
Current Assets			
Inventories	23	**9,476**	9,955
Trade receivables	24	**40,060**	42,932
Other receivables	25	**8,013**	19,956
Prepaid lease payments	20	**82**	82
Amount due from a shareholder	26	**500**	500
Amount due from directors	27	**221**	467
Pledged bank deposits	28	**—**	3,429
Bank balances and cash	29	**3,622**	8,734
		61,974	86,055
Current Liabilities			
Trade and other payables	30	**54,312**	55,324
Amount due to a director	27	**3**	—
Tax liabilities		**7,035**	7,348
Bank borrowings	31	**15,535**	41,964
		76,885	104,636
Net Current liabilities		**(14,911)**	(18,581)
Total Assets less Current Liabilities		**3,356**	2,913
Net Assets		**3,356**	2,913

Consolidated Statement of Financial Position

As At 31 December 2009

(Expressed in Renminbi Yuan thousands except otherwise stated)

	Note	2009 RMB'000	2008 RMB'000
Capital and Reserves			
Share capital	32	**52,000**	52,000
Reserves	33	**(48,931)**	(49,306)
Equity attributable to owners of the Company		**3,069**	2,694
Non-controlling interests		**287**	219
Total Equity		**3,356**	2,913

The consolidated financial statements on pages 24 to 83 were approved and authorised for issue by the Board of Directors on 30 March 2010 and are signed on its behalf by:

Director *Director*

The notes on pages 30 to 83 form part of these financial statements.

	Attributable to owners of the Company							
	Share capital	**Share premium**	**Statutory surplus reserve**	**Statutory public welfare fund**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2008	52,000	17,574	5,908	2,955	(70,447)	7,990	761	8,751
Loss for the year	–	–	–	–	(5,296)	(5,296)	(542)	(5,838)
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive loss for the year	–	–	–	–	(5,296)	(5,296)	(542)	(5,838)
Appropriated from the accumlated losses	–	–	46	23	(69)	–	–	–
At 31 December 2008	52,000	17,574	5,954	2,978	(75,812)	2,694	219	2,913
Profit for the year	–	–	–	–	375	375	68	443
Other comprehensive income for the year	–	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	–	375	375	68	443
At 31 December 2009	**52,000**	**17,574**	**5,954**	**2,978**	**(75,437)**	**3,069**	**287**	**3,356**

Consolidated Statement of Cash Flows

For the year ended 31 December 2009
(Expressed in Renminbi Yuan thousands except otherwise stated)

	2009 RMB'000	2008 RMB'000
CASH FLOWS OPERATING ACTIVITIES		
Profit/(Loss) before taxation	**406**	(5,573)
Adjustments for:		
Bank interest income	**(107)**	(10)
Finance costs	**2,260**	4,446
Depreciation of property, plant and equipment	**2,194**	2,277
Amortisation of prepaid lease payments	**81**	82
(Loss) /Gain on disposal of property, plant and equipment	**23**	(17)
(Reversed)/Impairment loss recognised on inventories	**(87)**	1,863
(Reversed)/Impairment loss recognised on trade and other receivables	**(254)**	5,463
Property, plant and equipment written off	**18**	103
Operating cash flows before movements in working capital	**4,534**	8,634
Decrease in inventories	**566**	3,028
Decrease/(Increase) in trade receivables	**2,661**	(6,294)
Decrease/(Increase) in other receivables	**12,408**	(16,373)
Decrease in amounts due from/(to) directors	**249**	1,369
(Decrease)/Increase trade and other payables	**(1,012)**	1,399
Cash generated from/(used in) operations	**19,406**	(8,237)
Income taxes paid	**(276)**	(94)
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**19,130**	(8,331)
INVESTING ACTIVITIES		
Interest received	**107**	10
Purchase of property, plant and equipment	**(16)**	(84)
Proceeds on disposal of property, plant and equipment	**(16)**	28
Decrease in pledged bank deposits	**3,429**	189
NET CASH GENERATED FROM INVESTING ACTIVITIES	3,504	143

The notes on pages 30 to 83 form part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009
(Expressed in Renminbi Yuan thousands except otherwise stated)

	2009 RMB'000	2008 RMB'000
FINANCING ACTIVITIES		
Interest paid	**(2,260)**	(4,446)
Repayment of bank borrowings	**(26,429)**	(5,316)
Decrease in long-term receivables	**943**	357
Decrease in other financial assets	**—**	525
NET CASH USED IN FINANCING ACTIVITIES	**(27,746)**	(8,880)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(5,112)**	(17,068)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**8,734**	25,802
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
Represented by bank balances and cash	**3,622**	8,734

The notes on pages 30 to 83 form part of these consolidated financial statements.

1 GENERAL

The Company was established and registered as a joint stock company with limited liability 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 ("RMB"), which is the same as the functional currency of the Company.

The Company and its subsidiaries (collectively referred to the "Group") are principally engaged in design, development and manufacture of IC cards, magnetic cards, related equipment and application systems in the PRC.

2 BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2009, the Group had significant accumulated losses of approximately RMB75,437,000 and its current liabilities exceeded its current assets by RMB14,911,000. These conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the financial supports from the substantial shareholders to cover the Group's operating costs and to meet is financing commitments. The substantial shareholders have confirmed their intention and ability to provide continuing financial support to the Group so as to enable it to meet its liabilities as and when they fall due and to carry on its business for the foreseeable future.

In light of the measures described above, the directors are confident that the Group will have sufficient working capital to meet its financial obligation as and when they fall due. Accordingly, the directors are of the opinion that it is appropriate to prepare these consolidated financial statements on a going concern basis. These consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS's")

In the current year, the Group has applied the following new and revised standards, amendments to standards and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary , Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) - Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) - Int 13	Customer Loyalty Programmes
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) - Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS's") *(continued)*

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure Standard that has resulted in a redesignation of the Group's reportable segments (see note 9).

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not presented comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS's") *(continued)*

New and revised HKFRSs affecting presentation and disclosure only *(continued)*

HKFRSs (Amendments)	Amendments HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for the first-time adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business combinations[1]
HKFRS 9	Financial Instruments (relating to the classification and measurement of financial assets)[7]
HK (IFRIC) - Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[5]
HK (IFRIC) - Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC) - Int 19	Extinguishing Financial Liabilities with Equity Instruments[6]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 January 2011.
6 Effective for annual periods beginning on or after 1 July 2010.
7 Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 Financial Instruments introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS's") *(continued)*

New and revised HKFRSs affecting presentation and disclosure only *(continued)*

In addition, as part of Improvements to HKFRSs (2009), HKAS 17 Leases has been amended in relation to the classification of leasehold land. The amendments will be effective from 1 January 2010, with earlier application permitted. Before the amendments to HKAS 17, leasees were required to classify leasehold land as operating leases and presented as prepaid lease payments in the consolidated statement of financial position. The amendments have removed such a requirement. Instead, the amendments require the classification of leasehold land to be based on the general principles set out in HKAS 17, that are based on the extent to which risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The application of the amendments to HKAS 17 might affect the classification and measurement of the Group's leasehold land.

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

4 SIGNIFICANT ACCOUNTING POLICIES

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and 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 statement of comprehensive income 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, balance, income and expenses are eliminated on consolidation.

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the 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, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

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 on initial recognition.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position 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.

Operating lease payments are recognised as an expense 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.

Leasehold land for own use

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliable between the land and building elements, in which case the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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.

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.

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 profit or loss in the period 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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

— the technical feasibility of completing the intangible asset so that it will be available for use or sale;

— the intention to complete the intangible asset and use or sell it;

— the ability to use or sell the intangible asset;

— how the intangible asset will generate probable future economic benefits;

— the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and

— the ability to measure reliably the expenditure attributable to the intangible asset during its development.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development expenditure *(continued)*

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 measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

Inventories

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

At the end of the reporting period, 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 exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, and whenever there is indication that they may be impaired.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another Standard, in which case the impairment loss is treated as a revaluation decrease under that Standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount under another Standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that Standard.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect is material).

Financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Effective interest method (continued)

Income is recognised on an effective interest basis for debt instruments, of which interest income is included in net gains and losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including long-term receivables, trade receivables, other receivables, amount due from directors/a shareholder, pledged bank deposit, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (See accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is an objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For loans and other receivables, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

For certain categories of financial asset, such as trade receivables and other receivables, assets that are assessed not to be impaired individually are assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are mainly other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including bank borrowings, trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Equity Instruments

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

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 in other comprehensive income is recognised in profit or loss.

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

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 statement of comprehensive income 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4 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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 other comprehensive income in the consolidated financial statements and will be classified from equity to profit or loss on disposal of foreign operation. 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 other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

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 end of reporting period, 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 in other comprehensive income and accumulated in equity (the translation reserve).

4 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 as expenses when employees have rendered service entitling them to the contributions. There were no provisions under the Scheme whereby forfeited contributions may be used to reduce future contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

For the purpose of these financial statements, 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;

— 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 Group, or of any entity that is a related party of the Group.

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

Estimated impairment loss on trade and other receivables

The policy for impairment on 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. A reversal of impairment of approximately RMB254,000 was made during the year (2008: impairment of RMB5,463,000).

Estimated impairment loss on inventories

The management of the Group reviews an aging analysis at the end of each reporting date, and makes impairment loss on obsolete and slow-moving inventory items identified that are no longer suitable for sales or use in production. The management estimates the net realisable value for such finished goods and raw materials based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period. A reversal of impairment for loss on inventories of approximately RMB87,000 was made during the year (2008: Impairment of RMB1,863,000).

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(continued)*

Key sources of estimation uncertainty *(continued)*

Taxation

The Group is subject to PRC enterprise income 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.

Impairment of property, plant and equipment and land lease prepayments

The Group's property, plant and equipment comprise a significant portion of the Group's total assets. Changes in industry conditions may cause the estimated period of use or the value of these assets to change. Long-lived assets including property, plant and equipment are reviewed for impairment at least annually or whenever events or changes in circumstances have indicated that their carrying amounts may not be recoverable. If any such indication exists, the recoverable amount is estimated.

The recoverable amount of an asset is the greater of its net selling price 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, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

6 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 directors of the Company review 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.

The gearing ratio at the year end 31 December 2009 and 2008 was as follows:

	2009	2008
	RMB'000	RMB'000
Total Debt[(i)]	**15,535**	41,964
Less: Bank balances and cash (Note 29)	**(3,622)**	(8,734)
Net debt	**11,913**	33,230
Total equity[(ii)]	**3,356**	2,913
Net debt-to-equity ratio	**355%**	1,141%

i) Debt comprises bank borrowings detailed in note 31.

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

7 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**52,416**	76,961
Financial liabilities		
Amortised cost	**57,121**	84,587

(b) Financial risk management objectives and policies

The main risks arising from the Group's financial instruments are market risk (including currency risk and interest rate 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 long-term receivables, trade receivables, other receivables, deposits and prepayments, amount due from a shareholder/directors, pledged bank deposits, bank balances and cash, trade and other payables, amount due to a director 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.

7 FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk

(i) **Currency risk**

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

(ii) **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 Group considers that there is no significant cash flow interest risk as the Group does not have variable rate 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 the end of reporting date.

Sensitivity analysis

The sensitivity analysis below has been determined assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year and had been applied to the bank borrowings that would have a significant effect to the profit or loss. A 100 basis point (2008: 100 basis points) increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next end of reporting date.

At the end of reporting date, if interest rates had been 100 basis higher/lower and all other variables were held constant, the Group's net profit for the year ended 31 December 2009 would decrease/increase by approximately RMB155,000 (2008: RMB420,000), but there would be no impact on the other equity reserves.

7 FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Credit risk

The Group's maximum exposure to credit risk in the event of counterparties' failure to perform their obligations as at 31 December 2009 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The Group has concentration of 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 66.9% (2008: 51.7%) 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 end of the reporting period to ensure that adequate allowances are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit rating agencies.

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.

Liquidity tables

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

7 FINANCIAL INSTRUMENTS *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity tables *(continued)*

	Weighted average effective interest rate %	Within 1 year RMB'000	Over 1 year RMB'000	Total undiscounted cash flows RMB'000	Total carrying amount RMB'000
As at 31 December 2009					
Non-derivative financial liabilities					
Trade and other payables	**—**	**41,583**	**—**	**41,583**	**41,583**
Amount due to a director	**—**	**3**	**—**	**3**	**3**
Bank borrowings	**8.53**	**15,535**	**—**	**16,858**	**15,535**
		57,121	**—**	**58,444**	**57,121**
As at 31 December 2008					
Non-derivative financial liabilities					
Trade and other payables	—	42,623	—	42,623	42,623
Bank borrowings	7.42	41,964	—	45,078	41,964
		84,587	—	87,701	84,587

7 FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using inputs for the assets or liabilities that are not based on observable market data.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

8 TURNOVER

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

	2009	2008
	RMB'000	RMB'000
Sales of cards	**58,864**	59,644
Sales of non-card products	**3,802**	15,627
	62,666	75,271

9 SEGMENT INFORMATION

Segment revenues and result

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure Standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purposes of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach. In the past, the Group's primary reporting segment was business segments. The directors consider that the adoption of HKFRS 8 has not resulted in significant change in the presentation of the Group's reportable segment information as segment information has been previously presented on a basis consistent with the internal information reported to the Group's chief operating decision maker.

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

9 SEGMENT INFORMATION *(continued)*

Segment revenues and result *(continued)*

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2009

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
Sales to external customers	58,864	3,802	62,666
Inter-segment sales	16,356	250	16,606
Sub-total	75,220	4,052	79,272
Elimination of inter-segment sales			(16,606)
Total operating revenue			62,666
Result			
Segment profit/(loss)	1,690	(138)	1,552
Bank interest income			107
Other operating income			1,007
			2,666
Finance costs			(2,260)
Profit before taxation			406

Inter-segment sales are charged by reference to market prices.

9 SEGMENT INFORMATION *(continued)*

Segment revenues and result *(continued)*

The following is an analysis of the Group's revenue and results by reportable segment:

For the year ended 31 December 2008

	Cards RMB'000	Non-card products RMB'000	Total RMB'000
Revenue			
Sales to external customers	59,644	15,627	75,271
Inter-segment sales	29,018	809	29,827
Sub-total	88,662	16,436	105,098
Elimination of inter-segment sales			(29,827)
Total operating revenue			75,271
Result			
Segment loss	(1,366)	(986)	(2,352)
Bank interest income			10
Other operating income			1,379
Corporate expenses			(183)
			(1,146)
Finance costs			(4,427)
Loss before taxation			(5,573)

Inter-segment sales are charged by reference to market prices.

Segment profit/(loss) represents the profit earned by/(from) each segment without allocation of central administration costs including directors' salaries, corporate expenses, other income, finance costs, and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

9 SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

	Cards RMB'000	Non-cards RMB'000	Total RMB'000
Balance sheet as at 31 December 2009			
Segment assets			
Segment assets	**79,332**	**720**	**80,052**
Unallocated assets			**189**
Consolidated assets			**80,241**
Segment liabilities			
Segment liabilities	**55,207**	**959**	**56,166**
Unallocated liabilities			**20,719**
Consolidated liabilities			**76,885**
Balance sheet as at 31 December 2008			
Segment assets			
Segment assets	85,104	1,441	86,545
Unallocated assets			21,004
Consolidated assets			107,549
Segment liabilities			
Segment liabilities	48,202	2,705	50,907
Unallocated liabilities			53,729
Consolidated liabilities			104,636

9 SEGMENT INFORMATION *(continued)*

Other segment information

For the purposes of monitoring segment performance and allocating resources between segments:

— Assets used jointly by segments are allocated on the basis of the revenues earned by individual segments; and

— liabilities for which segments are jointly liable are allocated in proportion to segment assets.

	Cards RMB'000	Non-cards RMB'000	Total RMB'000
For the year ended 31 December 2009			
Amount included in the measure of segment profit or loss or segment assets:			
Additions to property, plant and equipment	**16**	**—**	**16**
Depreciation for property, plant and equipment	**2,108**	**86**	**2,194**
Reversal of impairment loss on trade and other receivables	**(254)**	**—**	**(254)**
Reversal of impairment loss on inventories	**(87)**	**—**	**(87)**
Loss on disposal of property, plant and equipment	**23**	**—**	**23**
Property, plant and equipment written off	**18**	**—**	**18**
Amortisation of prepaid lease payments	**81**	**—**	**81**
For the year ended 31 December 2008			
Amount included in the measure of segment profit or loss or segment assets:			
Additions to property, plant and equipment	84	—	84
Depreciation for property, plant and equipment	2,188	89	2,277
Impairment loss on trade and other receivables	5,115	348	5,463
Impairment loss on inventories	386	102	488
Gain on disposal of property, plant and equipment	(17)	—	(17)
Property, plant and equipment written off	103	—	103
Amortisation of prepaid lease payments	82	—	82

9 SEGMENT INFORMATION *(continued)*

Geographical information

All of the Group's operations are carried out in the PRC (country of domicile) and accordingly, the revenue from external customers and non-current assets are all situated in that region.

Revenue from major product

The Group's revenue from its major product was as follows:

	2009 RMB'000	2008 RMB'000
Card products		
eKeys	**22,773**	16,436

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009 RMB'000	2008 RMB'000
Customer A	**15,006**	281
Customer B	**11,684**	13,404
	26,690	13,685

10 OTHER INCOME

	2009 RMB'000	2008 RMB'000
Rental income (Note)	**—**	263
Consultancy income	**6**	250
Bank interest income	**107**	10
Others	**1,096**	849
	1,209	1,372

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

11 OTHER GAINS AND LOSSES

	2009 RMB'000	2008 RMB'000
(Loss)/Gain on disposals of property, plant and equipment	**(23)**	17
Property, plant and equipment written off	**(18)**	(103)
Impairment loss on trade and other receivables	**—**	(5,463)
Reversal of impairment loss on trade and other receivables	**254**	—
Net exchange loss	**(86)**	(319)
Reversal of impairment loss on inventories	**87**	—
Impairment loss on inventories	**—**	(1,863)
	214	(7,731)

12 FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interest on:		
Bank borrowings wholly repayable within five years	**2,260**	3,727
Imputed interest expense on other financial assets	**—**	700
	2,260	4,427

No interest was capitalised during the both reporting periods.

13 INCOME TAX (CREDIT)/EXPENSE

	2009 RMB'000	2008 RMB'000
The tax (credit)/charge comprises:		
PRC Enterprise Income Tax		
Current year	—	265
Overprovision in prior years	(37)	—
	(37)	265

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

The Company and certain of its subsidiaries, were subject to EIT at rate of 20% (2008: 15%) as they were classified as Advanced and New Technology Enterprise.

No provision for taxation has been made as the Group's income neither arise in, nor is derived from Hong Kong for the year ended 31 December 2009 (2008: Nil).

The tax charge for the year can be reconciled to the profit/(loss) per the consolidated statement of comprehensive income as follows:

	2009 RMB'000	2008 RMB'000
Profit/(Loss) before taxation	406	(5,573)
Tax at PRC Enterprise Income Tax rate of 25% (2008: 15%)	102	(836)
Tax effect of expenses not deductible for tax purpose	(71)	1,154
Effect of different tax rates of subsidiaries	42	(171)
Tax effect of tax losses not recognised	(230)	118
Utilisation of tax losses previously not recognised	120	—
Income tax (credit)/expense for the year	(37)	265

The Group had no significant unprovided deferred taxation as at 31 December 2009 and 2008.

At 31 December 2009, the Group has unused tax losses of approximately RMB12,406,000 (2008: RMB14,648,000) 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.

14 PROFIT/(LOSS) FOR THE YEAR

Profit/(Loss) for the year has been arrived at after charging:

	2009	2008
	RMB'000	RMB'000
Amortisation of prepaid lease payments	**81**	82
Auditors' remuneration	**479**	401
Cost of inventories recognised as an expense	**49,064**	51,019
Depreciation for property, plant and equipment	**2,194**	2,277
Research and development costs	**—**	204
Staff costs including directors' emoluments (Note 15)	**6,869**	8,979

15 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The emoluments paid or payable to each of the seven (2008: ten) directors and one (2008: one) supervisor were as follows:

	Li Qing Ming RMB'000	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Liu Guo Fei RMB'000	Gao Xiang Nong RMB'000	Wang Xiao Hong RMB'000	Han Ruo Pin RMB'000	Deng Xiao Bao RMB'000	Total RMB'000
For the year ended 31 December 2009									
Fees	—	—	—	—	—	—	—	—	—
Other emoluments									
Salaries and other benefits	281	46	—	362	—	—	317	—	1,006
Retirement benefits schemes contribution	6	7	—	6	—	—	4	—	23
Total emoluments	287	53	—	368	—	—	321	—	1,029

	Li Qing Ming RMB'000	Li Guang Ming RMB'000 (Note1)	Li Wen Jun RMB'000	Zhu Qing Feng RMB'000	Liu Guo Fei RMB'000	Li Quan Sheng RMB'000 (Note1)	Zhang Yu Chuan RMB'000 (Note1)	Gao Xiang Nong RMB'000	Wang Xiao Hong RMB'000	Han Ruo Pin RMB'000	Deng Xiao Bao RMB'000	Total RMB'000
For the year ended 31 December 2008												
Fees	—	—	—	—	—	—	—	—	—	—	—	—
Other emoluments												
Salaries and other benefits	277	1	77	—	673	12	12	12	6	—	6	1,076
Retirement benefits schemes contribution	7	—	—	—	7	—	—	—	—	—	—	14
Total emoluments	284	1	77	—	680	12	12	12	6	—	6	1,090

Notes:

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

16 EMPLOYEES' EMOLUMENTS

Of the five individuals with highest emoluments in the Group, three (2008: two) were directors of the Company whose emoluments are included in the disclosure in Note 15 above. The emoluments of the remaining two (2008: three) individuals were as follows:

	2009	2008
	RMB'000	RMB'000
Salaries and other benefits	**248**	677
Retirements benefits schemes contributions	**12**	11
	260	688

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

	2009	2008
	No. of employees	No. of employees
Nil to RMB1,000,000	**2**	3

17 DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2009 (2008: Nil), nor has any dividend been proposed since the end of the reporting period (2008: Nil).

18 PROFIT/(LOSS) PER SHARE

The calculation of the basic profit/(loss) per share for the year is based on the profit/(loss) for the year attributable to the owners of the Company of approximately RMB375,000 (2008: RMB5,296,000) and the weighted average of 520,000,000 (2008: 520,000,000) ordinary shares in issue during the year.

No diluted profit/(loss) per share have been presented for two years ended 31 December 2009 and 2008 as there were no diluting events existed during those years.

19 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Leasehold improvement, furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 1 January 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
Additions	—	9	7	—	—	16
Disposals	—	—	—	(218)	—	(218)
Written off	—	(15)	(7)	(80)	—	(102)
At 31 December 2009	**19,225**	**21,607**	**2,626**	**1,024**	**8,518**	**53,000**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2008	6,865	15,202	2,637	796	8,518	34,018
Depreciation expense	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
Depreciation expense	574	1,261	208	151	—	2,194
Eliminated on disposals	—	—	—	(211)	—	(211)
Written off	—	(14)	(6)	(64)	—	(84)
At 31 December 2009	**8,012**	**17,458**	**2,249**	**804**	**8,518**	**37,041**
CARRYING AMOUNTS						
At 31 December 2009	**11,213**	**4,149**	**377**	**220**	**—**	**15,959**
At 31 December 2008	11,787	5,402	579	394	—	18,162

19 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

	Depreciation line	Residual 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%

The buildings are situated on land held under medium-term leases in the People's Republic of China.

The carrying amount of the Group's buildings includes an amount of approximately RMB5,036,000 (2008: RMB5,183,000) 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 amount of the Group's building, plant and machinery which are pledged to secure banking facilities granted to the Group is approximately RMB8,083,000 (2008: RMB8,446,000) (Note 35).

20 PREPAID LEASE PAYMENTS

The amount represents medium-term prepaid lease payments relating to land use rights which are located in the People's Republic of China. Analysis of the carrying amount of prepaid lease payments are as follows:

	2009 **RMB'000**	2008 RMB'000
Current portion	**82**	82
Non-current portion	**2,308**	2,389
	2,390	2,471

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

21 INTEREST IN A JOINTLY CONTROLLED ENTITY

	2009 RMB'000	2008 RMB'000
Cost of investment in an unlisted jointly controlled entity	**836**	836
Share of post-acquisition loss	**(189)**	(189)
	647	647
Less: Accumulated impairment	**(647)**	(647)
	—	—

As at 31 December 2009 and 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 interest in the jointly controlled entity which is accounted for using the equity method is set out below:

	2009 RMB'000	2008 RMB'000
Non-current assets	**1,179**	1,179
Current assets	**102**	102
Current liabilities	**3,801**	3,793
Income	**—**	—
Expenses	**7**	7

22 LONG-TERM RECEIVABLES

	2009 RMB'000	2008 RMB'000
Long-term receivables	—	943

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 bank borrowing to the Group. During the year of 2009, the deposit paid had been released upon the settlement of relevant bank borrowings.

23 INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	**11,014**	11,041
Finished goods	**3,743**	4,282
	14,757	15,323
Less: Accumulated impairment	**(5,281)**	(5,368)
	9,476	9,955

24 TRADE RECEIVABLES

	2009 RMB'000	2008 RMB'000
Trade receivables	**87,628**	90,289
Less: Accumulated impairment	**(47,568)**	(47,357)
	40,060	42,932

The aged analysis of trade receivables net of impairment loss presented based on transaction date at the reporting date.

	2009 RMB'000	2008 RMB'000
1 to 90 days	**21,913**	19,435
91 to 180 days	**8,774**	7,454
181 to 365 days	**4,399**	11,234
Over 365 days	**52,542**	52,166
	87,628	90,289

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.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately RMB9,365,000 (2008: RMB16,043,000) which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

24 TRADE RECEIVABLES *(continued)*

Aging analysis of trade receivables which are past due but not impaired are as follows:

	2009	2008
	RMB'000	RMB'000
181 to 365 days	**4,401**	11,230
Over 365 days	**4,964**	4,813
	9,365	16,043

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

Movements in the impairment for trade receivables are as follows:

	2009	2008
	RMB'000	RMB'000
Balance at beginning of the year	**47,357**	44,898
Impairment losses recognised during the year	**211**	2,459
Balance at end of the year	**47,568**	47,357

Included in the impairment on trade receivables are individually impaired trade receivables with an aggregate balance of RMB47,568,000 (2008: RMB47,357,000) since the management considered the prolonged outstanding balances were uncollectible. The Group does not hold any collateral over these balances.

25 OTHER RECEIVABLES

	2009 RMB'000	2008 RMB'000
Advance to suppliers	**3,093**	3,792
Other financial assets	**—**	525
Other debtors, deposits and prepayments	**7,474**	18,658
	10,567	22,975
Less: Accumulated impairment loss on other receivables	**(2,554)**	(3,019)
	8,013	19,956

Movement in the impairment loss on other receivables are as follows:

	2009 RMB'000	2008 RMB'000
Balance at beginning of the year	**3,019**	17,242
Amount written off as uncollectible	**—**	(17,227)
(Reversed)/Impairment loss recognised during the year	**(465)**	3,004
Balance at the end of the year	**2,554**	3,019

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.

The amount of other debtors are unsecured, interest-free and repayable on demand.

Included in the impairment loss are individually impaired other receivables with an aggregate balance of RMB2,554,000 (2008: RMB3,019,000) which are due to long outstanding in severe financial difficulties. The Group does not hold any collateral over these balances.

26 AMOUNT DUE FROM A SHAREHOLDER

	Balance at 31/12/2009 RMB'000	Balance at 1/1/2009 RMB'000	Maximum amount outstanding during the year RMB'000
Jianheng Holding Company Limited	**500**	500	500

The amount is unsecured, interest-free and repayable on demand.

27 AMOUNTS DUE FROM/(TO) DIRECTORS

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

	Balance at 31/12/2009 RMB'000	Balance at 1/1/2009 RMB'000	Maximum amount outstanding during the year RMB'000
Mr. Li Qi Ming	**221**	407	407
Mr. Liu Guo Fei	**(3)**	60	60
	218	467	

The amounts are unsecured, interest-free and repayable on demand.

28 PLEDGED BANK DEPOSITS

The amount represented deposit pledged to a bank to secure bank borrowings to the Group. During the year of 2009, the pledged bank deposits of RMB3,429,000 was released upon the settlement of relevant bank borrowings.

29 BANK BALANCES AND CASH

Bank balances bear interests at floating rates based on daily bank deposit rates. The amounts are subject to foreign exchange control imposed by the relevant PRC authorities, but the usage of these balances may not be subject to any restriction.

30 TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the transaction date at the end of reporting period:

	2009	2008
	RMB'000	RMB'000
1 - 90 days	**12,845**	8,595
91 - 180 days	**838**	2,269
181 - 365 days	**1,300**	3,386
Over 365 days	**9,092**	11,771
Trade payables	**24,075**	26,021
Value-added tax payable	**12,729**	11,159
Deposits from customers	**—**	1,542
Other payables	**17,508**	16,602
	54,312	55,324

The average credit period on purchases of goods is 90 - 180 days (2008: 90 - 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

31 BANK BORROWINGS

	2009 RMB'000	2008 RMB'000
Short-term bank loans:		
Secured	**10,646**	36,359
Unsecured	**4,889**	5,605
	15,535	41,964

Included in bank borrowings were unsecured bank loans guaranteed by:

	2009 RMB'000	2008 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	**4,889**	5,605

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

	2009 RMB'000	2008 RMB'000
Fixed-rate bank borrowings		
Within one year	**15,535**	19,964
Variable-rate bank borrowings		
Within one year	**—**	22,000
	15,535	41,964

31 BANK BORROWINGS *(continued)*

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

	2009	2008
	RMB'000	RMB'000
Effective interest rate:		
Fixed-rate borrowings	**8.019% - 8.748%**	7.56% - 8.748%
Variable-rate borrowings	**—**	5.94%

The Group's bank borrowings are denominated in Renminbi.

The bank loans of RMB10,646,000 borrowed from Guangdong Development Bank is secured by the following:-

(a) corporate guarantees issued by a subsidiary to the extent of RMB10,646,000 (2008: RMB11,459,000); and

(b) certain leasehold land and building with a net book value of RMB10,473,000 (2008: RMB10,917,000) (Notes 19 and 20).

32 SHARE CAPITAL

		Nominal value		
	Number of shares	**Domestic shares**	**H shares**	**Total**
	'000	**RMB'000**	**RMB'000**	**RMB'000**
Registered, issued and fully paid:				
At 31 December 2009 (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

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2008	17,574	5,908	2,955	(70,447)	(44,010)
Loss for the year	—	—	—	(5,296)	(5,296)
Other comprehensive income for the year	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	(5,296)	(5,296)
Appropriated from the accumulated losses	—	46	23	(69)	—
At 31 December 2008	17,574	5,954	2,978	(75,812)	(49,306)
Profit for the year	—	—	—	375	375
Other comprehensive income for the year	—	—	—	—	—
Total comprehensive income for the year	—	—	—	375	375
At 31 December 2009	**17,574**	**5,954**	**2,978**	**(75,437)**	**(48,931)**

(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.

33 RESERVES *(continued)*

(ii) Statutory surplus reserve

Pursuant to the PRC Company Law, the Company and its subsidiaries 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 2009, 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 statement of comprehensive income, were as follows:

	2009	2008
	RMB'000	RMB'000
Retirement benefit schemes contributions	**627**	672

35 PLEDGE OF ASSETS

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

	2009	2008
	RMB'000	RMB'000
Buildings, plants and machinery (Note 19)	**8,083**	8,446
Prepaid lease payments (Note 20)	**2,390**	2,471
Bank deposits (Note 28)	**—**	3,429
	10,473	14,346

36 CAPITAL COMMITMENT

	2009	2008
	RMB'000	RMB'000
Capital injection in a jointly controlled entity contracted for but not provided in the financial statements	**786**	786

37 OPERATING LEASE

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases for the office premises during the period	**1,349**	892

At the end of reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of the office premises which fall due are as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**509**	304
In the second to fifth years inclusive	**932**	5
	1,441	309

Leases for office premises are negotiated for an average term of two years (2008: two years) and rentals are fixed for an average of two years (2008: two 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:

	2009 RMB'000	2008 RMB'000
Short-term benefits	1,006	1,076
Post-employment benefits	23	14
	1,029	1,090

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) Guarantee

Pursuant to guarantee contract entered during 2009, Mr. Li Qi Ming and Shenzhen Shendeking Investment Guarantee Co., Ltd provided guarantees for the bank borrowing of approximately RMB4,889,000 (2008: RMB5,605,000) to the Group.

(c) Balances with Related parties

Details of amounts due from/(to) related parties are set out in notes 26 and 27.

39. SUBSIDIARIES

Details of the Company's subsidiaries established as at 31 December 2009 and 2008 are as follows:

Name of subsidary	Place of registered/ operation	Class of share held	Issued and fully paid registered capital RMB'000	Proportion 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 had issued any debt securities at the end of the year (2008: Nil).

Financial Summary

RESULTS

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Turnover	100,313	72,059	97,056	75,271	**62,666**
Profit/(Loss) before tax	(25,660)	13,613	(66,982)	(5,573)	**406**
Income tax credit/(expense)	(1,194)	271	(18)	(265)	**37**
Profit/(Loss) for the year	(26,854)	13,884	(67,000)	(5,838)	**443**
Attributable to:					
Owner of the Company	(26,487)	(13,221)	(63,757)	(5,296)	**375**
Non-controlling interests	(367)	(663)	(3,243)	(542)	**68**
Profit/(Loss) for the year	(26,854)	(13,884)	(67,000)	(5,838)	**443**

ASSETS AND LIABILITIES

	For the year ended 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
Total assets	166,250	182,170	117,133	107,549	**80,241**
Total liabilities	(76,815)	(106,419)	(108,382)	(104,636)	**(76,885)**
Equity	89,435	75,751	8,751	2,913	**3,356**
Attributable to:					
Owner of the Company	84,968	71,747	7,990	2,694	**3,069**
Non-controlling interests	4,467	4,004	761	219	**287**
	89,435	75,751	8,751	2,913	**3,356**