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

2012 ANNUAL REPORT

* For identification purpose only

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

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

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.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the "Directors") of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors of the Company, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONTENTS

2	Corporate Information
3	Chairman's Statement
6	Directors, Supervisors and Senior Management
8	Management Discussion and Analysis
11	Directors' Report
15	Report of Supervisory Committee
16	Corporate Governance Report
23	Independent Auditor's Report
25	Consolidated Statement of Comprehensive Income
26	Consolidated Statement of Financial Position
27	Consolidated Statement of Changes in Equity
28	Consolidated Statement of Cash Flows
29	Notes to the Consolidated Financial Statements
68	Financial Summary

CORPORATE INFORMATION

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. Li Qi Ming *(Chairman)*
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 (deceased on 2 September 2012)
Mr. Chen Hong Lei (appointed on 5 February 2013)

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 (deceased on 2 September 2012)
Mr. Chen Hong Lei (appointed on 5 February 2013)

NOMINATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao (deceased on 2 September 2012)
Mr. Chen Hong Lei (appointed on 5 February 2013)

REMUNERATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Ms. Wang Xiao Hong
Mr. Deng Xiao Bao (deceased on 2 September 2012)
Mr. Chen Hong Lei (appointed on 5 February 2013)

CHIEF EXECUTIVE OFFICER

Mr. Guo Fan

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. Li Qi Ming

AUDITOR

KTC Partners CPA Limited

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

Room 338, 3/F.
No. 202 Building
Shangbu Industrial
North Hua Qiang Road
Fu Tian District
Shenzhen, 518028
The PRC

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 605 B, 6 Floor
Wing On Plaza
62 Mody Road
Tsimshatsui East, Kowloon
Hong Kong

HONG KONG SHARE REGISTRAR & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Shenzhen Development Bank

COMPANY'S WEBSITE ADDRESS

www.mwcard.com

GEM STOCK CODE

8301

CHAIRMAN'S STATEMENT

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") for the year ended 31 December 2012.

OPERATION REVIEW

For the year ended 31 December 2012, the turnover of the Group amounted to approximately RMB34,408,000 as compared to approximately RMB56,470,000 in the previous year, representing a decrease of 39%. The loss attributable to owners of the Company amounted to approximately RMB3,769,000 (2011: profit of approximately RMB1,190,000).

BUSINESS REVIEW

In 2012, due to the keen competition for the domestic card products, it led to decrease in sales but with better gross profit margin. However, the turnover still will have a strong rebound due to the continuing economy recovery and the upstream demand for domestic cards products.

In 2012, the Group developed its business in line with its established goals, that is, to be the leader in the PRC's card industry and terminal system industry; and turn "M&W" into a renowned brand in the PRC's smart card industry and smart terminal system industry ; with emphasis on the development of high-end products in the internet related services, self-produced products, COS software and hardware products.

1. **ADJUSTMENT OF KEY SALES STRATEGIES**

   As the Group's general memory card business faced keen competition for the market prices, the Group has focused on sales of high profit value-added products such as CPU Card, eKey, and smart terminal products 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 and second-generation electronic identity in various fields and industries, the application associated with identity security certification systems was expanded. 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.

   We have expanded the COS software and hardware systems relating to identity card security certification. The Group expects to launch various technologies and expand market of COS related products in 2013 and also expects to make a significant breakthrough in sales if such technologies are applied in the huge online shopping market in the PRC.

2. **RESEARCH AND DEVELOPMENT AND TECHNICAL SUPPORT**

We continued to proceed with the R&D of high-end products such as eKey, the Smart Card Operating System (SCOS) and Radio Frequency Identification (RFID) electronic label system. The SCOS has been upgraded to meet the changing needs of industrial applications and development platforms for new chips.

The Group will focus on investing in outdoor and indoor consumer terminal products, including application terminals used in medical, library records, animal and plant management.

As the PRC government strongly supported the development of cloud computing technology in accordance with the Policy on the Promotion and Development of Strategic Emerging Industries (國務院關於加快培養和發展戰略性新興產業的決定) under the Twelfth Five-Year Plan of the State Council, the Group will invest in the research and development of Internet network application technology and computing technology and launch various system integration products and services based on online shopping and new product lines including terminals of Internet of things and data services.

The Group will also develop the second generation of software and hardware of eKey and upgrade the functionality of COS software and hardware products.

3. **EXTERNAL COOPERATION**

We strengthened the integration of identity card certification systems in which it acted as an agent and fully leveraged the Company's brand and sales network to expand the market.

4. **EXPLORATION OF OVERSEAS MARKETS**

The Company continued to enhance its efforts in international marketing and sales and promoted its newly launched terminal products and cloud computing network system integration products in the international market.

BUSINESS PROSPECT

The Group's established goal is to become the leader in the PRC's card and terminal system product industry, turn "M&W" into a renowned brand in the PRC's smart card and terminal system industry and focus on high-end products in the sector of security technology.

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 noncontact COS systems in accordance with the Ministry of Construction, and establish a leading domestic team with the capabilities of the wireless UHF design.

We will continue to promote the serialization and marketization of the RFID electronic products, and launch various RFID-based indoor and outdoor terminal system facilities.

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.

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.

As cloud computing technology is strongly supported by China government in accordance with the Policy on the Promotion and Development of Strategic Emerging Industries (國務院關於加快培養和發展戰略性新興產業的決定) under the Twelfth Five-Year Plan of the State Council, the Group will conduct large sales conference to promote our new product lines based on cloud computing technology, including integrated system, terminals of Internet of things and data services.

The Group also will co-operate with the banks to promote the second generation of eKey and expand the promotion on the COS software application market.

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.

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, 28 March 2013

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

EXECUTIVE DIRECTORS

李啟明 (Mr. Li Qi Ming), aged 53, 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 47, is the vice-chairman and an executive Director. He graduated from 中共中央黨校 (Party School of the Central Committee (of the Communist Party of China)) with an undergraduate qualification in Managerial Economics. He joined the Group in April 2001 and was appointed as the vice-chairman and a Director of the Board on 26 April 2001. Mr. Zhu was the chairman of the board of directors and the general manager of 深圳市大明五洲投資控股有限公司 (Shenzhen Damingwuzhou Investment Holding Corporation Limited) from March 1998 to 13 October 2002.

李文軍 (Mr. Li Wen Jun), aged 42, 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 38, obtained a MBA degree from Columbia Southern University (US), and has about 14 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 43, is an independent non-executive Director appointed on 2 February 2004. He holds a Master Degree in Business Administration from 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 42, 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.

陳紅雷 (Mr. Chen Hong Lei), aged 44, is an independent non-executive Director appointed on 5 February 2013, and has obtained a MBA degree in Finance at Tsinghua University School of Economics and Management in 2012. Mr. Chen has over 20 years valuable experience in banking and finance industry field.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SUPERVISORS

李翔 (Mr. Li Xiang), aged 40, 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 57, 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 58, currently the manager of the human resources and administrative department of Sihui Mingwah Aohan Technology Company Limited, a subsidiary of the Company.

COMPLIANCE OFFICER

李啟明 (Mr. Li Qi Ming) will advise on and assist the Board in implementing procedures to ensure that the Company complies with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and responding promptly and efficiently to all enquires directed to him by the Stock Exchange.

CHIEF EXECUTIVE OFFICER

郭凡 (Mr. Guo Fan), aged 38, had been honorary president of Digital Trade School of Guangdong Baiyun College, business mentor of Southern Normal University, senior consultant and distinguished researcher of Guangdong Key Laboratory of E-commerce, vice president of Shenzhen E-commerce Association and chief consultant of OWOD. He joined the Group in July 2011.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

朱蕙芬 (Miss. Chu Wai Fan), aged 40, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2012, the Group recorded a turnover of approximately RMB34,408,000, representing a decrease of approximately 39% as compared with the turnover of approximately RMB56,470,000 in the previous year. Such decrease was mainly due to the keen competition which caused a sharp decrease in demand for the card products.

The gross profit of the Group for the year ended 31 December 2012 amounted to approximately RMB8,988,000, with an increase of approximately 18.3% as compared with the gross profit of approximately RMB7,598,000 in the previous year, and its percentage of gross profit for the year rose from 13.5% to 26.12% as compared with last year. The underlying reason of such increase is mainly attributable to the increase in sale orders for products with higher profit margins. Other gains and losses amounted to approximately (RMB6,392,000) for the year ended 31 December 2012 which mainly included the impairment loss recognised in respect of trade and other receivables of approximately (RMB9,345,000) and the written back of trade payables of approximately RMB2,014,000.

For the year ended 31 December 2012, the Group's general and administrative expenses decreased by approximately 44.6% from approximately RMB13,670,000 to approximately RMB7,574,000 as compared with last year. The decrease was mainly due to management stepped up efforts on cost control. In comparing with the same in 2011, the distribution and selling expenses was decreased by approximately 40.7% from approximately RMB6,320,000 to approximately RMB3,748,000 for the year ended 31 December 2012. The decrease was in line with the decrease in sales. The finance cost increased by 99.2% to approximately RMB1,267,000 as compared to approximately RMB636,000 in the previous year, which was mainly due to the late penalty interest charges incurred during the year. During the year, the income tax credit amounted to approximately RMB5,995,000 (2011: income tax expense of approximately RMB779,000). The income tax credit was mainly due to an overprovision for PRC Enterprise Income Tax of approximately RMB6,251,000 in prior years.

For the year ended 31 December 2012, loss attributable to owners of the Company was approximately RMB3,796,000 as compared to a profit of approximately RMB1,119,000 in 2011. The loss was mainly due to an impairment loss on trade and other receivables of approximately RMB9,345,000 made during the year.

For the year ended 31 December 2012, the Group had equity attributable to owners of the Company of approximately RMB1,808,000 (2011: RMB5,604,000), bank balances and cash of approximately RMB2,075,000 (2011: RMB2,612,000), current assets of approximately RMB38,178,000 (2011: RMB46,242,000) and current liabilities of approximately RMB39,241,000 (2011: RMB46,065,000). The Group's current ratio (total current assets over total current liabilities) was approximately 0.97 (2011: 1) as at 31 December 2012.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

NET CURRENT ASSETS

At 31 December 2012, the Group had net current liabilities of approximately RMB1,063,000 (2011: Net current assets of approximately RMB177,000). Current assets as at 31 December 2012 comprised inventories of approximately RMB3,667,000 (2011: RMB5,527,000), trade receivables of approximately RMB22,046,000 (2011: RMB26,991,000), other receivables of approximately RMB10,390,000 (2011: RMB11,112,000) and bank balances and cash of approximately RMB2,075,000 (2011: RMB2,612,000). Current liabilities as at 31 December 2012 comprised trade and other payables of approximately RMB32,340,000 (2011: RMB32,349,000), amount due to a director of RMB45,000 (2011: RMB48,000), income tax payable of approximately RMB3,000 (2011: RMB6,350,000) and loan from a former minority shareholder of approximately RMB6,853,000 (2011: RMB7,318,000).

GEARING RATIO

The Group's gearing ratios were approximately 195% and 77% as at 31 December 2012 and 31 December 2011 respectively.

CAPITAL COMMITMENTS

At 31 December 2012, the Group had no outstanding capital commitments (2011: Nil).

FINANCIAL RESOURCES

At 31 December 2012, the Group had bank balances and cash of approximately RMB2,075,000. 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 share capital of the Company are set out in note 27 to the consolidated financial statements.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2012.

SEGMENTAL INFORMATION

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

EMPLOYEES AND REMUNERATION POLICY

At 31 December 2012, the Group had 152 full time employees, comprising 21 in administration and finance, 25 in research and development and customer services, 48 in sales, 45 in production, 3 in purchase, and 10 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 2012.

CHARGES ON THE GROUP'S ASSETS

At 31 December 2012, there were no assets pledged as collateral for the Group's borrowings.

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 2012.

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.

LITIGATIONS

Details of the litigation are stated in note 28 to the consolidated financial statements.

CONTINGENT LIABILITIES

The Group had no significant liabilities as at 31 December 2012 (2011: Nil).

DIRECTORS' REPORT

The board of directors (the "Directors" or the "Board") of Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") have pleasure in presenting their annual report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

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 2012 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 70% of the Group's purchases. The largest supplier accounted for approximately 46% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 45% of the total turnover. The largest customer accounted for approximately 16% 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 2012 are set out in the consolidated statement of comprehensive income on page 25.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2012.

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 68. This summary does not form part of the audited consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on page 27.

DIRECTORS' REPORT

EMOLUMENTS OF DIRECTORS, SUPERVISORS, AND EMPLOYEES

Details of the emoluments of the Directors, supervisors and employees of the Group are set out in notes 18 and 19 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 20 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 27 to the consolidated financial statements.

BORROWINGS

Details of loan from a former minority shareholder of the Group as at 31 December 2012 are set out in note 26 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)*
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 (deceased on 2 September 2012)
Mr. Chen Hong Lei (appointed on 5 February 2013)

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 and supervisors are elected at a shareholders' meeting of the Company for a term of three years, renewable upon re-election at re-appointment.

MANAGEMENT CONTRACTS

Each of our Directors and supervisors has entered into a service contract with our Company for a term of three years from his/her date of appointment as a Director or supervisor.

Under each service contract, subject to shareholders' approval in general meeting, either party may terminate the contract at any time by giving to the others not less than 3 months' prior written notice. No director or supervisor proposed for the re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DISCLOSURES OF INTEREST

1. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' INTEREST IN SHARES

As at 31 December 2012, 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%	44.2%
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 as at 31 December 2012.

2. **SUBSTANTIAL SHAREHOLDERS**

So far as the Directors are aware, as at 31 December 2012, no persons or companies (not being a Director, supervisor 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.

DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE H SHARES

As at 31 December 2012, 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 2012, 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 2012.

CONNECTED AND RELATED PARTY TRANSACTIONS

Save as disclosed in note 30 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.

REPORT OF SUPERVISORY COMMITTEE

To the Shareholders:

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

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

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

Up till now, none of the Directors, chief executive and senior management staff had been found to have abused their authority, damaged the interests of the Company or infringed upon the interests of its shareholders and employees. None of them was found to be in breach of any laws and regulations or the Articles of Association of the Company. The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in 2012 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, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The board of directors of the Company (the "Board") and the management of the Company are committed to establishing good corporate governance practices and procedures. The maintenance of high standard of business ethics and corporate governance practices has always been one of the Group's goals. The Company believes that good corporate governance provides a framework that is essential for effective management, successful business growth and a healthy corporate culture, thereby leading to the enhancement of shareholders' value.

The Board has adopted the Code on Corporate Governance Practices (the "CG Code") and the new version of it which takes effect from April 2012 (the "New CG Code") as set out in Appendix 15 of the GEM Listing Rules (the "GEM Listing Rules"). Continuous efforts are made to review and enhance the Group's internal controls and procedures in light of changes in regulations and developments in best practices. To us, maintaining high standards of corporate governance practices is not just complying with the provisions but also the intent of the regulations to enhance corporate performance and accountability.

The Board is pleased to report compliance with the code provisions of the CG Code for the period from 1 January 2012 up to 31 December 2012 and the code provisions of the New CG Code for the period from 1 April 2012 to 31 December 2012, except that:

During the year, the Company had not sufficient number of independent non-executive directors ("INED") as one of the INED, Mr. Deng Xiao Bao ("Mr. Deng") deceased on 2 September 2012. Pursuant to Rules 5.05A and 5.06 of the GEM Listing Rules, the Company is required to appoint INED representing at least one-third of the Board of the Company within three months from the date of Mr. Deng's decease. However, until 2 February 2013, the Company appointed Mr. Chen Hong Lei to fill Mr. Deng's vacancy as an INED.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Rule 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding securities transactions by Directors. Having made specific enquiry with all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year.

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 pages 6–7 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 2012, the Board did not fulfill 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 as noted above. The Company 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 and Audit Committee during the year ended 2012:

THE ATTENDANCE OF DIRECTORS AND COMMITTEE MEMBERS

The Directors' attendances of the meetings of the Board, the Audit Committee, the Remuneration Committee, Nomination Committee and General Meeting in the year ended 31 December 2012 are as follows:

		Number of meetings attended/Number of meetings			
Name of Directors	**The Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**General Meeting**
Executive Directors					
Mr. Li Qi Ming *(Chairman)*	4/4	–	–	–	4/4
Mr. Zhu Qing Feng *(Vice-chairman)*	2/4	–	–	–	2/4
Mr. Li Wen Jun	4/4	–	–	–	4/4
Mr. Liu Guo Fei	4/4	–	–	–	4/4
Independent non-executive Directors					
Mr. Gao Xiang Nong	4/4	4/4	–	–	4/4
Ms. Wang Xiao Hong	4/4	4/4	–	–	4/4
Mr. Deng Xiao Bao (deceased on 2 September 2012)	2/4	2/4	–	–	2/4

RESPONSIBILITIES OF THE BOARD

The Board is responsible for leadership and control of the Group and be collectively responsible for promoting the success of the Group by directing and supervising the Group's affairs. The Board focuses on formulating the Group's overall strategies, authorising the development plan and budget; monitoring financial and operating performance; reviewing the effectiveness of the internal control system; supervising and managing management's performance of the Group; and setting the Group's values and standards. The Board delegates the day-to-day management, administration and operation of the Group to management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

CORPORATE GOVERNANCE FUNCTIONS

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, etc.

The Board held meetings from time to time whenever necessary. At least 7 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr. Li Qi Ming while the Chief Executive Officer ("CEO") is Mr. Guo Fan. There is a clear division of responsibilities between the Chairman and the CEO, in that the Chairman bears primary responsibility for the working of the Board, by ensuring its effective function, while the CEO bears executive responsibility for the Company's business, including management of the Company's day-to-day operations and implementation of key policies, procedures and business strategies approved by the Board.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

All independent non-executive directors are appointed for a specific term which may be extended as each and the Company may agree.

The current articles of association of the Company provide that subject to the manner of retirement by rotation of directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

PROFESSIONAL DEVELOPMENT

To assist directors' continuing professional development, the Company recommends directors to attend relevant seminars to develop and refresh their knowledge and skills. All directors also participate in continuous professional development programmes such as external seminars organised by qualified professionals, to develop and refresh their knowledge and skills in relation to their contribution to the Board. A record of the training received by the respective directors are kept and updated by the company secretary of the Company.

According to the records provided by the Directors, a summary of training received by the directors since 1 January 2012 up to 31 December 2012 is as follows:

Name of Directors	Reading seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements	Attending seminars, programmes, conferences relevant to the business or directors duties
Executive Directors		
Mr. Li Qi Ming *(Chairman)*	✓	✓
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 (deceased on 2 September 2012)	✓	✓

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") comprises 3 independent non-executive directors, Mr. Gao Xiang Nong, Ms. Wong Xiao Hong and Mr. Chen Hong Lei (appointed on 5 February 2013), who have reviewed the financial statements for the year ended 31 December 2012. Mr. Gao Xiang Nong is the chairman of the Audit Committee, who has appropriate professional qualifications and accounting and/or related financial management expertise. No member of the Audit Committee is a member of the former or existing auditor of the Company. The terms of reference of the Audit Committee are available at the Company's website and on the website of The Stock Exchange of Hong Kong Limited.

Our Audit Committee has primary responsibility for monitoring the quality of internal control and ensuring that the financial performance of the Company is properly measured and reported on, receiving and reviewing reports from management and the auditors relating to the annual and interim accounts, and monitoring the accounting and internal control system in use throughout the Group. The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment or dismissal of external auditors.

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included:

(a) review and supervise the financial reporting process and internal control system of the Company and its subsidiaries;

(b) recommendation to the Board, for the approval by shareholders, of the re-appointment of KTC Partners CPA Limited as the external Auditor and approval of their remuneration;

(c) determination of the nature and scope of the audit; and

(d) review the financial statements for the relevant periods.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") was established on 3 July 2008 comprising the 3 independent non-executive directors Mr. Gao Xiang Nong, Ms. Wong Xiao Hong and Mr. Chen Hong Lei. Mr. Gao Xiang Nong is the chairman of the Remuneration Committee. The terms of reference of the Remuneration Committee are available at the Company's website and on the website of The Stock Exchange of Hong Kong Limited.

The roles and functions of the Remuneration Committee include consulting the chairman of the Board about their remuneration proposals for other executive directors, making recommendation to the Board on the Company's remuneration policy and structure for all directors' and senior management and the Remuneration Committee has adopted the approach under the code provisions to make recommendations to the Board on the remuneration packages of individual executive directors and senior management.

Meeting of the Remuneration Committee shall be held at least once a year. No meeting was held during the year ended 31 December 2012.

NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 3 July 2008 comprising the 3 independent non-executive directors Mr. Gao Xiang Nong, Ms. Wang Xiao Hong and Mr. Chen Hong Kei. Mr. Gao Xiang Nong is currently the chairman of the Nomination Committee. The terms of reference of the Nomination Committee are available at the Company's website and on the website of The Stock Exchange of Hong Kong Limited.

The roles and functions of the Nomination Committee include reviewing the structure, size and composition of the Board at least annually, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying individuals suitably qualified to become members of the Board and selecting individuals nominated for directorship (if necessary), assessing the independence of the independent non-executive directors and making recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive officer. In considering the nomination of new directors, the Board will take into account the qualification, ability, working experience, leadership and professional ethics of the candidates, especially their experience in the cards and/or other professional areas.

ACCOUNTABILITY AND AUDIT

FINANCIAL REPORTING

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities (as set out in the Independent Auditor's Report) for preparing the financial statements of the Group that give a true and fair view of the state of affairs of the Group. The Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern and the Board has prepared the financial statements on a going concern basis. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

The Board reviews the effectiveness of the Group's material internal controls and is of the opinion that the resources for and qualifications of staff of the Company's accounting and financial reporting function are adequate and sufficient. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

AUDITORS' REMUNERATION

During the financial year ended 31 December 2012, the fees paid/payable to the Company's auditors is set out as follows:

SERVICES RENDERED	**Fees paid/payable** *RMB'000*
Audit services	553

COMPANY SECRETARY

Miss. Chu Wai Fan ("Miss. Chu") was appointed as the company secretary of the Company on 22 November 2007. The biographical details of Miss. Chu are set out under the section headed "Directors, supervisor and Senior Management".

Miss. Chu has taken not less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

SUPERVISORY COMMITTEE

As at the date of this report, the supervisory committee of the Company comprises three members, namely Mr. Li Xiang (Chairman), Ms. Liu Wei Qun and Mr. He Wei Ming. The supervisory committee is responsible for exercising supervision over the Board and its members and the senior management; and preventing them from abusing their power and authorities and jeopardizing the legal interests of the shareholders, the Company and its employees. During the year ended 31 December 2012, the supervisory committee held one meeting to review the financial positions of the Group and launched various activities to adhere to the principle of good faith.

CORPORATE GOVERNANCE REPORT

INVESTORS' RELATIONS

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels, such as press conference and seminars, to communicate with the media, analysts and fund managers. Designated senior management staff holds dialogue with analysts, fund managers and investors, who are also arranged to visit the Company and investment projects from time to time, so as to keep them abreast of the Group's business and latest developments. In addition, investors can also visit the Company's website at www.mwcard.com for the most updated information and the status of the business development of the Group.

There was no change in constitutional documents of the Company in the year ended 31 December 2012. Investors can also obtain the latest constitutional documents of the Company from the Company's website.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of shareholders of the Company and provide highly transparent and real-time information on the Company so as to keep the shareholders and investors abreast of the Company's position and help them to make the best investment decision. The Company believes that maintaining good and effective communication with shareholders can facilitate the shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognise the responsibility of safeguarding the interest of shareholders of the Company. In order to safeguard the shareholders' interest, the Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Company's website www.mwcard.com.

The annual general meetings are an appropriate forum for direct communication between the Board and shareholders. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings.

INDEPENDENT AUDITOR'S REPORT

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
(Incorporated in the People's Republic of China with limited liability)

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 25 to 67, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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.

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

BASIS FOR QUALIFIED OPINION — FUNDAMENTAL UNCERTAINTY RELATING TO THE GOING CONCERN BASIS

The Group incurred a consolidated loss attributable to owners of the Company of approximately RMB3,796,000 for the year ended 31 December 2012, and had consolidated net current liabilities of approximately RMB1,063,000 as at 31 December 2012. In addition, as explained in Note 28 to the consolidated financial statements, at 31 December 2012, the settlement amount of approximately RMB3,600,000 in relation to the litigation was overdue and requires immediate repayment. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As explained in the basis of preparation in Note 2 to the consolidated financial statements, the consolidated financial statements have been prepared by the directors on a going concern basis, the validity of which is dependent upon the future funding available and the financial support of a substantial shareholder.

Although the Group has received a letter of support from the substantial shareholder evidencing his commitment in this respect, we were unable to obtain sufficient evidence to satisfy ourselves as to the financial resources of the substantial shareholder and as to his ability to provide financial support to the Group. If the financial support from the substantial shareholder is not forthcoming and the Group is unable to obtain sufficient financing from other sources, the going concern basis would then be inappropriate.

The consolidated financial statements do not include any adjustments that would result from the unavailability of future funding and the failure to obtain financial support from the substantial shareholder. We consider that appropriate disclosures have been made. However, we consider this fundamental uncertainty is significant that we have qualified our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the consolidated financial statements.

QUALIFIED OPINION ARISING FROM FUNDAMENTAL UNCERTAINTY TO CONTINUE AS A GOING CONCERN

In our opinion, except for the fundamental uncertainties relating to the going concern basis, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KTC Partners CPA Limited
Certified Public Accountants
Chow Yiu Wah, Joseph
Practising Certificate Number: P04686

Hong Kong
28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**2012**	2011
		RMB'000	*RMB'000*
Turnover	10	**34,408**	56,470
Cost of sales		**(25,420)**	(48,872)
Gross profit		**8,988**	7,598
Other income	10	**339**	237
Other gains and losses	12	**(6,392)**	14,298
Distribution and selling expenses		**(3,748)**	(6,320)
General and administrative expenses		**(7,574)**	(13,670)
Finance costs	13	**(1,267)**	(636)
(Loss) profit before taxation	14	**(9,654)**	1,507
Income tax credit (expense)	15	**5,995**	(779)
(Loss) profit and total other comprehensive (expense) income for the year		**(3,659)**	728
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(3,796)**	1,119
Non-controlling interests		**137**	(391)
		(3,659)	728
(Loss) earnings per share			
Basic and diluted (RMB' cents)	16	**(0.73)**	0.22

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	**2012** **RMB'000**	2011 RMB'000
Non-current asset			
Property, plant and equipment	20	**3,508**	5,927
Current assets			
Inventories	21	**3,667**	5,527
Trade and other receivables	22	**32,436**	38,103
Bank balances and cash	23	**2,075**	2,612
		38,178	46,242
Current liabilities			
Trade and other payables	24	**32,340**	32,349
Amount due to a director	25	**45**	48
Income tax payable		**3**	6,350
Loan from a former minority shareholder	26	**6,853**	7,318
		39,241	46,065
Net current (liabilities) assets		**(1,063)**	177
Net assets		**2,445**	6,104
Capital and reserves			
Share capital	27	**52,000**	52,000
Reserves		**(50,192)**	(46,396)
Equity attributable to owners of the Company		**1,808**	5,604
Non-controlling interests		**637**	500
Total equity		**2,445**	6,104

The consolidated financial statements on pages 25 to 67 were approved and authorised for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

Li Qi Ming
Director

Zhu Qing Feng
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company							
	Share capital *RMB'000*	Share premium *RMB'000*	Statutory surplus reserve *RMB'000* (Note a)	Statutory public welfare fund *RMB'000* (Note b)	Accumulated losses *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2011	52,000	17,574	5,954	2,978	(74,021)	4,485	891	5,376
Total comprehensive income (expense) for the year	–	–	–	–	1,119	1,119	(391)	728
At 31 December 2011	52,000	17,574	5,954	2,978	(72,902)	5,604	500	6,104
Total comprehensive (expense) income for the year	–	–	–	–	(3,796)	(3,796)	137	(3,659)
At 31 December 2012	**52,000**	**17,574**	**5,954**	**2,978**	**(76,698)**	**1,808**	**637**	**2,445**

Notes:

(a) Statutory surplus reserve

Pursuant to the Company Law in the People's Republic of China (the "PRC"), 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.

(b) 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before taxation	**(9,654)**	1,507
Adjustments for:		
Amortisation of prepaid lease payments	**–**	75
Bank interest income	**(5)**	(81)
Depreciation of property, plant and equipment	**1,555**	1,974
Finance costs	**1,267**	636
Gain on disposal of property, plant and equipment	**(44)**	(10,762)
Gain on disposal of prepaid lease payments	**–**	(6,767)
Impairment loss recognised in respect of trade and other receivables	**9,345**	–
Reversal (allowance) for inventories	**(404)**	2,145
Reversal of impairment loss on trade and other receivables	**(508)**	(218)
Property, plant and equipment written off	**–**	1,137
Written back of trade payables	**(2,014)**	–
Operating cash flows before movements in working capital	**(462)**	(10,354)
Decrease in inventories	**2,264**	1,982
(Increase) decrease in trade and other receivables	**(3,170)**	16,772
Increase (decrease) in trade and other payables	**738**	(14,854)
Cash used in operations	**(630)**	(6,454)
Interest paid	**–**	(636)
Enterprise Income Tax paid	**(352)**	(1,579)
NET CASH USED IN OPERATING ACTIVITIES	**(982)**	(8,669)
INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	**956**	21,449
Interest received	**5**	81
Purchase of property, plant and equipment	**(48)**	(5,078)
Proceeds from disposal of prepaid lease payments	**–**	9,000
NET CASH FROM INVESTING ACTIVITIES	**913**	25,452
FINANCING ACTIVITIES		
Repayment of loan from a former minority shareholder	**(465)**	(18,082)
Repayments to a shareholder	**(3)**	(277)
NET CASH USED IN FINANCING ACTIVITIES	**(468)**	(18,359)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(537)**	(1,576)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	**2,612**	4,188
CASH AND CASH EQUIVALENTS AT THE END THE OF YEAR, represented by bank balances and cash	**2,075**	2,612

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL

Shenzhen Mingwah Aohan High Technology Corporation Limited (the "Company") was incorporated 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 addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section 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 the design, development and manufacture of IC cards, magnetic cards and related equipment and application systems in the PRC.

2. BASIS OF PREPARATION

At 31 December 2012, the Group reported a consolidated loss attributable to owners of the Company of approximately RMB3,796,000 for the year ended 31 December 2012, and had consolidated net current liabilities of approximately RMB1,063,000. The condition indicates the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern and therefore that it may be unable to realise its assets and discharge its liabilities in the normal course of business. Nevertheless, the directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the next twelve months from 31 December 2012 given that:

(i) the directors of the Company will consider different sources of financing being available; and

(ii) a substantial shareholder of the Company has committed to provide continuing support to enable the Group to operate as a going concern and meet its liabilities as they fall due for the foreseeable future.

Accordingly, the directors of the Company are of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets as current assets. The effect of these adjustments have not been reflected in the consolidated financial statements.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to Hong Kong Accounting Standard ("HKAS") 12	Deferred Tax: Recovery of Underlying Asset;
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets; and
Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009–2011 Cycle issued in 2012.

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NEW AND REVISED HKFRSs ISSUED BUT NOT YET EFFECTIVE

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 1	Government Loans[1]
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Interpretation 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

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

AMENDMENTS TO HKAS 32 OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES AND AMENDMENTS TO HKFRS 7 DISCLOSURES — OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments to HKFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to HKAS 32 and HKFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

HKFRS 9 FINANCIAL INSTRUMENTS

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 "*Financial Instruments: Recognition and Measurement*" are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

HKFRS 9 FINANCIAL INSTRUMENTS *(continued)*

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets. Regarding the Group's financial assets, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "*Consolidated and Separate Financial Statements*" that deal with consolidated financial statements. HK (SIC) — Int 12 "*Consolidation — Special Purpose Entities*" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvements with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "*Interests in Joint Ventures*". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) — Int 13 "*Jointly Controlled Entities — Non-monetary Contributions by Venturers*" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

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

NEW AND REVISED STANDARDS ON CONSOLIDATION, JOINT ARRANGEMENTS, ASSOCIATES AND DISCLOSURES *(continued)*

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

AMENDMENTS TO HKFRS 10, HKFRS 12 AND HKAS 27 INVESTMENT ENTITIES

The amendments to HKFRS 10 introduce an exception to consolidating subsidiaries for an investment entity, except where the subsidiaries provide services that relate to the investment entity's investment activities. Under the amendments to HKFRS 10, an investment entity is required to measure its interests in subsidiaries at fair value through profit or loss.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities.

The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The directors anticipate that the application of the amendments will have no effect on the Group as the Company is not an investment entity.

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

HKFRS 13 FAIR VALUE MEASUREMENT

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

AMENDMENTS TO HKAS 1 PRESENTATION OF ITEMS OF OTHER COMPREHENSIVE INCOME

The amendments to HKAS 1 "*Presentation of Items of Other Comprehensive Income*" introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that application of the other new or revised HKFRSs will have no material impact on the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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 an entity so as to obtain benefits from its activities.

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

INVESTMENTS IN SUBSIDIARIES

Investments in subsidiaries are included in the Company's statement of financial position at cost less impairment loss, if any.

REVENUE RECOGNITION

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

REVENUE RECOGNITION *(continued)*

(i) Sale of goods

Revenue from sales of goods is recognised when goods are delivered and title has passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(ii) Service income

Service income is recognised when services are provided.

(iii) Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income 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.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment including buildings held for use in production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

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 the 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 retranslation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

BORROWING COSTS

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

GOVERNMENT GRANTS

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

RETIREMENT BENEFIT COSTS

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

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 before taxation" 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 temporary 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.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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 is 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.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised in the consolidated 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified as loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

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 and 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.

Interest income is recognised on an effective interest basis for debt instruments.

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 trade and other receivables and balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is 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 financial assets have been affected.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial assets *(continued)*

Impairment loss on financial assets *(continued)*

For all financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, 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 loss recognised 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 and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade and other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to 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 losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and 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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a director and loan from a former minority shareholder are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 and accumulated in equity is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

FINANCIAL INSTRUMENTS *(continued)*

Derecognition *(continued)*

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

CASH AND CASH EQUIVALENTS

Bank balances and cash in the consolidated statement of financial position comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. For the purpose of the consolidated statement of cash flows, cash and cash equivalent consist of cash and short-term deposits as defined above.

IMPAIRMENT LOSSES ON ASSETS

At the end of each reporting period, the Group reviews the carrying amounts of its assets with finite useful lives 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. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

IMPAIRMENT LOSSES ON ASSETS *(continued)*

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 immediately in profit or loss.

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated 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 on-going 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.

CRITICAL JUDGMENTS IN APPLYING ACCOUNTING POLICIES

The following are the critical judgments, apart from those involving estimations (see below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Going concern basis

Although the Group has net current liabilities at the end of the reporting period, the Group manages its liquidity risk by monitoring its current and expected liquidity requirements regularly and ensuring sufficient liquid cash to meet the Group's liquidity requirements in the short and long term. The directors of the Company consider that the Group has no significant liquidity risk.

KEY SOURCES OF ESTIMATION UNCERTAINTY

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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

Estimated Impairment loss on trade and other receivables

The policy for impairment loss on trade and other receivables is based on the evaluation of collectability and aging analysis which is based 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 the Group's customers were to deteriorate, resulting in an impairment in their ability to make payments, additional impairment may be required.

At 31 December 2012, the carrying amounts of trade receivables was approximately RMB22,046,000 (2011: RMB26,991,000), net of impairment of loss of approximately RMB9,001,000 (2011: Nil).

At 31 December 2012, the carrying amounts of other receivables was approximately RMB10,390,000 (2011: RMB11,112,000), net of impairment loss of RMB344,000 (2011: Nil).

Allowance for Inventories

The management of the Group reviews an aging analysis at the end of each reporting period, and makes allowances for obsolete and slow-moving inventory items identified that are no longer suitable for sales or use in production. The management estimates the net realisable value for such finished goods and raw materials based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at the end of each reporting period. At 31 December 2012, the carrying amount of inventories was approximately RMB3,667,000 (2011: RMB5,527,000), net of allowances of approximately RMB3,614,000 (2011: RMB5,513,000).

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 loan from a former minority shareholder disclosed in Note 26, net of bank balances and cash and equity attributable to owners of the Company, comprising issued share capital and reserves.

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.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The ratio is calculated as net debt divided by equity.

The gearing ratio at the end of the reporting was as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Debts (i)	**6,853**	7,318
Bank balances and cash	**(2,075)**	(2,612)
Net debt	**4,778**	4,706
Total equity (ii)	**2,445**	6,104
Net debt-to-equity ratio	**195%**	77%

(i) Debts are defined as long and short-term borrowings (including loan from a former minority shareholder).

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

7. FINANCIAL INSTRUMENTS

CATEGORIES OF FINANCIAL INSTRUMENTS

	2012 *RMB'000*	2011 *RMB'000*
Loans and receivables (including cash and cash equivalents)	**34,511**	40,715
Financial liabilities at amortised cost	**26,296**	27,316

8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and other receivables, bank balances and cash, trade and other payables, amount due to a director and loan from a former minority shareholder. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. 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.

INTEREST RATE RISK

The interest income is derived from the Group' s current deposits that carry interest at the respective bank deposit rate of the banks located in the PRC.

The Group's cash flow interest rate risk relates primarily to its variable-rate loan from a former minority shareholder (see Note 26 for details). It is the Group's policy to keep this loan at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's bank deposits are short-term in nature and the exposure of the interest rate risk is minimal and no sensitivity to interest rate risk is presented.

The Group's exposure to interest rates on financial liabilities is detailed in the liquidity risk management section of this note. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the base lending rate published by the People's Bank of China.

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

Sensitivity analysis

As of 31 December 2012, it is estimated that a general 100 basis point increase or decrease in interest rates, with all other variables held constant, would increase or decrease the Group's loss for the year ended 31 December 2012 and accumulated losses by approximately RMB69,000 (2011: RMB73,000).

The above sensitivity analysis has been determined assuming that a change in interest rates had occurred at the end of the reporting period and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents directors' assessment of a reasonably possible change in interest rates over the period until the next reporting period. The analysis was performed on the same basis for the year ended 31 December 2011.

CREDIT RISK

At 31 December 2012 and 2011, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to the failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are authorised banks in the PRC with high credit ratings.

The Group has concentration of credit risk as 13% (2011: 12%) and 33% (2011: 41%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the card products segment.

At 31 December 2012 and 2011, all trade receivables were from customers located in the PRC.

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

LIQUIDITY RISK

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group is exposed to liquidity risk as at 31 December 2012 as the Group had net current liabilities RMB1,063,000. The directors of the Company are of the opinion that the Group will have sufficient working capital to meet its financial obligations and the details of which are set out in Note 2.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. 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 maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes 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.

	At 31 December 2012		At 31 December 2011	
	Within one year or on demand and total contracted discounted cash flow	**Carrying amounts**	Within one year or on demand and total contracted discounted cash flow	Carrying amounts
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Non-derivative financial liabilities				
Trade and other payables	**19,398**	**19,398**	19,950	19,950
Amount due to a director	**45**	**45**	48	48
Loan from a former minority shareholder	**7,223**	**6,853**	7,713	7,318
	26,666	**26,296**	27,711	27,316

9. FAIR VALUE

The fair value of financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values due to their short-term maturities.

10. TURNOVER AND OTHER INCOME

Turnover represents the gross invoiced value of goods sold, net of sales related taxes, returns and discounts, to outside customers.

An analysis of the Group's revenue for the year is as follows:

	2012 ***RMB'000***	2011 *RMB'000*
Turnover		
Sales of cards	**29,441**	52,860
Sales of non-cards	**4,967**	3,610
	34,408	56,470
Other income		
Interest income	**5**	81
Government grants income	**300**	–
Sundry income	**34**	156
	339	237
Total revenues	**34,747**	56,707

11. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on the types of goods sold or delivered or services provided. No operating segments have been identified by the chief operating decision maker have been aggregated in arising at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

Card products — design, development and manufacture of IC and magnetic cards

Non-card products — design, development and manufacture of card related equipment and application systems

(A) SEGMENT REVENUES AND RESULT

	Card products		Non-card products		Eliminations		Total	
	2012	2011	**2012**	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment revenue:								
Sales to external customers	**29,441**	52,860	**4,967**	3,610	**–**	–	**34,408**	56,470
Inter-segment sales	**12,668**	28,133	**–**	–	**(12,668)**	(28,133)	**–**	–
Total	**42,109**	80,933	**4,967**	3,610	**(12,668)**	(28,133)	**34,408**	56,470
Segment results	**(5,975)**	3,488	**(1,008)**	239	**–**	–	**(6,983)**	3,727
Interest income							**5**	81
Unallocated corporate expenses							**(1,409)**	(1,665)
Finance costs							**(1,267)**	(636)
(Loss) profit before taxation							**(9,654)**	1,507

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 4. Segment results represents the results of each segment without allocation of interest income, central administration costs, directors' remuneration and finance costs. This is the measure reported to the chief operating decision maker of the Group for the purposes of resource allocation and performance assessment.

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

11. SEGMENT INFORMATION *(continued)*

(B) SEGMENT ASSETS AND LIABILITIES

	Card products		Non-card products		Total	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Segment assets						
Segment assets	**33,893**	46,390	**5,718**	3,167	**39,611**	49,557
Unallocated assets					**2,075**	2,612
Total assets					**41,686**	52,169
Segment liabilities						
Segment liabilities	**27,670**	30,282	**4,670**	2,067	**32,340**	32,349
Unallocated liabilities					**6,901**	13,716
Total liabilities					**39,241**	46,065

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

- all assets are allocated to operating segments other than bank balances and cash. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments; and

- all liabilities are allocated to operating segments other than amount due to a director, loan from a former minority shareholder and income tax payable. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

11. SEGMENT INFORMATION *(continued)*

(C) OTHER SEGMENT INFORMATION

Amount included in the measure of segment profit or loss or segment assets:

	Card products		Non-card products		Total	
	2012	2011	**2012**	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Additions to non-current assets (Note)	**48**	5,078	**–**	–	**48**	5,078
Amortisation of prepaid lease payments	**–**	75	**–**	–	**–**	75
Depreciation for property, plant and equipment	**1,500**	1,904	**55**	70	**1,555**	1,974
Gain on disposal of property, plant and equipment	**(44)**	(10,762)	**–**	–	**(44)**	(10,762)
Gain on disposal of prepaid lease payments	**–**	(6,767)	**–**	–	**–**	(6,767)
Impairment loss recognised in respect of trade and other receivables	**9,345**	–	**–**	–	**9,345**	–
Property, plant and equipment written off	**–**	1,137	**–**	–	**–**	1,137
(Reversal) allowance for inventories	**(404)**	2,145	**–**	–	**(404)**	2,145
Reversal of impairment loss on trade and other receivables	**(508)**	(218)	**–**	–	**(508)**	(218)
Written back of trade payables	**(2,104)**	–	**–**	–	**(2,014)**	–

Note: Non-current assets included property, plant and equipment.

(D) GEOGRAPHICAL INFORMATION

For the two years ended 31 December 2012, all of the Group's revenue and assets were derived from customers and operations based in the PRC (country of domicile) and accordingly, no further analysis of the Group's geographical information is disclosed.

11. SEGMENT INFORMATION *(continued)*

(E) INFORMATION ABOUT MAJOR CUSTOMERS

Revenue from customers of the corresponding year contributing to over 10% of the total revenue of the Group are as follows:

	2012 **RMB'000**	2011 RMB'000
Customer A	**N/A***	12,177
Customer B	**N/A***	7,677
Customer C	**3,423**	N/A*

* The corresponding revenue do not contribute to over 10% of the total revenue of the Group in the respective year.

12. OTHER GAINS AND LOSSES

	2012 **RMB'000**	2011 RMB'000
Gain on disposal of property, plant and equipment	**44**	10,762
Gain on disposal of prepaid lease payments	**–**	6,767
Impairment loss recognised in respect of trade and other receivables	**(9,345)**	–
Property, plant and equipment written off	**–**	(1,137)
Reversal (allowance) on inventories (Note)	**404**	(2,145)
Reversal of trade and other receivables previously written off/impaired	**508**	218
Written back of trade payables	**2,014**	–
Others	**(17)**	(167)
	(6,392)	14,298

Note: For the year ended 31 December 2011, the allowance for inventories of approximately RMB2,145,000 (2012: Nil) relates to slow moving inventories which are stated at higher than its net realisable value.

13. FINANCE COSTS

	2012 **RMB'000**	2011 RMB'000
Interest on borrowings wholly repayable within five years	**1,267**	636

14. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging:

	2012 **RMB'000**	2011 *RMB'000*
Staff costs (including directors' emoluments)		
Salaries and other benefits	**4,330**	7,440
Retirement benefit scheme contribution	**360**	888
Total staff costs	**4,690**	8,328
Auditors' remuneration	**553**	536
Cost of inventories recognised as an expense	**25,420**	48,872
Depreciation for property, plant and equipment	**1,555**	1,974
Operating leases rentals in respect of buildings	**498**	586

15. INCOME TAX (CREDIT) EXPENSE

	2012 **RMB'000**	2011 *RMB'000*
PRC Enterprise Income Tax ("EIT")		
— Current	**256**	779
— Overprovision in prior years	**(6,251)**	–
	(5,995)	779

No provision for Hong Kong Profits Tax has been made as the Group's income neither arise in, nor is derived from Hong Kong.

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 the rate of 25% (2011: 24–25%) as they were classified as Advanced and New Technology Enterprise.

15. INCOME TAX (CREDIT) EXPENSE *(continued)*

The income tax (credit) expense for the year can be reconciled to the (loss) profit before taxation per the consolidated statement of comprehensive income as follows:

	2012	2011
	RMB'000	*RMB'000*
(Loss) profit before taxation	**(9,654)**	1,507
Tax at the domestic rate of 25% (2011: 25%)	**(2,414)**	377
Effect of different tax rates of subsidiaries	**–**	(31)
Tax effect of income not taxable for tax purpose	**(707)**	–
Tax effect of expenses not deductible for tax purpose	**1,512**	1,005
Tax effect of deductible temporary differences not recognised	**2,336**	–
Overprovision in prior years	**(6,251)**	–
Utilisation of tax losses previously not recognised	**(471)**	(572)
Income tax expense	**(5,995)**	779

At 31 December 2012, the Group has unused tax losses of approximately RMB9,371,000 (2011: RMB11,254,000) available for 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 will expire after five years from the year of assessment to which they relate.

At 31 December 2012, the Group has deductible temporary differences of approximately RMB9,345,000 (2011: Nil). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

16. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share is based on the loss attributable to owners of the Company of approximately RMB3,796,000 (2011: profit of approximately RMB1,119,000) and the weighted average number of ordinary shares in issue of approximately 520,000,000 shares (2011: 520,000,000) during the year.

The diluted (loss) earnings per share is the same as the basic (loss) earnings per share as there were no dilutive potential ordinary shares for the two years ended 31 December 2012.

17. DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

18. STAFF COSTS (EXCLUDING DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION)

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	3,799	6,812
Retirement benefit scheme contributions	346	876
	4,145	7,688

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.

19. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(A) DIRECTOR'S AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments paid or payable to each of the seven (2011: seven) directors and the Chief Executive Officer were as follows:

	For the year ended 31 December 2012			
	Fees RMB'000	Other emoluments and other benefits RMB'000	Retirement benefit scheme contributions RMB'000	Total emoluments RMB'000
Li Qi Ming	–	263	7	270
Li Wen Jun	–	12	–	12
Zhu Qing Feng	–	–	–	–
Liu Guo Fei	–	198	7	205
Gao Xiang Nong	–	12	–	12
Wang Xiao Hong	–	12	–	12
Deng Xiao Bao (deceased on 2 September 2012)	–	9	–	9
Guo Fan (Chief Executive Officer)	–	25	–	25
	–	531	14	545

19. DIRECTORS' AND CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(continued)*

(A) DIRECTOR'S AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

	For the year ended 31 December 2011			
	Fees	Other emoluments and other benefits	Retirement benefit scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Li Qi Ming	–	260	6	266
Li Wen Jun	–	12	–	12
Zhu Qing Feng	–	–	–	–
Liu Guo Fei	–	195	6	201
Gao Xiang Nong	–	12	–	12
Wang Xiao Hong	–	12	–	12
Deng Xiao Bao (deceased on 2 September 2012)	–	12	–	12
Guo Fan (Chief Executive Officer)	–	125	–	125
	–	628	12	640

No directors waived or agreed to waive any emoluments during the two years ended 31 December 2012.

(B) SENIOR MANAGEMENT'S REMUNERATION

Of the five individuals with highest emoluments in the Group, two (2011: two) were directors of the Company whose emoluments are set out above. The emoluments of the remaining three (2011: three) highest paid individuals were as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other benefits	**1,025**	1,030
Retirement benefit scheme contributions	**36**	25
	1,061	1,055

Their emoluments were within the following bands:

	2012	2011
Nil to RMB1,000,000	**3**	3

(C) No emoluments have been paid by the Group to the directors of the Company or the five highest paid individuals as an inducement to join or upon joining the Company, or as compensation for loss of office during the two years ended 31 December 2012.

20. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Leasehold improvement, furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST					
At 1 January 2011	19,225	25,925	2,721	1,468	49,339
Additions	–	178	4,250	650	5,078
Disposals	(19,225)	(2,036)	(237)	(81)	(21,579)
Written off (Note c)	–	(10,933)	(1,153)	(250)	(12,336)
At 31 December 2011	–	13,134	5,581	1,787	20,502
Additions	–	–	48	–	48
Disposals	–	(4,605)	(271)	(248)	(5,124)
At 31 December 2012	**–**	**8,529**	**5,358**	**1,539**	**15,426**
ACCUMULATED DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	8,585	22,868	2,342	897	34,692
Provided for the year	565	1,024	155	230	1,974
Eliminated on disposals	(9,150)	(1,503)	(192)	(47)	(10,892)
Eliminated on written off (Note c)	–	(9,998)	(951)	(250)	(11,199)
At 31 December 2011	–	12,391	1,354	830	14,575
Provided for the year	–	25	1,386	144	1,555
Eliminated on disposals	–	(3,898)	(249)	(65)	(4,212)
At 31 December 2012	**–**	**8,518**	**2,491**	**909**	**11,918**
CARRYING VALUES					
At 31 December 2012	**–**	**11**	**2,867**	**630**	**3,508**
At 31 December 2011	–	743	4,227	957	5,927

(a) The buildings are held in the PRC under medium-term leases.

20. PROPERTY, PLANT AND EQUIPMENT *(continued)*

(b) The above items of property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives less their residual values as follows:

	Depreciation rate	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%

(c) During the year ended 31 December 2011, the carrying values of plant and machinery, leasehold improvement, furniture, fixtures and equipment and motor vehicles amounting to approximately RMB1,137,000 (2012: Nil) was written off, which was mainly due to the removal of a factory.

21. INVENTORIES

	2012 **RMB'000**	2011 RMB'000
Raw materials	**2,712**	3,063
Finished goods	**955**	2,464
	3,667	5,527

At 31 December 2012, inventories to the amount approximately RMB3,614,000 (2011: RMB5,513,000) was stated at net realisable values.

22. TRADE AND OTHER RECEIVABLES

	2012 **RMB'000**	2011 RMB'000
Trade receivables	**31,047**	26,991
Less: Impairment loss recognised	**(9,001)**	–
	22,046	26,991
Prepayments, deposits and other receivables	**10,734**	11,112
Less: Impairment loss recognised	**(344)**	–
	10,390	11,112
	32,436	38,103

(i) 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.

(ii) An aged analysis of trade receivables, net of impairment loss recognised, presented based on transaction date is as follows:

	2012 **RMB'000**	2011 RMB'000
1 to 90 days	**10,082**	15,206
91 to 180 days	**6,164**	7,079
181 to 365 days	**5,227**	4,084
Over 365 days	**573**	622
	22,046	26,991

22. TRADE AND OTHER RECEIVABLES *(continued)*

(iii) Aging analysis of trade receivables which were past due but not impaired are as follows:

	Total	Neither past due nor impaired	Past due but not impaired Less than 180 days	181 to 365 days	More than 365 days
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2012	**22,046**	**14,330**	**3,349**	**4,367**	**–**
At 31 December 2011	26,991	22,511	–	3,893	587

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.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately RMB7,716,000 (2011: RMB4,480,000) which were past due at the end of the reporting period 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.

(iv) Movements in the impairment losses recognised in respect of trade receivables are as follows:

	2012	2011
	RMB'000	*RMB'000*
At the beginning of the year	**–**	2,150
Recognised for the year	**9,001**	–
Written off as uncollectible	**–**	(1,932)
Reversal during the year	**–**	(218)
At the end of the year	**9,001**	–

22. TRADE AND OTHER RECEIVABLES *(continued)*

(v) Movements in the impairment losses recognised in respect of other receivables are as follows:

	2012 **RMB'000**	2011 *RMB'000*
At the beginning of the year	**–**	–
Recognised for the year	**344**	–
At the end of the year	**344**	–

Included in the impairment loss are individually impaired other receivables with an aggregate balance of approximately RMB344,000 (2011: Nil) which are due to long outstanding. The Group does not hold any collateral over these balances.

23. BANK BALANCE AND CASH

For the two years ended 31 December 2012, bank balances represented short-term deposits with a maturity of three months or less. The interest rates ranged from 0.35% to 0.50% per annum (2011: 0.36% to 0.50% per annum).

24. TRADE AND OTHER PAYABLES

	2012 **RMB'000**	2011 *RMB'000*
Trade payables	**10,956**	12,731
Accrued expenses and other payables	**7,175**	6,824
Accrued interest	**1,267**	395
Value-added tax payable	**12,942**	12,399
	32,340	32,349

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

24. TRADE AND OTHER PAYABLES *(continued)*

(ii) An aged analysis of the trade payables at the end of the reporting period based on transaction date is as follows:

	2012 *RMB'000*	2011 *RMB'000*
0–90 days	**4,310**	6,020
91–180 days	**427**	28
181–365 days	**30**	272
Over 365 days	**6,189**	6,411
	10,956	12,731

25. AMOUNT DUE TO A DIRECTOR

The amount due to Li Q Ming is unsecured, non-interest bearing and repayable on demand.

26. LOAN FROM A FORMER MINORITY SHAREHOLDER

The loan from a former minority shareholder is unsecured, carries interest at the three month base lending rate published by the People's Bank of China and repayable in April 2012. Pursuant to a loan extension agreement dated 25 March 2012, the repayment date of the loan has been extended to 31 December 2013 with all other terms remaining the same.

27. SHARE CAPITAL

		Nominal value		
	Number of shares *'000*	Domestic shares *'000*	H shares *HK$'000*	Total *RMB'000*
Registered, issued and fully paid:				
At 1 January 2011 and 31 December 2011 and 2012 (nominal value of RMB0.10 each)	520,000	31,980	20,020	52,000

28. LITIGATIONS

On 28 December 2010, a legal claim action was taken by Shanghai Fudan Electronic Corporation Limited (上海復旦微電子股份有限公司) ("Shanghai Fudan") against the Company and Sihui Mingwah Aohan High Technology Co., Limited ("Sihui") for an outstanding amount with accrued interest of approximately RMB4,000,000 relating to the purchase of goods.

On 21 January 2011, a settlement agreement was issued by Guangdong Province Shenzhen City Fu Tian District People's Court (廣東省深圳市福田區人民法院). The Company and Sihui agreed to pay an amount of approximately RMB3,600,000 to Shanghai Fudan on or before 20 July 2011 as a full settlement of debt. However, the amount was not settled by the stipulated date and Shanghai Fudan has further taken legal action for the claim together with accrued interest of approximately RMB121,000 against the Company on 7 February 2012. The amount has still not been settled up to the date of this report.

29. OPERATING LEASE

THE GROUP AS LESSEE

The Group leases certain of its office premises under operating lease arrangements. Leases are negotiated for a term ranging from one to two years. The Group does not have an option to purchase the leased asset at the expiry of the lease period.

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:

	2012 ***RMB'000***	2011 *RMB'000*
Within one year	**366**	540
In the second to fifth years inclusive	**19**	144
	385	684

30. RELATED PARTY TRANSACTIONS

(A) The balances with related parties at the end of the reporting period are disclosed elsewhere in the consolidated financial statements.

(B) KEY MANAGEMENT COMPENSATION

The key management personnel of the Group comprises all the directors of the Company and the five highest paid individuals. Details of compensation of directors and the five highest paid individuals are included in Note 19.

31. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY

	Notes	**2012** **RMB'000**	2011 RMB'000
Non-current assets			
Property, plant and equipment		**3,327**	4,769
Investments in subsidiaries		**459**	2,459
		3,786	7,228
Current assets			
Inventories		**13,993**	930
Trade and other receivables		**9,998**	29,691
Amounts due from subsidiaries	(i)	**2,447**	2,601
Bank balances and cash		**648**	279
		27,086	33,501
Current liabilities			
Trade and other payables		**16,894**	16,421
Amount due to a director		**650**	672
Amounts due to subsidiaries	(i)	**4,316**	4,356
Income tax payable		**–**	2,319
Loan from a former shareholder		**6,853**	7,318
		28,713	31,086
Net current (liabilities) assets		**(1,627)**	2,415
Net assets		**2,159**	9,643
Capital and reserves			
Share capital		**52,000**	52,000
Reserves	(ii)	**(49,841)**	(42,357)
Total equity		**2,159**	9,643

31. STATEMENT OF FINANCIAL POSITION INFORMATION OF THE COMPANY *(continued)*

(i) The amounts are unsecured, non-interest bearing and repayable on demand.

(ii)

	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 2011	17,574	4,716	2,358	(69,391)	(44,743)
Total comprehensive income for the year	–	–	–	2,386	2,386
At 31 December 2011	17,574	4,716	2,358	(67,005)	(42,357)
Total comprehensive expense for the year	–	–	–	(7,484)	(7,484)
At 31 December 2012	**17,574**	**4,716**	**2,358**	**(74,489)**	**(49,841)**

32. SUBSIDIARIES

Details of the Company's subsidiaries established as at 31 December 2012 are as follows:

Name of subsidiary	Place of registration/ operation	Class of shares 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	Principal activities
Beijing Mingwah Aohan High Technology Co., Ltd.* (北京市明華澳漢科技有限公司)	PRC	Contributed capital	500	80%	400	Design, development and trading of IC cards, magnetic cards, related equipment and application systems
Guangzhou Mingwah Aohan High Technology Co., Ltd.* (廣州市明華澳漢科技有限公司)	PRC	Contributed capital	500	90%	450	Trading in IC cards, magnetic cards, related equipment and application systems
Shenzhen Mingwah Aohan Electronic Equipment Co., Ltd.* (深圳市明華澳漢電子設備有限公司)	PRC	Contributed capital	1,000	80%	800	Inactive
Sihui Mingwah Aohan High Technology Co., Ltd.* (四會市明華澳漢科技有限公司)	PRC	Contributed capital	10,000	80%	8,000	Manufacture of IC cards, magnetic cards and related equipment
Shenzhen Mingwah Aohan Digital Security Technology Co., Ltd.* (深圳市明華澳漢數據安全科技有限公司)	The PRC	Contributed capital	1,000	80%	800	Manufacture of IC cards, magnetic cards and related equipment
Mingwah Aohan Investment Group Limited (明華澳漢投資集團有限公司)	Hong Kong	Ordinary shares	9	100%	9	Not yet commenced business

None of the subsidiaries had issued any debt securities at the end of the reporting period.

* English name is for identification only.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**34,408**	56,470	99,130	62,666	75,271
(Loss) profit before taxation	**(9,654)**	1,507	2,132	406	(5,573)
Income tax credit (expense)	**5,995**	(779)	(112)	37	(265)
(Loss) profit for the year	**(3,659)**	728	2,020	443	(5,838)
Attributable to:					
Owner of the Company	**(3,796)**	1,119	1,416	375	(5,296)
Non-controlling interests	**137**	(391)	604	68	(542)
(Loss) profit for the year	**(3,659)**	728	2,020	443	(5,838)

ASSETS AND LIABILITIES

	At 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**41,686**	52,169	85,454	80,241	107,549
Total liabilities	**(39,241)**	(46,065)	(80,078)	(76,885)	(104,636)
	2,445	6,104	5,376	3,356	2,913
Attributable to:					
Owner of the Company	**1,808**	5,604	4,485	3,069	2,694
Non-controlling interests	**(637)**	500	891	287	219
	2,445	6,104	5,376	3,356	2,913