



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

2016

Third Quarterly Report

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

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This report, for which the directors (the “Directors”) of Shenzhen Mingwah Aohan High Technology Corporation Limited (the “Company”, together with its subsidiaries, the “Group”) 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.

HIGHLIGHTS

- For the nine months ended 30 September 2016, unaudited revenue was approximately RMB16,531,000, which represents a decrease of approximately 7.0% as compared to that of the corresponding period in previous year. The loss attributable to the owners of the Company for the nine months ended 30 September 2016 was approximately RMB21,566,000 (2015: profit of RMB2,274,000).
- Loss per share of the Group was approximately RMB2.82 cents for the nine months ended 30 September 2016.

To all shareholders,

The Board of Directors (the "Board") are pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months and nine months ended 30 September 2016 together with comparative figures for the corresponding periods ended 30 September 2015, as follows:

THE FINANCIAL STATEMENTS**Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income**

For the three months and nine months ended 30 September 2016 and 30 September 2015

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Revenue	3	7,315	6,511	16,531	17,778
Cost of sales		(2,475)	(3,824)	(6,349)	(10,123)
Gross profit		4,840	2,687	10,182	7,655
Other income		166	602	965	738
Distribution and selling expenses		(172)	(150)	(573)	(530)
General and administrative expenses		(3,771)	(2,599)	(29,020)	(5,267)
(Loss) profit from operations		1,063	540	(18,446)	2,596
Finance costs		—	(120)	(3,270)	(360)
(Loss) profit before taxation		1,063	420	(21,716)	2,236
Income tax credit	4	—	—	—	1
(Loss) profit for the period		1,063	420	(21,716)	2,237
Other comprehensive income		(54)	2	(43)	(5)
Total comprehensive (expenses) income for the period		1,009	422	(21,759)	2,232
(Loss) profit attributable to: Owners of the Company		1,107	487	(21,566)	2,274
Non-controlling interests		(44)	(67)	(150)	(37)
		1,063	420	(21,716)	2,237
Total comprehensive (expenses) income attributable to: Owners of the Company		1,053	489	(21,609)	2,269
Non-controlling interests		(44)	(67)	(150)	(37)
		1,009	422	(21,759)	2,232
Dividend	5	—	—	—	—
(Loss) earnings per share					
— Basic (cents)	6	0.14	0.09	(2.82)	0.44
— Diluted (cents)	6	N/A	N/A	N/A	N/A

Unaudited Condensed Consolidated Statement of Changes in Equity

For the nine months ended 30 September 2016 and 30 September 2015

	Attributable to owners of the Company							Non-controlling interest	Total
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Translation reserve	Accumulated losses	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2015	52,000	17,574	5,954	2,978	5	(133,312)	(54,801)	(579)	(55,380)
Total comprehensive income (expenses) for the period	–	–	–	–	(5)	2,274	2,269	(37)	2,232
At 30 September 2015	52,000	17,574	5,954	2,978	–	(131,038)	(52,532)	(616)	(53,148)
At 1 January 2016	52,000	17,574	5,954	2,978	(215)	(129,273)	(50,982)	(542)	(51,524)
Issue of shares	28,000	54,320	–	–	–	–	82,320	–	82,320
Total comprehensive expenses for the period	–	–	–	–	(43)	(21,566)	(21,609)	(150)	(21,759)
At 30 September 2016	80,000	71,894	5,954	2,978	(258)	(150,839)	9,729	(692)	9,037

Notes to the Condensed Financial Statements

For the nine months ended 30 September 2016

1. GENERAL

The Company was established and registered as a joint stock company with limited liability in the People's Republic of China (the "PRC") and its H shares are listed on the Growth Enterprise Market (the "GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Group is principally engaged in design, development and sales of IC cards, magnetic cards, related equipment and application systems in the PRC.

2. BASIS OF PREPARATION

The accompanying unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standard and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the GEM Listing Rules. They have been prepared under historical cost convention. The accounting policies adopted are consistent with those followed in preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015.

The HKICPA has issued certain new and revised HKFRS that are first effective or available for early adoption for the current period of the Group. These new and revised HKFRSs have no significant impact on the results or the financial position of the Group for current and previous accounting periods.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

The condensed consolidated results are unaudited but have been reviewed by the Company's audit committee.

3. REVENUE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Sale of card products	6,731	6,203	14,702	16,521
Sale of non-card products	584	308	1,829	1,257
	7,315	6,511	16,531	17,778

4. INCOME TAX CREDIT

The credit represents enterprise income tax in the PRC.

	For the three months ended 30 September		For the nine months ended 30 September	
	2016	2015	2016	2015
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax				
Current period	—	—	—	1

PRC enterprise income tax of the Group is calculated at the applicable rate of 25% (2015: 25%) on estimated assessable profits.

The Group does not have any significant unprovided deferred taxation as at 30 September 2016 and 30 September 2015.

5. DIVIDEND

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2016 (2015: Nil).

6. (LOSS) EARNINGS PER SHARE

The calculation of basic (loss) earnings per share for the nine months ended 30 September 2016 is based on the unaudited net loss attributable to the owners of the Company for the relevant period of approximately RMB21,566,000 (2015: profit of RMB2,274,000) and the weighted average number of 765,255,474 shares (2015: 520,000,000 shares).

Diluted (loss) earnings per share is not presented as there were no potential ordinary shares outstanding during the relevant periods.

7. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS

The Group entered into the following transactions with related party during the following periods, some of which are also deemed to be connected parties pursuant to the Listing Rules:

Name of related party	Nature of transactions	For the three months ended		For the nine months ended	
		30 September		30 September	
		2016	2015	2016	2015
		RMB'000	RMB'000	RMB'000	RMB'000
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Shenzhen Mingwah Aohan	Sales of goods	—	593	—	1,127
Smart Card Corporation Ltd. (深圳市明華澳漢智能卡有限公司)	Purchases of goods	70	565	70	824

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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group's revenue is derived from the businesses of design, development and sales of IC cards, magnetic cards, related equipment and application systems in the PRC.

The Group recorded a decrease in revenue in the nine months ended 30 September 2016 in comparing with the corresponding period in 2015 due to the following reasons:

- (i) Intensified Market Competition. Competition in the traditional IC card market has been intensified because of product homogeneity and relatively lower entrance barrier. Many new competitors were attracted into the market and this resulted in the excess capacity and decreased profit margin for most players in the industry.
- (ii) Due to the market situation mentioned in (i) above, the Group concentrated its resources to increase its customer base to internet finance, media and entertainment and precision instrument industries in which the Group's products are competitive. The resource allocated on sales to existing customers was reduced which led to a decrease in sales in the relevant period in 2016.

Financial Review

The Group's revenue for the nine months ended 30 September 2016 was approximately RMB16,531,000, representing a decrease of approximately 7.0% as compared to the corresponding period last year (2015: RMB17,778,000).

For the nine months ended 30 September 2016, the Group's cost of sales decreased to approximately RMB6,349,000 (2015: RMB10,123,000). The gross profit for the nine months ended 30 September 2016 was approximately RMB10,182,000 (2015: RMB7,655,000). The gross profit margin increased from approximately 43.1% to approximately 61.6% as compared to the corresponding period in 2015. The underlying reason of such increase was mainly attributable to due to increase in sales of COS software system with higher profit margin.

When compared to the corresponding period last year, the distribution and selling expenses was slight increased by 8.1% to approximately RMB573,000 (2015: RMB530,000) mainly due to increase in staff cost. The general and administrative expenses were increased by 451.0% to approximately RMB29,020,000 (2015: RMB5,267,000), which was mainly due to professional fees for resumption of trading of shares incurred for the period under review.

The finance costs for the period amounted to approximately RMB3,270,000 (2015: RMB360,000). The increase was mainly due to the payment of overdue interest for the settlement of loan due to a former minority shareholder.

For the nine months ended 30 September 2016, the Group's loss attributable to the owners of the Company was approximately RMB21,566,000 (2015: profit of RMB2,274,000).

Prospect

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 wide application to internet finance, media and entertainment and precision instrument industries which require high 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.

The Company has developed mature security encryption technology. The Company expects to extend its encryption technology to various new areas and obtain substantial income. As a result of an acquisition of a wholly owned subsidiary in October 2016, the Company will strive to make the liquor trading business to become a new positive cashflow source of the Company, and will enable the Group to expand its business portfolio and possibly enhance its financial performance.

The Company continues to seek other suitable opportunities to diversify its sources of income and is actively looking for candidates that can further broaden and enrich the management's expertise and experience and assist the Company in executing an appropriate business strategy to better position the Company in a highly competitive business environment.

Litigations

- (i) Reference is made to the Company's announcement dated 20 January 2014 that the Group received a civil judgement (2012) Shen Zhong Fa Shang Chu Zi No.7 (深中法商初字第7號) [the "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 had been made since 31 December 2013.

- (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 (温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 had been made since 31 December 2013.

Events after the Reporting Period

On 9 October 2016, the Company acquired Shanghai Ai Ba Ke Food Limited* (上海愛吧客食品有限公司), a company established in the PRC with limited liability with a license to trade liquor products in the PRC from third party, at a consideration of RMB10,000 (the "Acquisition"). As all the relevant percentage ratios in relation to the Acquisition are below 5%, the Acquisition does not constitute a notifiable transaction of the Company under the GEM Listing Rules. For more details of acquisition please refer to the Company's announcement — Commencement of New Business, dated 2 November 2016.

* *For identification purposes only*

DISCLOSURE OF INTERESTS

(a) Directors', Supervisors' and Chief Executives' interest in shares of the Company

As at 30 September 2016, the interests (including interests in shares and short positions) of Directors, supervisors, and chief executives of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director/ Supervisor/ Chief Executive	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	28.78%	21.58%

The Company has been informed by Ms. Hou Qian (who was appointed as an executive director of the Company on 13 October 2015, was re-designated as a non-executive director of the Company on 31 August 2016 and resigned as a non-executive of the Company on 20 September 2016) on 10 May 2016 that she had disposed of 58,240,000 domestic shares of the Company representing approximately 9.71% of the 599,800,000 issued domestic shares of the Company as at the date of this report to an independent third party.

Save as disclosed above, none of the Directors, supervisors and chief executives of the Company had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to rule 5.46 of the GEM Listing Rules as at 30 September 2016.

(b) Interests discloseable under the SFO and substantial shareholders

So far as the Directors are aware, as at 30 September 2016, 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
Hu Xiao Rui	Beneficial owner	170,000,000 domestic shares	28.34%	21.25%
Zhang Tao	Beneficial owner	110,000,000 domestic shares	18.34%	13.75%
Xu Wen	Beneficial owner	58,240,000 domestic shares	9.71%	7.28%
Shenzhen Gangao Huijin Investment Company Limited	Beneficial owner	33,800,000 domestic shares	5.64%	4.23%
Guo Fan	Beneficial owner	31,460,000 domestic shares	5.25%	3.93%
Princes MB Asset Management Corp.	Beneficial owner	11,416,000 H shares	5.70%	1.43%

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 30 September 2016.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the period was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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 period under review.

AUDIT COMMITTEE

The Company has established an audit committee since June 2004 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Company and provide advice and comments to the Directors. The audit committee currently comprises three independent non-executive Directors, namely, Mr. Gao Xiang Nong, Mr. Chen Hong Lei and Mr. Yu Xiuyang.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Company and discussed internal controls and financial reporting matters. The audit committee has also reviewed the unaudited third quarterly result of the Company for the nine months ended 30 September 2016.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 15 of the GEM Listing Rules of the Stock Exchange.

NON-COMPLIANCE WITH THE GEM LISTING RULES

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 was held on 6 July 2016 to rectify such continuing connected transactions as detailed in the Company's announcement dated 6 July 2016.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the nine months ended 30 September 2016, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

DIRECTORS

As at the date hereof, the executive Directors of the Company are Mr. Li Qi Ming, Mr. Liu Guo Fei and Ms. Wang Hong; the non-executive Directors of the Company are Mr. Zhou Liang Hao and Mr. Chan Ngai Fan; and the independent non-executive Directors of the Company are Mr. Gao Xiang Nong, Mr. Chen Hong Lei, Mr. Yu Xiuyang and Mr. Lau Shu Yan.

By Order of the Board

Shenzhen Mingwah Aohan High Technology Corporation Limited

Li Qi Ming

Chairman

Shenzhen, the PRC, 4 November 2016