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# 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

# 2015
# 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-to-date information on GEM-listed issuers.**



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

# Contents

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Li Qi Ming *(Chairman)*
Mr. Loo Chung Keung, Steve *(Vice-chairman)*
(resigned on 23 December 2015)
Mr. Liu Guo Fei
Mr. Au-Yeung Ka Cheung (resigned on 14 September 2015)
Ms. Hou Qian (appointed on 13 October 2015)

### Independent Non-Executive Directors

Mr. Gao Xiang Nong
Mr. Chen Hong Lei
Ms. Huang Jinmin (resigned on 1 September 2015)
Mr. Yu Xiuyang (appointed on 1 September 2015)

### Supervisors

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

## AUDIT COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Mr. Chen Hong Lei
Ms. Huang Jinmin (resigned on 1 September 2015)
Mr. Yu Xiuyang (appointed on 1 September 2015)

## NOMINATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Mr. Chen Hong Lei
Ms. Huang Jinmin (resigned on 1 September 2015)
Mr. Yu Xiuyang (appointed on 1 September 2015)

## REMUNERATION COMMITTEE

Mr. Gao Xiang Nong *(Chairman)*
Mr. Chen Hong Lei
Ms. Huang Jinmin (resigned on 1 September 2015)
Mr. Yu Xiuyang (appointed on 1 September 2015)

## CHIEF EXECUTIVE OFFICER

Mr. Liu Guo Fei (appointed on 28 October 2015)

## COMPANY SECRETARY

Miss. Ma Shuk Fong (resigned on 19 September 2015)
Mr. Tam Siu Po (appointed on 19 September 2015)

## COMPLIANCE OFFICER

Mr. Li Qi Ming

## AUTHORIZED REPRESENTATIVES

Mr. Li Qi Ming
Mr. Tam Siu Po

## AUDITOR

KTC Partners CPA Limited

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

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

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3711, Tower Two
Times Square
Causeway Bay
Hong Kong

## HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M/F., Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

## PRINCIPAL BANKERS

China Merchants Bank
Bank of Guangzhou

## COMPANY'S WEBSITE

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 2015.

## PERFORMANCE AND REVIEW

For the year ended 31 December 2015, the revenue of the Group amounted to approximately RMB26,308,000 as compared to approximately RMB25,708,000 in the previous year, representing an increase approximately 2.33%. The profit for the year attributable to owners of the Company amounted to approximately RMB4,039,000 (2014: loss of approximately RMB6,002,000).

The Group recorded an increase in revenue in 2015 due to the following reasons:

With the financial support from our two major shareholders, the financial situation of the Company has been greatly improved. Based on the Company's mature technology as core strength and its long established reputation in the market, the Company believes that its business would soon recover. The Company intends to increase its customer base to media and entertainment industry, internet finance industry and precision instrument industry. As at 31 December 2015, the Company had already entered into two new contracts for its application system with two new customers, one from the internet finance industry and the other from the precision instrument industry, and such fact indicates that the market had gradually restored its confidence in the Company. Therefore the Company recorded a growth in revenue in the financial year ended 31 December 2015.

## BUSINESS PROSPECT AND LOOKING FORWARD

The Group's revenue is derived from the businesses of design, development and sale of IC cards, magnetic cards, related equipment and application systems in the PRC and has shown a downtrend for years. 2015 was a very challenging year for the Group. The Group's principal business is facing fierce competition. The Group expects that market for CPU smart cards will grow continuously for people are putting more emphasis on the security of private data. With the Group's mature application system for card products, the Directors gradually switch the business focus from the supply of traditional IC Card products to CPU smart cards. Also it is expected that the mature data encryption technology developed by the Group would have wider application to internet financing, media and entertainment and military instrument industries which require a higher standard of security. Therefore, it was the Group's intention to expand its operation targeting such industries.

The Group has an edge in product security and data encryption technology, which enables our products to be competitive in the above industries. The Group is of the view that its CPU smart cards and software products in these sectors will be highly competitive.

Trading in the shares of the Company was halted from 1 April 2014 to 3 February 2016. As all the resumption conditions prescribed by the Stock Exchange have been fulfilled, trading in the shares of the Company has been resumed since 4 February 2016.

# Chairman's Statement (continued)

## APPRECIATION

On behalf of the Board, I am grateful for the perseverance and resilience of our staff in such a difficult time and give thanks to all of them for their unswerving efforts. I also take this opportunity to express hearty gratitude to all shareholders, investors and business partners for their patience, understanding and continued support during the adverse period of time.

**Li Qi Ming**
*Chairman*
Shenzhen, the PRC, 30 March 2016

# Management Discussion and Analysis

## BUSINESS AND OPERATIONS REVIEW

In 2015, with the financial support from our two major shareholders, the financial situation of the Company has been greatly improved. The Company intends to increase its customer base to media and entertainment industry, internet finance industry and precision instrument industry. As at 31 December 2015, the Company had already entered into two new contracts for its application system with two new customers, one from the internet finance industry and the other from the precision instrument industry, which caused a growth in Company's sales.

The Group's business development was in line with its established goals; that is, to be the leader in the PRC's card industry and terminal system industry, turn M&W into a renowned brand in the PRC's smart card industry and terminal system industry with emphasis on the development of new COS software and hardware products.

### 1. Adjustment of Key Sales Strategies

As the Group's general memory card business faced intense price competition, the Group has focused on products such as CPU Card and eKey. eKey, the Group's high-end encrypted information security product, has secured a larger market share and greater strengths over its competitiveness in such markets.

The Group has expanded the COS software and hardware systems relating to identity card security certification. The Company expects that market for CPU smart cards would grow rapidly for people who are putting more emphasis on the security of private data. With mature application system for card products, the Company plans to gradually change its business focus from the supply of traditional IC Card products to the supply of CPU smart card products.

The Company expects that the mature data encryption technology developed by the Company would have wide application to internet finance industry, media and entertainment industry and precision instrument industry which require high standard of security. The Company has an edge in product security and data encryption technology, which enables the CPU smart cards and software products of the Company to be competitive in these industries.

### 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 of platforms for new chips.

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

Based on years of accumulation of encryption technology, the Group provides personalized products, research and development and technical support to different corporate customers.

### 3. External Cooperation

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

We will strengthen the market development of the COS software and hardware products, and distribute our products to different fields through agency sales mode. We can at the same time get in touch with customers from different areas via the agency sales mode and provide personalized products, research and development and technical support based on the encryption technology.

## FINANCIAL REVIEW

For the year ended 31 December 2015, the Group recorded a revenue of approximately RMB26,308,000, representing an increase of approximately 2.33% as compared with the revenue of approximately RMB25,708,000 in the previous year. Such increase was mainly due to the financial situation of the Company has been greatly improved because of the financial support from our two major shareholders, the Company's mature technology, and the new business plan in targeting the internet finance industry and precision instrument industry.

The gross profit of the Group for the year ended 31 December 2015 amounted to approximately RMB13,890,000, with an increase of approximately 231.6% as compared with the gross profit of approximately RMB4,189,000 in the previous year, and its percentage of gross profit for the year increased from 16.29% to 52.80% as compared with last year. The increase was mainly attributable to the increase in the sales of COS software products which were with higher profit margin.

Other gains and losses amounted to approximately RMB1,162,000 (2014: (RMB248,000)) for the year ended 31 December 2015, representing an increase in gain of approximately RMB1,410,000 compared with last year. The increase was mainly due to increase of net reversal of in impairment loss on trade and other receivables by approximately RMB653,000 and gain on settlement of debts of approximately RMB757,000 during the year.

Distribution and selling expenses decreased by approximately 48.4% from approximately RMB3,432,000 to approximately RMB1,771,000 for the year ended 31 December 2015. The decrease was mainly due to the decrease in depreciation expense.

For the year ended 31 December 2015, the Group's general and administrative expenses increased by approximately 58.6% from approximately RMB6,571,000 to approximately RMB10,423,000 as compared with last year. The increase was mainly due to increase in professional fees, in which certain portion was incurred in the process of application for resumption of trading of the Company's shares in the Stock Exchange.

The finance cost decreased by 11.3% to approximately RMB426,000 as compared to approximately RMB480,000 in the previous year, because the interest rate for the interest charge on the loan from a former minority shareholder decreased as compared with last year.

During the year, the income tax expense amounted to approximately RMB3,000 (2014: RMB34,000).

For the year ended 31 December 2015, profit attributable to owners of the Company was approximately RMB4,039,000 as compared to a loss of approximately RMB6,002,000 in 2014. The improvement was mainly attributable to increase in gross profit in the year.

Management Discussion and Analysis (continued)

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

### Financial position

At 31 December 2015, the Group had net current liabilities of approximately RMB52,002,000 (2014: RMB55,994,000), representing a decrease of RMB3,992,000 compared with last year. The decrease was mainly attributable to the decrease in trade and other payables by approximately RMB3,903,000. Taking into account the basis as set out in note 2 to the consolidated financial statements, the Directors are of the opinion that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the foreseeable future.

Current assets as at 31 December 2015 comprised inventories of approximately RMB195,000 (2014: RMB196,000), trade receivables of approximately RMB5,228,000 (2014: RMB2,339,000), other receivables of approximately RMB3,150,000 (2014: RMB5,419,000) and bank balances and cash of approximately RMB9,914,000 (2014: RMB1,659,000).

Current liabilities as at 31 December 2015 comprised trade and other payables of approximately RMB32,134,000 (2014: RMB36,037,000), amounts due to directors of approximately RMB8,795,000 (2014: RMB4,000), income tax payable of approximately RMB3,000 (2014: RMB9,000), loan from a former minority shareholder of approximately RMB6,853,000 (2014: RMB6,853,000) and provision for claims of approximately RMB22,704,000 (2014: RMB22,704,000).

### Gearing ratio

As the Group had a net deficiency in capital at 31 December 2015 and 2014, the Group's gearing ratio as at that dates was not applicable.

### Capital commitments

At 31 December 2015, the Group had no outstanding capital commitments (2014: Nil).

### Financial resources

At 31 December 2015, the Group had bank balances and cash of approximately RMB9,914,000. 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 28 to the consolidated financial statements.

## MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the year ended 31 December 2015.

## SEGMENTAL INFORMATION

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

## EMPLOYEES AND REMUNERATION POLICY

At 31 December 2015, the Group had 45 full time employees, comprising 17 in administration and finance, 13 in research and development and customer services, 13 in sales, 1 in purchase, and 1 in quality control.

The Company had to take continuing control of the workforce to reduce expenses due to the gradual mature of traditional business technology and the competitive market.

Nevertheless, the Company lost some skilled talents due to the decline in our business. However, the Group still attaches great importance to our employees, because our employees is the most precious assets of the Group in developing its traditional business and open up to new business and also the foundation of future development of the Group. The Group will provide our employees with the training courses related to personal development and practical work as much as possible allowed by its own condition, which encourage them to further enrich themselves and work together to build team spirit and raise morale. The Group will reward employees according to the Company's results, as well as their business performance and the contribution to the Company through their personal performance.

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

## CHARGES ON THE GROUP'S ASSETS

At 31 December 2015, there were no assets pledged as collateral for the Group's borrowings (2014: Nil).

## 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 2015.

## 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 27 to the consolidated financial statements.

## CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2015 (2014: Nil).

# 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") 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 throughout the year ended 31 December 2015 except for the following deviations:

(i) Prior to the appointment of Mr. Liu Guo Fei as the Group's chief executive officer, the function of chairman and chief executive officer of the Group rested on the same individual as detailed in Chairman and the Chief Executive Officer below.

    On 28 October 2015, Mr. Liu Guo Fei was appointed as the Group's chief executive officer. Thereafter the Company has complied with the CG Code.

(ii) On 15 December 2015, the Company arranged a Directors and Officers Liability Insurance (the "Insurance Arrangement") coverage on the directors' and officers' liabilities in respect of any legal actions against the directors and senior management arising out of corporate activities during the year. Prior to the Insurance Arrangement, the Company had no such type of insurance coverage.

## NON-COMPLIANCE WITH THE GEM LISTING RULES

(i) The Company was not able to timely comply with the financial reporting provisions under the GEM Listing Rules in (i) announcing the annual results for the financial years ended 31 December 2013 and 2014 and the first and third quarterly results for 2014 and 2015, and the interim results for 2014 and 2015 and (ii) publishing the related annual reports, and quarterly and interim reports for 2014 and 2015. Annual results for the year ended 31 December 2013, first and third quarterly results for 2014, and interim result for 2014 were announced on 28 October 2015. Annual results of the year ended 31 December 2014, first and third quarterly results for 2015, and interim result for 2015 were announced on 1 December 2015.

(ii) The Company did not make timely disclosure of and seek independent shareholders' approval for the continuing connected transactions for the financial years ended 31 December 2012, 2013 and 2014 as well as the period from 1 January 2015 to 30 September 2015 as detailed in the Company's announcement dated 14 October 2015, which constitutes a non-compliance of the GEM Listing Rules under Chapter 20. An extraordinary general meeting will be held in June 2016 to rectify the continuing connected transactions. The Company will make further announcement(s) in due course.

(iii) Reference is made to Note 27 to the consolidated financial statements in relation to several litigations of the Group, the status of which had not been properly updated as required by the GEM Listing Rules.

## 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 six 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 20–21 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 2015, the Board fulfilled the minimum requirement of appointing at least three independent non-executive directors as required by the GEM Listing Rules and the number of independent non-executive directors is more than 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, Committees and General Meeting during the year ended 31 December 2015:

Corporate Governance Report (continued)

## 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 2015 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)* | 7/7 | — | — | — | 1/1 |
| Mr. Loo Chung Keung, Steve *(Vice-chairman)* (resigned on 23 December 2015) | 5/7 | — | — | — | — |
| Mr. Au-Yeung Ka Keung (resigned on 14 September 2015) | 5/5 | — | — | — | — |
| Mr. Liu Guo Fei | 7/7 | — | — | — | 1/1 |
| Ms. Hou Qian (appointed on 13 October 2015) | 0/2 | — | — | — | 1/1 |
| **Independent Non-Executive Directors** | | | | | |
| Mr. Gao Xiang Nong | 7/7 | 2/2 | 2/2 | 3/3 | 0/1 |
| Mr. Chen Hong Lei | 7/7 | 2/2 | 2/2 | 3/3 | 0/1 |
| Ms. Huang Jinmin (resigned on 1 September 2015) | 3/3 | — | — | — | — |
| Mr. Yu Xinyang (appointed on 1 September 2015) | 4/4 | 2/2 | 1/1 | 2/2 | 0/1 |

## 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. In most cases, 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 is charge their duties and responsibilities.

## CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Prior to the appointment of Mr. Liu Guo Fei as the Group's chief executive officer on 28 October 2015, Mr. Li Qi Ming assumed the function of both the chairman and the chief executive officer of the Company. While serving as the chairman of the Group, Mr. Li leads the Board and is responsible for the proceedings and workings of the Board. He ensures that:

— the Board acts in the best interests of the Group; and

— the Board functions effectively, and that all key and appropriate issues are properly briefed and discussed by the Board.

The function of chairman and chief executive officer of the Group rests on the same individual which deviates from the code provision in the Corporate Governance Code of not having a clear division of responsibilities. The Board is of the view that has not compromised accountability and independent decision making for the following reasons:

— Audit Committee composed exclusively of independent non-executive directors; and

— The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advice when considered necessary.

Mr. Li, the executive chairman, is a substantial shareholder of the Group and has considerable industry experience. He is motivated to contribute to the growth and profitability of the Group. The Board is of the view that it is in the interests of the Group to have an executive chairman so that the Board can have the benefit of a chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and the management.

Corporate Governance Report (continued)

## APPOINTMENT AND RE-ELECTION OF DIRECTORS

All 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 2015 up to 31 December 2015 is as follows:

| | 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 |
|---|---|---|
| **Name of Directors** | | |
| **Executive Directors** | | |
| Mr. Li Qi Ming *(Chairman)* | √ | √ |
| Mr. Loo Chung Keung, Steve *(Vice-chairman)* (resigned on 23 December 2015) | √ | √ |
| Mr. Liu Guo Fei | √ | √ |
| Mr. Au-Yeung Ka Keung (resigned on 14 September 2015) | √ | √ |
| Ms. Hou Qian (appointed on 13 October 2015) | √ | √ |
| **Independent Non-Executive Directors** | | |
| Mr. Gao Xiang Nong | √ | √ |
| Mr. Chen Hong Lei | √ | √ |
| Ms. Huang Jinmin (resigned on 1 September 2015) | √ | √ |
| Mr. Yu Xinyang (appointed on 1 September 2015) | √ | √ |

## AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") currently comprises 3 independent non-executive directors, Mr. Gao Xiang Nong, Mr. Chen Hong Lei and Mr. Yu Xiuyang, who have reviewed the financial statements for the year ended 31 December 2015. 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 and currently comprises 3 independent non-executive directors, Mr. Gao Xiang Nong, Mr. Chen Hong Lei and Mr. Yu Xiuyang. 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. Two meetings were held during the year ended 31 December 2015.

Corporate Governance Report (continued)

## NOMINATION COMMITTEE

The nomination committee of the Company (the "Nomination Committee") was established on 3 July 2008 and currently comprises 3 independent non-executive directors, Mr. Gao Xiang Nong, Mr. Chen Hong Lei and Mr. Yu Xiuyang. 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 Company has put in place adequate financial reporting procedures and internal control systems. 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 2015, the fees paid/payable to the Company's auditors is set out as follows:

| Services Rendered | Fees paid/ payable RMB'000 |
|---|---|
| Audit services | 793 |
| Non-audit services | 88 |
| Total | 881 |

## COMPANY SECRETARY

Miss. Ma Shuk Fong resigned on 19 September 2015 and Mr. Tam Siu Po ("Mr. Tam") was appointed as the Company secretary of the Company on 19 September 2015. The biographical details of Mr. Tam are set out under the section headed "Directors, Supervisor and Senior Management".

According to the Rule 3.15 of the GEM Listing Rules, Mr. Tam have taken not less than 15 hours of relevant professional training during the financial year ended 31 December 2015.

## 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 2015, the supervisory committee should hold meetings to review the financial positions of the Group and launched various activities to adhere to the principle of good faith. No meeting was held during the year ended 31 December 2015.

## SHAREHOLDERS' RIGHTS

The Board is committed to maintaining an on-going dialogue with shareholders and providing timely disclosure of information concerning the Group's material developments to shareholders.

### (a) Annual General Meeting

The Annual General Meeting ("AGM") of the Company provides a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 45 days prior to such AGM. The chairmen of all Board Committees are invited to attend the AGM. The Chairman of the Board and the chairmen of all the Board Committees, or in their absence, other members of the respective Committees, are available to answer questions at the AGM. The Auditor is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence. The Company's policy is to involve shareholders in the Company's affairs and to communicate with them about the activities and prospects face-to-face at the AGM.

Pursuant to the Listing Rules, any vote of shareholders at a general meeting will be taken by poll. Detailed procedures for conducting a poll will be explained to the shareholders at the general meeting to ensure that shareholders are familiar with such voting procedures. The poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company on the business day following the general meeting. Moreover, separate resolution will be proposed by the chairman of a general meeting in respect of each substantially separate issue.

### (b) Rights and Procedures for Shareholders to Convene a General Meeting

All general meetings other than the annual general meeting are called extraordinary general meetings. An extraordinary general meeting may be convened at the request of shareholders under the following conditions:

1. On the written requisition of any two or more shareholders of the Company holding as at the date of deposit of the requisition not less than 10 per cent of the paid-up capital of the Company which carries the right of voting at a general meeting of the Company;

2. The requisition must specify the objects of the meeting, be signed by the requisitionists, and be deposited at the principal place of business of the Company in Hong Kong as set out on page 2 of this annual report under the "Corporate Information" section;

3. The shareholders planning to attend the general meetings shall deliver the written reply on participating in the meeting to the Company 20 days before the general meeting is held. The Company shall calculate the shares with the voting right represented by the shareholders planning to attend the general meeting according to the written reply received 20 days before the general meeting is held. The Company can hold the general meeting when the shares with the voting right represented by the shareholders planning to attend the meeting exceed more than 50 per cent of the total shares of the Company with the voting right; and otherwise, the Company shall notify the shareholders again of the issues to be reviewed, the date and the venue of the meeting in the form of announcement within 5 days, and then the Company can hold the general meeting.

### (c) Procedures for Putting Forward Proposals at General Meetings

1. If shareholders would like to put forward proposals at the general meetings, the board of directors, the board of supervisors, and the shareholders holding more than 3 per cent of the Company shares either independently or collectively shall have the right to submit proposals to the Company. Such proposals shall be delivered to the Company within 30 days after the sending of the aforesaid notice;

2. The Board will take into consideration the details of the proposal and reply to the shareholders concerned by writing of when and how the proposal is considered, or if applicable, why the proposal is not accepted in due course. Details of the Company's principal place of business are set out on page 2 of this annual report under the section headed "Corporate Information".

### (d) Procedures for Shareholders to Propose for Election as a Director

1. If a shareholder wishes to propose a person other than a Director of the Company for election as a Director at any general meeting, he/she can deposit a written notice to that effect at the principal place of business of the Company for the attention of the Company Secretary;

2. In order for the Company to inform its shareholders of that proposal, the written notice must state the full name of the person proposed for election as a Director, include the person's biographical details as required by the GEM Listing Rules, and be signed by the shareholder concerned and that person indicating his/her willingness to be elected. The period for lodgment of such a written notice will commence no earlier than the day after the dispatch of the notice and end no later than seven days prior to the date of any general meeting.

### (e) Right and Procedures for Shareholders to Put Enquiries to the Board

All shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the principal place of business of the Company in Hong Kong as set out on page 2 of this annual report under the section headed "Corporate Information" for the attention of the Company Secretary or by email to us at szmw@mwcard.com.

## 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 for the year ended 31 December 2015. Investors can also obtain the latest constitutional documents of the Company from the Company's website.

Corporate Governance Report (continued)

## 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 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.

# Directors, Supervisors and Senior Management

## DIRECTORS

### Executive Directors

**Mr. Li Qi Ming**, aged 56, 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.

**Mr. Liu Guo Fei**, aged 41, is an executive director and also the chief executive officer appointed on 28 October 2015. He obtained a bachelor degree of Electromechanical Engineering from Guang Dong University of Technology and MBA degree from Columbia Southern University (US), and has about 18 years' management experience in manufacture, investment, marketing sectors . Mr. Liu joined the Company in January 1999 and was appointed as a vice-president of the Company in February 2007 and has been an executive director of the Company since July 2008. He also studied executive financial and capital operation course in Peking University and Tsinghua University for 4 years.

**Ms. Hou Qian**, aged 32, is an executive director appointed on 13 October 2015 and has many years of investment experience in the domestic and foreign equity, debt right and real estate field. Ms. Hou holds a bachelor degree in business administration from Huazhong University of Science and Technology. Currently Ms. Hou is the chairman of Shanghai HuanCheng Technology Company Limited, a company incorporated in the People's Republic of China and principally engaged in the provision of advice and services in relation to information system compositive aptitude.

### Independent Non-Executive Directors

**Mr. Gao Xiang Nong, also known as Mr. Gao Xiang Nong, Paul**, aged 46 is an independent non-executive director appointed on 2 February 2004. Mr. Gao has a finance background and has over 10 years of experience in management, marketing and accounting in USA, where he obtained his education. On returning to Asia, Mr. Gao has held various executive positions in different Hong Kong and Singapore public listed companies. He is currently CEO and executive director of Nutryfarm International Limited, a listed company in Singapore. Mr. Gao holds an MBA degree from the California State University, and is a Certified Public Accountant with the State Board of Accountancy, Colorado, USA.

**Mr. Chen Hong Lei**, aged 47, is an independent non-executive director appointed on 5 February 2013, and has obtained a MBA degree in Finance at the Chinese University of Hong Kong in 2012. Mr. Chen has over 20 years valuable experience in banking and finance industry field.

**Mr. Yu Xiuyang**, aged 61, is an independent non-executive director appointed on 1 September 2015. Mr. Yu graduated from the Faculty of Law at Shanghai University in 1998, and worked as the member of the Legal Publicity Division of Shanghai Bureau of Justice, the head of the research department of the Shanghai Law Society and the associate editor of Shanghai Journal of Legal Studies in 1997. In 2003, Mr. Yu founded Sunglow Elite Law Firm and serves as the Head of the firm. Mr. Yu was the Executive Director and Vice President of Glorious Property Holdings Limited, a company listed on The Stock of Exchange Hong Kong, from February 2009 to April 2014, and he retired in June 2014. He currently serves as the Head of Sunglow Elite Law Firm.

Directors, Supervisors and Senior Management (continued)

## SUPERVISORS

**Mr. Li Xiang**, aged 43, 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.

**Ms. Liu Wei Qun**, aged 60, 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).

**Mr. He Wei Ming**, aged 61, currently the manager of the human resources and administrative department of Sihui Mingwah Aohan Technology Company Limited, a subsidiary of the Company.

## COMPLIANCE OFFICER

**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.

## SENIOR MANAGEMENT

**Mr. Tam Siu Po**, aged 44, is the financial controller of the Group and also the company secretary of the Company appointed on 19 September 2015. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He holds a bachelor degree in Business Administration from Lingnan University and has over 15 years of audit experiences in the field of accounting and financial management for the listed and private companies in Hong Kong.

# 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 and audited consolidated 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 2015 and has great confidence in the future of the Company.

By Order of the Supervisory Committee
**Shenzhen Mingwah Aohan High Technology Corporation Limited**

**Mr. Li Xiang**
Shenzhen, the PRC, 30 March 2016

# 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 referred to as the "Group") for the year ended 31 December 2015.

## PRINCIPAL ACTIVITIES

The Company and its subsidiaries are principally engaged in design, development and sale of IC cards, magnetic cards, related equipment and application systems in the People's Republic of China (the "PRC").

## SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by products for the year ended 31 December 2015 is set out in note 11 to the consolidated financial statements.

## MAJOR SUPPLIERS AND CUSTOMERS

During the year, the five largest suppliers of the Group accounted for approximately 89% of the Group's purchases. The largest supplier accounted for approximately 72% of the purchases of the Group.

Aggregate turnover attributable to the Group's five largest customers accounted for approximately 52% of the total revenue. The largest customer accounted for approximately 23% of the revenue 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 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 31.

The Directors do not recommend the payment of any dividend in respect of the year ended 31 December 2015.

## FIVE YEARS' FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 76. This summary does not form part of the audited consolidated financial statements.

## RESERVES

Movements in the reserves of the Group during the year are set out in consolidated statement of changes in equity on page 33. The Company has no reserves available for distribution to shareholders as at 31 December 2015 and 31 December 2014.

## 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 28 to the consolidated financial statements.

## BORROWINGS

Details of loan from a former minority shareholder of the Group as at 31 December 2015 are set out in Note 26 to the consolidated financial statements.

Directors' Report (continued)

## 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. Loo Chung Keung, Steve *(Vice-chairman)* (resigned on 23 December 2015)
Mr. Liu Guo Fei
Mr. Au-Yeung Ka Cheung (resigned on 14 September 2015)
Ms. Hou Qian (appointed on 13 October 2015)

### Independent Non-Executive Directors

Mr. Gao Xiang Nong
Mr. Chen Hong Lei
Ms. Huang Jinmin (resigned on 1 September 2015)
Mr. Yu Xiuyang (appointed on 1 September 2015)

### 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 one month's 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 2015, 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 (the "SFO")), as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standards of dealings by directors referred to in Rule 5.46 of the GEM Listing Rules (the "Required Standard of Dealings") 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 | 172,640,000 domestic shares | 53.98% | 33.20% |
| Ms. Hou Qian | Beneficial owner | 58,240,000 domestic shares | 18.21% | 11.20% |

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 2015.

Notes:

1. The Company has been informed by Ms. Hou Qian, an executive Director of the Company, on 24 August 2015 that she had completed the acquisition (the "Acquisition") of 58,240,000 domestic shares of the Company. After the Acquisition, Ms. Hou Qian is interested in 58,240,000 domestic shares of the Company, representing approximately 18.21% of the total issued domestic shares of the Company as at the date hereof.

2. The Company has been informed by Mr. Li Qi Ming, an executive Director of the Company, on 24 August 2015 that he had disposed of (the "Disposal") 57,200,000 domestic shares of the Company. After the disposal, Mr. Li Qi Ming is interested in 172,640,000 domestic shares of the Company, representing approximately 53.98 % of the total issued domestic shares of the Company as at the date hereof.

### 2. Substantial Shareholders

So far as the Directors are aware, as at 31 December 2015, the 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 are listed as follows:

| Name of substantial shareholder | Capacity | Number and class of securities | Approximate percentage of shares in the same class | Approximate percentage of total registered share capital |
|---|---|---|---|---|
| Princeps MB Asset Management Corp. | Beneficial owner | 11,416,000 H shares | 5.70% | 2.20% |
| Shenzhen Gangao Huijin Investment Company Limited | Beneficial owner | 33,800,000 domestic shares | 10.57% | 6.50% |
| Mr. Guo Fan | Beneficial owner | 31,460,000 domestic shares | 9.84% | 6.05% |

On 30 October 2015, the Company entered into three separate conditional Subscription Agreements with three Subscribers respectively. Pursuant to the Subscription Agreements, the Subscribers have individually and conditionally agreed to subscribe and the Company has conditionally agreed to allot and issue 280,000,000 domestic shares in aggregate to the Subscribers at the Subscription Price of RMB0.30 (equivalent to approximately HK$0.37) per subscription share. The Subscription Agreements are not conditional upon each other.

The subscriptions were approved by the Shareholders at the Extraordinary General Meeting and the Class Meetings by a special resolution on 28 January 2016. On 3 February 2016, the Subscribers fulfilled all the conditions precedent under the subscription agreements and accordingly the subscriptions were completed. The estimated net proceeds of approximately RMB82,320,000 after deduction of estimated introduction fee of approximately RMB1,680,000, will be mainly used to pay off the Group's debts and finance its working capital. Details of the Completion of conditional subscription of new domestic shares are set out in the Company's announcement dated 3 February 2016.

## DIRECTORS' AND SUPERVISORS' RIGHT TO ACQUIRE H SHARES

As at 31 December 2015, 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 2015, 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 2015.

## RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

Details of related party and continuing connected transactions of the Group, are set out in Note 30 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

According to the Articles of Association of the Company and the laws of the PRC, there are no provisions for pre-emptive rights requiring the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

## SUFFICIENCY OF PUBLIC FLOAT

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

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

## EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in Note 34 to the consolidated financial statements.

## CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the Corporate Governance Report on pages 9 to 19 of this Annual Report.

## COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined under the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Company during the year under review.

## AUDITOR

The consolidated financial statements for the year ended 31 December 2015 were audited by Messrs. KTC Partners CPA Limited. A resolution for the re-appointment of Messrs. KTC Partners CPA Limited as auditor of the Company will be proposed at the forthcoming annual general meeting of the Company.

By Order of the Board
**Li Qi Ming**
*Chairman*

Shenzhen, the PRC, 30 March 2016

# Independent Auditor's Report


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

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**TO THE SHAREHOLDERS OF SHENZHEN MINGWAH AOHAN HIGH TECHNOLOGY CORPORATION LIMITED**
*(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 31 to 75, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

## Independent Auditor's Report (continued)

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Without qualifying our opinion, we draw attention that as at 31 December 2015 the Group had net current liabilities of approximately RMB52,002,000 and capital deficiency of RMB51,524,000. These conditions, along with other matters as set forth in Note 2 to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

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

Hong Kong
30 March 2016

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

| | Notes | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|---|
| **Revenue** | 10 | **26,308** | 25,708 |
| Cost of sales | | **(12,418)** | (21,519) |
| Gross profit | | **13,890** | 4,189 |
| Other income | 10 | **1,647** | 454 |
| Other gains and losses | 12 | **1,162** | (248) |
| Distribution and selling expenses | | **(1,771)** | (3,432) |
| General and administrative expenses | | **(10,423)** | (6,571) |
| Finance costs | 13 | **(426)** | (480) |
| **Profit (loss) before taxation** | 14 | **4,079** | (6,088) |
| Income tax expense | 15 | **(3)** | (34) |
| **Profit (loss) for the year** | | **4,076** | (6,122) |
| Other comprehensive expenses | | | |
| **Item that may be reclassified subsequently to profit or loss** | | | |
| Exchange differences arising on translation of foreign operations | | **(220)** | (4) |
| **Total comprehensive income (expense) for the year** | | **3,856** | (6,126) |
| **Profit (loss) for the year attributable to:** | | | |
| Owners of the Company | | **4,039** | (6,002) |
| Non-controlling interests | | **37** | (120) |
| | | **4,076** | (6,122) |
| **Total comprehensive income (expense) for the year attributable to:** | | | |
| Owners of the Company | | **3,819** | (6,006) |
| Non-controlling interests | | **37** | (120) |
| | | **3,856** | (6,126) |
| **Earning (loss) per share** | | | |
| Basic and diluted (RMB' cents) | 16 | **0.78** | (1.15) |

# Consolidated Statement of Financial Position

At 31 December 2015

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 20 | **478** | 614 |
| **Current assets** | | | |
| Inventories | 21 | **195** | 196 |
| Trade and other receivables | 22 | **8,378** | 7,758 |
| Bank balances and cash | 23 | **9,914** | 1,659 |
| | | **18,487** | 9,613 |
| **Current liabilities** | | | |
| Trade and other payables | 24 | **32,134** | 36,037 |
| Amounts due to directors | 25 | **8,795** | 4 |
| Income tax payable | | **3** | 9 |
| Loan from a former minority shareholder | 26 | **6,853** | 6,853 |
| Provision for claims | 27(b) | **22,704** | 22,704 |
| | | **70,489** | 65,607 |
| **Net current liabilities** | | **(52,002)** | (55,994) |
| **Net liabilities** | | **(51,524)** | (55,380) |
| **Capital and reserves** | | | |
| Share capital | 28 | **52,000** | 52,000 |
| Reserves | | **(102,982)** | (106,801) |
| Equity attributable to owners of the Company | | **(50,982)** | (54,801) |
| Non-controlling interests | | **(542)** | (579) |
| **Capital deficiency** | | **(51,524)** | (55,380) |

The consolidated financial statements on pages 31 to 75 were approved and authorised for issue by the board of directors on 30 March 2016 and are signed on its behalf by:

**Mr. Li Qi Ming**
*Director*

**Mr. Liu Guo Fei**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

| | 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)) | Translation reserve RMB'000 (Note (c)) | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2014 | 52,000 | 17,574 | 5,954 | 2,978 | 9 | (127,310) | (48,795) | (459) | (49,254) |
| Total comprehensive expense for the year | — | — | — | — | (4) | (6,002) | (6,006) | (120) | (6,126) |
| At 31 December 2014 | 52,000 | 17,574 | 5,954 | 2,978 | 5 | (133,312) | (54,801) | (579) | (55,380) |
| Total comprehensive income (expense) for the year | — | — | — | — | (220) | 4,039 | 3,819 | 37 | 3,856 |
| **At 31 December 2015** | **52,000** | **17,574** | **5,954** | **2,978** | **(215)** | **(129,273)** | **(50,982)** | **(542)** | **(51,524)** |

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.

(c) Translation reserve
Translation reserve is arising from the translation of foreign currencies in overseas subsidiaries from its functional currency to the Groups' presentation currency.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2015

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit (loss) before taxation | **4,079** | (6,088) |
| Adjustments for: | | |
| Bank interest income | **(13)** | (17) |
| Depreciation of property, plant and equipment | **155** | 1,414 |
| Finance costs | **426** | 480 |
| Impairment loss on trade and other receivables | **300** | 248 |
| Reversal of impairment loss on trade and other receivables | **(705)** | — |
| Gain on settlement of debts | **(757)** | — |
| Operating cash flows before movements in working capital | **3,485** | (3,963) |
| Decrease in inventories | **1** | 52 |
| (Increase) decrease in trade and other receivables | **(210)** | 1,298 |
| (Decrease) increase in trade and other payables | **(3,669)** | 1,951 |
| Cash used in operations | **(393)** | (662) |
| PRC enterprise income tax paid | **(9)** | (36) |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(402)** | (698) |
| **INVESTING ACTIVITIES** | | |
| Interest received | **13** | 17 |
| Purchases of property, plant and equipment | **(19)** | (5) |
| **NET CASH (USED IN) GENERATED FROM INVESTING ACTIVITIES** | **(6)** | 12 |
| **FINANCING ACTIVITIES** | | |
| Advance from (repayment to) directors | **8,490** | (101) |
| **NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES** | **8,490** | (101) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | **8,082** | (787) |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR** | **1,659** | 2,445 |
| Effect of foreign exchanges rate changes | **173** | 1 |
| **CASH AND CASH EQUIVALENTS AT THE END THE OF YEAR, represented by bank balances and cash** | **9,914** | 1,659 |

# Notes to the Consolidated Financial statements

For the year ended 31 December 2015

## 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 as the "Group") are principally engaged in the design, development and trading of IC cards, magnetic cards and related equipment and application systems in the PRC.

## 2. BASIS OF PREPARATION — GOING CONCERN BASIS

At 31 December 2015 the Group had net current liabilities of approximately RMB52,002,000 and capital deficiency of approximately RMB51,524,000. These conditions indicate 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 liability 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 the date of approval of these consolidated financial statements on the basis that:

(i) the Directors of the Company will anticipate that the Group will generate positive cash flows from its future operations;

(ii) two major shareholders of the Company have committed to provide continuing support to enable the Group to operate as a going concern and meet its liabilities as they fall due in the foreseeable future;

(iii) The Group has obtained funds by way of issuing additional equity of approximately RMB82,320,000 as stated in Note 34 to the consolidated financial statements; and

(iv) the Company has obtained a loan facility agreement for an amount of HK$20,000,000 (equivalent to approximately RMB16,400,000) with a new major shareholder.

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 has not been reflected in the consolidated financial statements.

## Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| Amendments to HKAS 19 | Defined benefit plans: Employee contributions |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2010–2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011–2013 Cycle |

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

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

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

### New and revised HKFRSs in issue 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:

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 14 | Regulatory Deferral Accounts[2] |
| HKFRS 15 | Revenue from Contracts with Customers[3] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of interests in Joint Operations[4] |
| Amendments to HKAS 1 | Disclosure initiative[4] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and amortisation[4] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[4] |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements[4] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture[4] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the consolidation exceptions[4] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012–2014 Cycle[4] |

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

### HKFRS 9 Financial Instruments

A final version of HKFRS 9 (that includes classification and measurement of financial assets and financial liabilities, impairment and general hedge accounting) was issued in 2014.

Key requirements of HKFRS 9 are described below:

- 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. 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 value at the end of subsequent accounting periods.

- An expected loss model (rather than an incurred loss model) has been adopted by HKFRS 9.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting.

The directors of the Company will assess the impact of the application of HKFRS 9. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 9 until the Group performs a detailed review.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

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

### HKFRS 15 Revenue from contracts with customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The directors of the Company anticipate that the HKFRS 15 may have significant impact on amounts reported in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

Except for the above disclosed, the directors of the Company do not anticipate that the application of the new and revised HKFRSs will have a material impact on the Group's consolidated financial statements.

## Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

### 4. SIGNIFICANT ACCOUNTING POLICIES

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

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the GEM Listing Rules regarding annual accounts have been amended with reference to the new CO and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or GEM Listing Rules but not under the new CO or amended GEM Listing Rules are not disclosed in these consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries 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.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### Investments in subsidiaries

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

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Revenue recognition

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

*(i)* 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 is recognised when services are rendered.

*(iii)* 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, residue 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.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 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 on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interest as appropriate).

### 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 Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are recognised as an expense when employees have rendered services entitling them to the contributions.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 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 profit or loss and other 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. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other then in a business combination) of assets and liabilities in a transaction that effects neither the taxable profit nor the accounting profit.

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 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 prices for inventories less all estimated costs of completion and costs necessary to make the sale.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 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 bank 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).

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

*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.

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 and 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 instrument issued by the Group are recognised at the proceeds received, net of direct issue costs.

*Other financial liabilities*

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

*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.

#### 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.

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.

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial instruments (Continued)

#### Derecognition (Continued)

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.

### Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### 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 tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

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.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment losses on tangible assets (Continued)

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.

### Related parties

A related party is a person or entity that is related to the entity that is preparing its financial statements ("reporting entity").

(a) A person or a close member of that person's family is related to a reporting entity if that person:

- (i) has control or joint control over the reporting entity;
- (ii) has significant influence over the reporting entity; or
- (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

(b) An entity is related to a reporting entity if any of the following conditions applies:

- (i) The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 4, the Directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and 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 the entity's 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 consideration

The assessments of the going concern assumptions involve making judgement by the Directors, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The Directors consider that the Group has the ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in Note 2 to the consolidated financial statements.

### Key sources of estimation uncertainty

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

#### Estimated impairment of receivables

Impairment of receivables is made based on an assessment of the recoverability of trade and other receivables and the timing of their recovery. The identification of impairment of receivables requires management judgement and estimation. Where the actual outcome or expectation in future is different from the original estimates, the differences will impact on the carrying value of trade and other receivables and the amount of impairment/write-back of impairment in the periods in which the estimates have been changed. At 31 December 2015, the carrying amount of trade receivables was approximately RMB5,228,000 (2014: RMB2,339,000), net of impairment loss of approximately RMB17,800,000 (2014: RMB18,202,000) and other receivables was approximately RMB3,150,000 (2014: RMB5,419,000), net of impairment loss of approximately RMB145,000 (2014: RMB302,000).

#### Provision for claims

During the current and prior years, the Group had been involved in certain litigations and claims (Note 27(b)). The Directors determine the provision for claims based on their best estimates according to their understanding of legal advice. Where the final outcome of the claim and negotiation with the respective creditors is different from the estimation made by the Directors, such difference will impact the provision for claims in the year in which such determination is finalised. No provision for claims was made for the year ended 31 December 2015 (2014: Nil).

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

### Key sources of estimation uncertainty (Continued)

#### Income taxes

The Group is subject to income taxes in several jurisdictions. Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amount that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period which such determination is made.

## 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 debts, which includes 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.

### Gearing ratio

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

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

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Debts (i) | **6,853** | 6,853 |
| Bank balances and cash | **(9,914)** | (1,659) |
| Net debt | **(3,061)** | 5,194 |
| Capital deficiency (ii) | **(50,982)** | (54,801) |
| Net debt-to-equity ratio (iii) | **N/A** | N/A |

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

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

(iii) As the group had a net deficiency in capital at 31 December 2015, the Group's gearing ratio as at that date was not applicable.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 7. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Financial assets | | |
| Loans and receivables (including bank balances and cash) | **18,292** | 9,417 |
| Financial liabilities at amortised cost | **55,659** | 50,407 |

## 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, amounts due to directors, loan from a former minority shareholder and provision for claims. 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.

### Currency risk

The Group operates in the PRC with most of the transactions denominated and settled in RMB. The Group's foreign currency is mainly HKD. The Group has certain portion of the other receivables, bank balances and cash and other payables that are denominated in currencies other than the functional currency to which they relate.

The following table shows the Group's exposure at the end of reporting period to currency risk arising from recognised assets and liabilities denominated in a currency other than the functional currency of the entity to which they relate.

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Assets | **4,086** | — |
| Liabilities | **1,389** | 2,835 |

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### Interest rate risk

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

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 8. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

### Interest rate risk (Continued)

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.

#### Sensitivity analysis

As of 31 December 2015, 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 Company's profit for the year ended 31 December 2015 and accumulated losses by approximately RMB69,000 (2014: RMB69,000).

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 2014.

### Credit risk

At 31 December 2015 and 2014, 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 29% (2014: 31%) and 80% (2014: 67%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

At 31 December 2015 and 2014, trade receivables consists of a large number of customers all located in the PRC.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 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 management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group is exposed to liquidity risk as at 31 December 2015 as the Group had net current liabilities of approximately RMB52,002,000. 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 2015** | | At 31 December 2014 | |
|---|---|---|---|---|
| | **Within one year or on demand and total contracted discounted cash flow RMB'000** | **Carrying amounts RMB'000** | Within one year or on demand and total contracted discounted cash flow RMB'000 | Carrying amounts RMB'000 |
| **Non-derivative financial liabilities** | | | | |
| Trade and other payables | **17,307** | **17,307** | 20,846 | 20,846 |
| Amounts due to directors | **8,795** | **8,795** | 4 | 4 |
| Loan from a former minority shareholder | **7,179** | **6,853** | 7,264 | 6,853 |
| Provision for claims | **22,704** | **22,704** | 22,704 | 22,704 |
| | **55,985** | **55,659** | 50,818 | 50,407 |

## 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.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 10. REVENUE AND OTHER INCOME

Revenue 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:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Revenue | | |
| Sales of cards products | **23,521** | 22,931 |
| Sales of non-cards products | **2,787** | 2,777 |
| | **26,308** | 25,708 |
| Other income | | |
| Interest income | **13** | 17 |
| Value-added tax refund | **1,604** | 413 |
| Sundry income | **30** | 24 |
| | **1,647** | 454 |
| | **27,955** | 26,162 |

## 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 services delivered or provided.

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

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

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

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 11. SEGMENT INFORMATION (Continued)

### (a) Segment revenues and result

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

| For the year ended 31 December | Card products 2015 RMB'000 | Card products 2014 RMB'000 | Non-card products 2015 RMB'000 | Non-card products 2014 RMB'000 | Eliminations 2015 RMB'000 | Eliminations 2014 RMB'000 | Total 2015 RMB'000 | Total 2014 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | |
| Sales to external customers | **23,521** | 22,931 | **2,787** | 2,777 | **—** | — | **26,308** | 25,708 |
| Inter-segment sales | **4,956** | 11,953 | **—** | — | **(4,956)** | (11,953) | **—** | — |
| Total | **28,477** | 34,884 | **2,787** | 2,777 | **(4,956)** | (11,953) | **26,308** | 25,708 |
| Segment results | **5,847** | (3,944) | **252** | (189) | **—** | — | **6,099** | (4,133) |
| Unallocated corporate income | | | | | | | **46** | 17 |
| Unallocated corporate expense | | | | | | | **(1,640)** | (1,492) |
| Finance costs | | | | | | | **(426)** | (480) |
| Profit (loss) before taxation | | | | | | | **4,079** | (6,088) |

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, finance costs, part of provision for claims and income tax expense. 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.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 11. SEGMENT INFORMATION (Continued)

### (b) Segment assets and liabilities

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

| At 31 December | Card products 2015 RMB'000 | Card products 2014 RMB'000 | Non-card products 2015 RMB'000 | Non-card products 2014 RMB'000 | Total 2015 RMB'000 | Total 2014 RMB'000 |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Segment assets | **8,483** | 8,044 | **568** | 524 | **9,051** | 8,568 |
| Unallocated assets | | | | | **9,914** | 1,659 |
| Total assets | | | | | **18,965** | 10,227 |
| **Liabilities** | | | | | | |
| Segment liabilities | **29,382** | 33,446 | **1,665** | 1,930 | **31,047** | 35,376 |
| Unallocated liabilities | | | | | **39,442** | 30,231 |
| Total liabilities | | | | | **70,489** | 65,607 |

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 amounts due to directors, loan from a former minority shareholder, income tax payable, part of accrued interest and part of provision for claims which is not related to segment. Liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 11. SEGMENT INFORMATION (Continued)

### (c) Other segment information

| For the year ended 31 December | Card products 2015 RMB'000 | Card products 2014 RMB'000 | Non-card products 2015 RMB'000 | Non-card products 2014 RMB'000 | Unallocated 2015 RMB'000 | Unallocated 2014 RMB'000 | Total 2015 RMB'000 | Total 2014 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Amount included in the measure of segment profit or loss or segment assets: | | | | | | | | |
| Additions to non-current assets (Note) | **19** | 5 | **—** | — | **—** | — | **19** | 5 |
| Depreciation for property, plant and equipment | **143** | 1,345 | **12** | 69 | **—** | — | **155** | 1,414 |
| Reversal of impairment loss on trade and other receivables | **(702)** | — | **—** | — | **(3)** | — | **(705)** | — |
| Impairment loss on trade and other receivables | **300** | 248 | **—** | — | **—** | — | **300** | 248 |
| Gain on settlement of debts | **(757)** | — | — | — | — | — | **(757)** | — |

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

### (d) Geographical information

For the two years ended 31 December 2015, 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.

### (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:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Customer A | **6,026** | N/A* |
| Customer B | **N/A*** | 5,124 |
| Customer C | **2,887** | 4,639 |

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

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 12. OTHER GAINS AND LOSSES

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Reversal of impairment loss on trade and other receivables | **705** | — |
| Impairment loss on trade and other receivables | **(300)** | (248) |
| Gain on settlement of debts (Note 27a) | **757** | — |
| | **1,162** | (248) |

## 13. FINANCE COSTS

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Interest on borrowings wholly repayable within five years | **426** | 480 |
| | **426** | 480 |

## 14. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Staff costs (including directors', chief executive's and supervisors' emoluments) | | |
| Salaries and other benefits | **4,138** | 4,019 |
| Retirement benefit scheme contribution | **282** | 469 |
| Total staff costs | **4,420** | 4,488 |
| Auditors' remuneration | **793** | 633 |
| Cost of inventories recognised as an expense | **12,418** | 21,519 |
| Depreciation for property, plant and equipment | **155** | 1,414 |
| Operating leases rentals in respect of buildings | **567** | 691 |

## Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 15. INCOME TAX EXPENSE

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| PRC Enterprise Income Tax ("EIT") | | |
| — Current | **3** | 34 |
| | **3** | 34 |

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 its PRC subsidiaries were subject to EIT at rate of 25% (2014: 25%).

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2015 and 2014 as the Group's income neither arise in, nor is derived from Hong Kong.

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

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| Profit (loss) before taxation | **4,079** | (6,088) |
| Tax at the domestic rate of 25% (2014: 25%) | **1,020** | (1,522) |
| Effect of different tax rates of subsidiaries | **119** | 104 |
| Tax effect of income not taxable for tax purpose | **(368)** | (46) |
| Tax effect of expenses not deductible for tax purpose | **977** | 567 |
| Tax effect of deductible temporary differences not recognised | **(483)** | 62 |
| Tax effect of unused tax loss not recognised | **96** | 903 |
| Utilisation of tax losses previously not recognised | **(1,358)** | (34) |
| Income tax expense | **3** | 34 |

At 31 December 2015, the Group has unused tax losses of approximately RMB2,480,000 (2014: RMB7,236,000) 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.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 15. INCOME TAX EXPENSE (Continued)

At 31 December 2015, the Group has deductible temporary differences of approximately RMB21,942,000 (2014: RMB23,874,000). 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. EARNING (LOSS) PER SHARE

The calculation of basic earning (loss) per share is based on the profit for the year attributable to owners of the Company of approximately RMB4,039,000 (2014: loss of RMB6,002,000) and the weighted average number of ordinary shares in issue of approximately 520,000,000 shares (2014: 520,000,000) during the year.

The diluted earning per share is the same as the basic earning per share as there were no dilutive potential ordinary shares for the years ended 31 December 2015 and 31 December 2014.

## 17. DIVIDEND

No dividend was paid, declared or proposed during the year ended 31 December 2015, nor has any dividend been proposed since the end of the reporting period (2014: Nil).

## 18. STAFF COSTS (EXCLUDING DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS)

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Salaries and other benefits in kind | **2,734** | 3,463 |
| Retirement benefit scheme contributions | **265** | 453 |
| | **2,999** | 3,916 |

### Hong Kong

The Group operates a mandatory provident fund scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for its Hong Kong employees. The MPF Scheme is a defined contribution retirement plan administered by independent trustees, Under the MPF scheme, each of the Group companies (the "employer") in Hong Kong and its employees makes monthly contribution to the scheme a 5% of the employee's earning as defined under the Mandatory Provident Fund Legislation. The contributions from each of the employer and employees are subject to a cap of HKD1,500 per month (2014: HKD1,500 per month), a total contribution of approximately RMB7,500 (2014: Nil) was made by the Group in respect of this scheme.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 18. STAFF COSTS (EXCLUDING DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS) (Continued)

### The PRC, other than Hong Kong

As stipulated by rules and regulations in the PRC, the Company and those subsidiaries, which operated in the PRC, are required to contribute to a state-sponsored retirement plan for all its employees. The state-sponsored retirement plan is responsible for the entire pension obligations payable to all retired employees. Under the state-sponsored retirement plan, the Group has no further obligations for the actual pension payments or post-retirement benefits beyond the annual contributions, a total contribution of approximately RMB257,000 (2014: RMB453,000) was made by the Group in respect of this scheme.

## 19. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS

### (a) Directors', chief executive's and supervisors' emoluments

The emoluments paid or payable to each of nine (2014: six) directors, chief executive and supervisors were as follows:

| | For the year ended 31 December 2015 | | | |
|---|---|---|---|---|
| | Fees RMB'000 | Other emoluments and other benefits RMB'000 | Retirement benefit scheme contributions RMB'000 | Total emoluments RMB'000 |
| **Executive directors** | | | | |
| Mr. Li Qi Ming *(Chairman)* | — | 469 | 8 | 477 |
| Mr. Au-Yeung Ka Cheung (resigned on 14 September 2015) | — | 42 | — | 42 |
| Ms. Hou Qian (appointed on 13 October 2015) | — | 200 | — | 200 |
| Mr. Loo Chung Keung, Steve (resigned on 23 December 2015) | — | — | — | — |
| Mr. Liu Guo Fei *(Chief executive officer)* (appointed on 28 October 2015) | — | 404 | 8 | 412 |
| **Independent non-executive directors** | | | | |
| Mr. Gao Xiang Nong | 60 | — | — | 60 |
| Mr. Chen Hong Lei | 60 | — | — | 60 |
| Mr. Huang Jinmin (resigned on 1 September 2015) | 60 | — | — | 60 |
| Mr. Yu Xiuyang (appointed on 1 September 2015) | 60 | — | — | 60 |
| **Supervisors** | | | | |
| Mr. Li Xiang | — | — | — | — |
| Mr. Liu Wei Qun | — | — | — | — |
| Mr. He Wei Ming | — | 50 | — | 50 |
| | 240 | 1,165 | 16 | 1,421 |

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 19. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

### (a) Directors', chief executive's and supervisors' emoluments (Continued)

| | For the year ended 31 December 2014 | | | |
|---|---|---|---|---|
| | Fees RMB'000 | Other emoluments and other benefits RMB'000 | Retirement benefit scheme contributions RMB'000 | Total emoluments RMB'000 |
| **Executive directors** | | | | |
| Li Qi Ming *(Chairman)* | — | 268 | 8 | 276 |
| Loo Chung Keung, Steve | — | — | — | — |
| Liu Guo Fei | — | 202 | 8 | 210 |
| Au-Yeung Ka Cheung | — | — | — | — |
| **Independent non-executive directors** | | | | |
| Gao Xiang Nong | 12 | — | — | 12 |
| Chen Hong Lei | 12 | — | — | 12 |
| Huang Jinmin | 12 | — | — | 12 |
| **Supervisors** | | | | |
| Li Xiang | — | — | — | — |
| Liu Wei Qun | — | — | — | — |
| He Wei Ming | — | 50 | — | 50 |
| | 36 | 520 | 16 | 572 |

No directors, chief executive and supervisors waived or agreed to waive any emoluments during the year ended 31 December 2015 (2014: Nil).

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 19. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' EMOLUMENTS (Continued)

### (b) Senior management's remuneration

Of the five individuals with highest emoluments in the Group, three (2014: two) were directors of the Company whose emoluments are set out above. The emoluments of the remaining two (2014: three) highest paid individuals were as follows:

| | **2015**<br>**RMB'000** | 2014<br>RMB'000 |
|---|---|---|
| Salaries and other benefits in kind | **385** | 470 |
| Retirement benefit scheme contributions | **11** | 23 |
| | **396** | 493 |

Their emoluments were within the following bands:

| | **Number of employees**<br>**2015** | 2014 |
|---|---|---|
| Nil to RMB1,000,000 | **2** | 3 |

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 year ended 31 December 2015 (2014: Nil).

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 20. PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery RMB'000 | Leasehold improvement, furniture, fixtures and equipment RMB'000 | Motor vehicles RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **COST** | | | | |
| At 1 January 2014 | 8,529 | 5,837 | 889 | 15,255 |
| Additions | — | 5 | — | 5 |
| Written off | — | (250) | — | (250) |
| At 31 December 2014 | 8,529 | 5,592 | 889 | 15,010 |
| Additions | — | 19 | — | 19 |
| At 31 December 2015 | 8,529 | 5,611 | 889 | 15,029 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | |
| At 1 January 2014 | 8,518 | 3,912 | 802 | 13,232 |
| Provided for the year | — | 1,390 | 24 | 1,414 |
| Eliminated on written off | — | (250) | — | (250) |
| At 31 December 2014 | 8,518 | 5,052 | 826 | 14,396 |
| Provided for the year | — | 155 | — | 155 |
| At 31 December 2015 | 8,518 | 5,207 | 826 | 14,551 |
| **CARRYING VALUES** | | | | |
| **At 31 December 2015** | **11** | **404** | **63** | **478** |
| At 31 December 2014 | 11 | 540 | 63 | 614 |

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 20. PROPERTY, PLANT AND EQUIPMENT (Continued)

(a) 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:

| | Estimated useful lives | Residual value on cost |
|---|---|---|
| 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% |

## 21. INVENTORIES

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Finished goods | **195** | 196 |

No allowance on inventories was made for the year (2014: Nil).

## 22. TRADE AND OTHER RECEIVABLES

| | **2015 RMB'000** | 2014 RMB'000 |
|---|---|---|
| Trade receivables | **23,028** | 20,541 |
| Less: Impairment loss recognised | **(17,800)** | (18,202) |
| | **5,228** | 2,339 |
| Prepayments, deposits and other receivables | **3,295** | 5,721 |
| Less: Impairment loss recognised | **(145)** | (302) |
| | **3,150** | 5,419 |
| | **8,378** | 7,758 |

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 22. TRADE AND OTHER RECEIVABLES (Continued)

(i) The Group allows an average credit period of 15-180 days (2014: 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 aging analysis of trade receivables, net of impairment loss recognised, presented based on transaction date is as follows:

| | **2015** **RMB'000** | 2014 RMB'000 |
|---|---|---|
| 1 to 90 days | **3,706** | 1,824 |
| 91 to 180 days | **932** | 189 |
| 181 to 365 days | **483** | 219 |
| Over 365 days | **107** | 107 |
| | **5,228** | 2,339 |

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

| | | | Past due but not impaired | | |
|---|---|---|---|---|---|
| | **Total** RMB'000 | **Neither past due nor impaired** RMB'000 | **Less than 180 days** RMB'000 | **181 to 365 days** RMB'000 | **More than 365 days** RMB'000 |
| At 31 December 2015 | **5,228** | **3,706** | **1,310** | **105** | **107** |
| At 31 December 2014 | 2,339 | 1,884 | 189 | 159 | 107 |

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 RMB1,522,000 (2014: RMB455,000) which were past due at the reporting date for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered fully recoverable. The Group does not hold any collateral over these balances.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 22. TRADE AND OTHER RECEIVABLES (Continued)

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At the beginning of the year | **18,202** | 17,954 |
| Impairment loss for the year | **300** | 248 |
| Reversal of previously impaired | **(702)** | — |
| At the end of the year | **17,800** | 18,202 |

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

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| At the beginning of the year | **302** | 302 |
| Reversal of previously impaired | **(3)** | — |
| Written off as uncollectible | **(154)** | — |
| At the end of the year | **145** | 302 |

## 23. BANK BALANCES AND CASH

For the years ended 31 December 2015 and 2014, bank balances represented short-term deposits with a maturity of three months or less. The interest rates ranged from 0.001% to 0.35% per annum (2014: 0.001% to 0.35% per annum).

Included in the bank balances and cash are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| HKD | **4,086** | — |

At 31 December 2015 approximately RMB5,828,000 was denominated in RMB and deposited with banks in the PRC (2014: RMB1,659,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through authorised banks to conduct foreign exchange business.

Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 24. TRADE AND OTHER PAYABLES

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Trade payables | **8,389** | 10,745 |
| Accrued expenses and other payables | **8,918** | 10,101 |
| Accrued interest | **4,899** | 4,473 |
| Value-added tax payable | **9,928** | 10,718 |
| | **32,134** | 36,037 |

(i) The average credit period on purchases of goods is 90–180 days (2014: 90–180 days). The Group has in place financial risk management policies in place to ensure that all payables are settled within the credit time frame.

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

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| 0–60 days | **2,100** | 3,443 |
| 61–90 days | **44** | — |
| 91–365 days | **—** | 9 |
| Over 365 days | **6,245** | 7,293 |
| | **8,389** | 10,745 |

(iii) Included in accrued expenses and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| HKD | **1,389** | 2,835 |

## 25. AMOUNTS DUE TO DIRECTORS

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

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 26. LOAN FROM A FORMER MINORITY SHAREHOLDER

The loan is unsecured, carries interest at the three years base lending rate published by the Industrial and Commercial Bank of China. The loan was due in 2014, but the Group defaulted in payment of the debt. The Company has commenced a negotiation with the lender and the Directors of the Company are confident that their negotiations with the lender will ultimately reach a successful conclusion. The Directors believe that adequate sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

## 27. LITIGATIONS

### (a) Litigation

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 the default in payment for the purchase of goods of approximately RMB4,000,000 with accrued interest.

On 21 January 2011, a settlement agreement was issued by Guangdong Provincial 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 RMB3,638,000 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 RMB119,000 against the Company on 7 February 2012. In February 2016, a settlement agreement was made and the Group paid RMB3,000,000 to Shanghai Fudan as a full and final settlement of the debt and the case was then closed upon settlement. The Company recognised a gain of approximately RMB757,000 for the year ended 31 December 2015 (Note 12).

### (b) Provision for claims

| | RMB'000 |
|---|---|
| At 1 January 2014, 31 December 2014 and 31 December 2015 | 22,704 |

(i) Reference is made to the Company's announcement dated 20 January 2014 that the Group received a civil judgement (2012) Shen Zhong Fa Shan Chu Zi No.7 (深中法商初字第7號) ("Judgement") issued by Intermediate People's Court of Shenzhen City Guangdong Province (廣東省深圳市中級人民法院) dated 18 December 2013 for a claim lodged by Gong Ting (龔挺) relating to a disputed debt transfer agreement against the Company, Li Qi Ming (the chairman of the Company), Sihui and Guo Fan (a former chief executive officer of the Company).

According to the summary of the Judgement, (i) the Group shall repay Gong Ting the debt of approximately RMB16,579,000 together with the accrued interest of approximately RMB2,429,000, and (ii) Li Qi Ming has joint responsibility for the repayment of the above said amount for the Company. The Group was not satisfied with the Judgement, and in August 2014, the Group made an appeal to Guangdong Provincial Higher People's Court (廣東省高級人民法院). However, the previous ruling was upheld. A provision for claim of approximately RMB19,008,000 was made during the year ended 31 December 2013.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 27. LITIGATIONS (Continued)

### (b) Provision for claims (Continued)

(ii) Reference is made to the Company's announcement dated 15 April 2014 relating to an arbitration in Beijing initiated by Wenzhou Fuguo Bio-Technology Limited (溫州富國生物科技有限公司)("Wenzhou Fuguo") relating to a transaction of sales of goods from the Company in 2011.

On 17 June 2014, an arbitral award was issued in favour of Wenzhou Fuguo and pursuant to which the Group shall pay Wenzhou Fuguo for a sum of RMB3,300,000 together with the accrued interest of RMB396,000. A provision for claim of approximately RMB3,696,000 for was made during the year ended 31 December 2013.

## 28. SHARE CAPITAL

| | | Nominal value | | |
|---|---|---|---|---|
| | Number of shares | Domestic shares | H shares | Total |
| | '000 | RMB'000 | RMB'000 | RMB'000 |
| Registered, issued and fully paid: | | | | |
| At 1 January 2014 and 31 December 2014 and 2015 (nominal value of RMB0.10 each) | 520,000 | 31,980 | 20,020 | 52,000 |

As stated in Note 34 to the consolidated financial statements, 280,000,000 domestic shares at RMB0.30 each will be issued and allotted on 3 February 2016 in order to pay off the Group's debts and finance its working capital.

## 29. OPERATING LEASE

### The Group as lessee

The Group leases certain of its 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 premises which fall due are as follows:

| | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|
| Within one year | **1,570** | 190 |
| In the second to fifth years inclusive | **2,071** | 179 |
| | **3,641** | 369 |

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 30. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

**(a)** In addition to related party balances detailed in the consolidated financial statements and Note 25, the Group entered into the following transactions with related party during the year, some of which are also deemed to be connected parties pursuant to the Listing Rules:

| | | Transaction amount | | Balance owed | |
|---|---|---|---|---|---|
| | | **2015** | 2014 | **2015** | 2014 |
| **Name of related party** | **Nature of transactions** | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Shenzhen Mingwah Aohan Smart Card Corporation Ltd. (深圳市明華澳漢智能卡有限公司) | Sales of goods | **1,127** | 137 | **2,193** | 1,047 |
| | Purchases of goods | **824** | 8,020 | | |

The Directors of the Company considered Shenzhen Mingwah Aohan Smart Card Corporation Ltd. ("Shenzhen Smart Card") is a related party of the Group as Mr. Li Xiang, the supervisor of the Company, has beneficial interest in Shenzhen Smart Card. The transactions are carried out at terms agreed by both parties.

The above balance owed from related party is included in trade and other receivables. The Group has not made any provision for bad and doubtful debts in respect of related party debtor during 2015 or 2014 regarding related party transactions.

### (b) Key management compensation

The key management personnel of the Group comprises all the Directors of the Company and the five highest paid individuals.

## Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | Notes | 2015 RMB'000 | 2014 RMB'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | | **376** | 508 |
| Investment in subsidiaries | (i) | **1,109** | 1,101 |
| | | **1,485** | 1,609 |
| Current assets | | | |
| Trade and other receivables | | **4,077** | 2,618 |
| Amount due from a subsidiary | (ii) | **185** | — |
| Bank balances and cash | | **5,011** | 151 |
| | | **9,273** | 2,769 |
| Current liabilities | | | |
| Trade and other payables | | **18,758** | 19,151 |
| Amounts due to directors | (ii) | **2,027** | 365 |
| Amounts due to subsidiaries | (ii) | **4,220** | 4,161 |
| Loan from a former minority shareholder | | **6,853** | 6,853 |
| Provision for claims | | **22,704** | 22,704 |
| | | **54,562** | 53,234 |
| Net current liabilities | | **(45,289)** | (50,465) |
| Net liabilities | | **(43,804)** | (48,856) |
| Capital and reserves | | | |
| Share capital | | **52,000** | 52,000 |
| Reserves | (iii) | **(95,804)** | (100,856) |
| Capital deficiency | | **(43,804)** | (48,856) |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 30 March 2016 and are signed on its behalf by:

**Mr. Li Qi Ming**
*Director*

**Mr. Liu Guo Fei**
*Director*

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 31. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Notes:

(i) Investments in subsidiaries

| | 2015<br>RMB'000 | 2014<br>RMB'000 |
|---|---|---|
| Unlisted investments, at cost | **10,467** | 10,459 |
| Less: Accumulated impairment | **(9,358)** | (9,358) |
| | **1,109** | 1,101 |

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

(iii)

| | Share premium<br>RMB'000 | Statutory surplus reserve<br>RMB'000 | Statutory public welfare fund<br>RMB'000 | Accumulated losses<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| At 1 January 2014 | 17,574 | 4,716 | 2,358 | (121,706) | (97,058) |
| Total comprehensive expense for the year | — | — | — | (3,798) | (3,798) |
| At 31 December 2014 | 17,574 | 4,716 | 2,358 | (125,504) | (100,856) |
| Total comprehensive income for the year | — | — | — | 5,052 | 5,052 |
| At 31 December 2015 | 17,574 | 4,716 | 2,358 | (120,452) | (95,804) |

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 32. SUBSIDIARIES

Details of the Company's subsidiaries established as at 31 December 2015 and 2014 are as follows:

| Name of subsidiary | Place of incorporation/ registration and operation/ establishment | Class of shares held | Issued and fully paid registered/ ordinary capital RMB'000 | Proportion ownership interest directly held by the Company 2015 | 2014 | 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%** | 80% | 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%** | 90% | 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%** | 80% | 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%** | 80% | Inactive |
| 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) | PRC | Contributed capital | 1,000 | **80%** | 80% | Trading 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%** | 100% | Provision of administrative support |
| Fast Key Holdings Limited (快鍵集團有限公司) | Hong Kong | Ordinary shares | 8 | **100%** | N/A | Provision of administrative support |

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

In the opinion of the Directors of the Company, there is no subsidiary that has non-controlling interest which is material to the Group.

* English name is for identification only.

# Notes to the Consolidated Financial statements (continued)

For the year ended 31 December 2015

## 33. CAPITAL COMMITMENT

The Company did not have any significant capital commitment as at 31 December 2015 (2014: Nil).

## 34. EVENTS AFTER THE REPORTING PERIOD

On 30 October 2015, the Company entered into three separate conditional Subscription Agreements with three Subscribers respectively. Pursuant to the Subscription Agreements, the Subscribers have individually and conditionally agreed to subscribe and the Company has conditionally agreed to allot and issue 280,000,000 domestic shares in aggregate to the Subscribers at the Subscription Price of RMB0.30 (equivalent to approximately HK$0.37) per subscription share. The Subscription Agreements are not conditional upon each other.

The subscriptions were approved by the Shareholders at the Extraordinary General Meeting and the Class Meetings by a special resolution on 28 January 2016. On 3 February 2016, the Subscribers fulfilled all the conditions precedent under the subscription agreements and accordingly the subscriptions were completed. The estimated net proceeds of approximately RMB82,320,000 after deduction of estimated introduction fee of approximately RMB1,680,000, will be mainly used to pay off the Group's debts and finance its working capital. Details of the Completion of conditional subscription of new domestic shares are set out in the Company's announcement dated 3 February 2016.

# Financial Summary

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Revenue | **26,308** | 25,708 | 26,303 | 34,408 | 56,470 |
| Profit (loss) before tax | **4,079** | (6,088) | (51,691) | (9,654) | 1,507 |
| Income tax (expense) credit | **(3)** | (34) | (17) | 5,995 | (779) |
| Profit (loss) for the year | **4,076** | (6,122) | (51,708) | (3,659) | 728 |
| Attributable to: | | | | | |
| Owners of the Company | **4,039** | (6,002) | (50,612) | (3,796) | 1,119 |
| Non-controlling interests | **37** | (120) | (1,096) | 137 | (391) |
| Profit (loss) for the year | **4,076** | (6,122) | (51,708) | (3,659) | 728 |

## ASSETS AND LIABILITIES

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **RMB'000** | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Total assets | **18,965** | 10,227 | 14,020 | 41,686 | 52,169 |
| Total liabilities | **(70,489)** | (65,607) | (63,274) | (39,241) | (46,065) |
| | **(51,524)** | (55,380) | (49,254) | 2,445 | 6,104 |
| Attributable to: | | | | | |
| Owners of the Company | **(50,982)** | (54,801) | (48,795) | 1,808 | 5,604 |
| Non-controlling interests | **(542)** | (579) | (459) | 637 | 500 |
| (Capital deficiency) total equity | **(51,524)** | (55,380) | (49,254) | 2,445 | 6,104 |