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

2017
First Quarterly 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 of the Stock Exchange 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", 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 three months ended 31 March 2017, the unaudited revenue was approximately RMB28,071,000 which representing an increase of approximately 437.4% as compared to that of the corresponding period in previous year. The profit attributable to owners of the Company for the three months ended 31 March 2017 was approximately RMB1,271,000 (2016: loss of RMB9,931,000).

- Earnings per share of the Group was approximately RMB0.16 cents for the three months ended 31 March 2017.

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 ended 31 March 2017 ("First Quarter"), together with the comparative unaudited figures for the corresponding period in 2016, as follows:

THE FINANCIAL STATEMENTS

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the three months ended 31 March 2017 and 31 March 2016

	Notes	For the three months ended 31 March **2017** **RMB'000** **(Unaudited)**	 2016 RMB'000 (Unaudited)
Revenue	3	**28,071**	5,223
Cost of sales		**(21,832)**	(1,593)
Gross profit		**6,239**	3,630
Other income		**890**	191
Distribution and selling expenses		**(122)**	(234)
General and administrative expenses		**(5,485)**	(13,555)
Profit (loss) from operations		**1,522**	(9,968)
Finance costs		**—**	—
Profit (loss) before taxation		**1,522**	(9,968)
Income tax expenses	4	**(326)**	—
Profit (loss) for the period		**1,196**	(9,968)
Other comprehensive income for the period		**(71)**	67
Total comprehensive income for the period		**1,125**	(9,901)
Profit (loss) attributable to:			
Owners of the Company		**1,271**	(9,931)
Non-controlling interests		**(75)**	(37)
		1,196	(9,968)
Total comprehensive income attributable to:			
Owners of the Company		**1,200**	(9,864)
Non-controlling interests		**(75)**	(37)
		1,125	(9,901)
Dividend	5	**—**	—
Earnings (loss) per share			
— Basic (cents)	6	**0.16**	(1.43)
— Diluted (cents)	6	**N/A**	N/A

Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2017 and 31 March 2016

	Attributable to owners of the Company								
	Share capital RMB'000 (Unaudited)	Share premium RMB'000 (Unaudited)	Statutory surplus reserve RMB'000 (Unaudited)	Statutory public welfare fund RMB'000 (Unaudited)	Translation reserve RMB'000 (Unaudited)	Accumulated losses RMB'000 (Unaudited)	Sub-total RMB'000 (Unaudited)	Non-controlling interest RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2016	52,000	17,574	5,954	2,978	(215)	(129,273)	(50,982)	(542)	(51,524)
Total comprehensive income	–	–	–	–	67	(9,931)	(9,864)	(37)	(9,901)
Issue of shares upon subscription	28,000	54,320	–	–	–	–	82,320	–	82,320
At 31 March 2016	80,000	71,894	5,954	2,978	(148)	(139,204)	21,474	(579)	20,895
At 1 January 2017	**80,000**	**71,974**	**5,954**	**2,978**	**(386)**	**(145,662)**	**14,858**	**(574)**	**14,284**
Total comprehensive income	**–**	**–**	**–**	**–**	**(71)**	**1,271**	**1,200**	**(75)**	**1,125**
At 31 March 2017	**80,000**	**71,974**	**5,954**	**2,978**	**(457)**	**(144,391)**	**16,058**	**(649)**	**15,409**

Notes to the Unaudited Condensed Financial Statements

For the three months ended 31 March 2017

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 sale of IC cards, magnetic cards, related equipment and application systems, trading of liquor products 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 2016.

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 the new and revised HKFRSs that have been issued but not yet effective for the current accounting period. The adoption of these new standards and amendments to standards is not expected to have any significant impact on the results of the Group.

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

3. REVENUE

Revenue represents the gross invoiced value of goods sold, net of sales related tax, returns and discounts to outside customers, and are summarised as follows:

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of card products	**6,569**	4,809
Sales of non-card products	**507**	414
Sales of liquor products	**20,995**	—
	28,071	5,223

4. INCOME TAX EXPENSES

	For the three months ended 31 March	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax		
Current period	**326**	—

PRC enterprise income tax of the Group is calculated at the applicable rate of 25% (2016: 25%) on estimated assessable profits.

The Group did not have any significant unprovided deferred taxation as at 31 March 2017 and 31 March 2016.

5. DIVIDEND

No dividend was paid during the period. The directors do not recommend the payment of an interim dividend for the three months ended 31 March 2017 (2016: Nil).

6. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share for the three months ended 31 March 2017 is based on the unaudited net profit attributable to owners of the Company for the relevant period of approximately RMB1,271,000 (2016: loss of RMB9,931,000) and the weighted average number of 800,000,000 shares (2016: 695,384,615 shares).

Diluted earnings (loss) 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:

		For the three months ended 31 March	
		2017	2016
Name of related party	Nature of transactions	**RMB'000 (Unaudited)**	RMB'000 (Unaudited)
Shenzhen Mingwah Aohan Smart Card Corporation Ltd. (深圳市明華澳漢智能卡有限公司)	Purchases of goods	**370**	—

On 5 February 2016, the Company and Shenzhen Mingwah Aohan Smart Card Corporation Ltd. ("Shenzhen Smart Card") entered into the Master Sale Agreement and Master Purchase Agreement, pursuant to which the Company agreed to sell various types of card products and related software and Shenzhen Smart Card agreed to supply various types of card products. Both agreements were effective on 5 February 2016 and will be expired on 31 December 2018. Details of the Master Sale Agreement and Master Purchase Agreement are set out in the announcement of the Company dated 16 May 2016.

The above transactions with the related party were in accordance with the terms in the Master Sale and Purchase Agreements and the approved Annual Cap.

The directors of the Company considered 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 and Operations Review

During the period under review, the Group has been principally engaged in the business of (i) the design, development and sale of IC cards, magnetic cards related equipment and application systems in the People's Republic of China (the "PRC") (the "Card and Related Products Business"); and (ii) the trading of liquor products (the "Wine Business").

The Card and Related Products Business

The Company intends to sustain its customer base of its Card and Related Products Business in media and entertainment industry, internet finance industry and precision instrument industry. Based on the Company's mature technology as core strength and its long established reputation in the market, the Company recorded a growth in revenue in the financial period under review. Revenue of approximately RMB7,076,000 attributable to the Card and Related Products Business for the three months ended 31 March 2017 were mainly derived from two contracts for its application system and one contract for its CPU smart cards.

The Wine Business

The directors of the Company (the "Directors") saw the potential for the wine and beverage industry to grow within the PRC and Hong Kong. In the last quarter of the year 2016, the Group has successfully commenced its Wine Business with a view to diversify its income source and enhance its financial performance.

For furtherance of its Wine Business, the Group has entered into strategic partnership with Googut Wine & Spirits Co, Ltd ("Googut", together with its subsidiaries the "Googut Group") towards the end of 2016 to form two joint venture companies in the PRC and Hong Kong. The Googut Group is a professional and integrated operator of alcoholic beverage which has well established distribution channel and broad customer base in the PRC. It is expected that the cooperation with the Googut Group will allow the Group to utilize the expertise, experience and resources of the Googut Group in the distribution of alcoholic beverage.

Under the joint venture agreements between the Group and the Googut Group, a joint venture company in Hong Kong, namely, Googut Mingwah (Hong Kong) Limited, was incorporated on 8 February 2017. As at the date of this report, the formation of the joint venture company in PRC has not been completed.

The Wine Business of the Group has recorded strong growth during the first quarter of 2017 and has become the major revenue stream of the Group and contributed a significant portion to the Group's profit. The Group has entered into two sales contracts for Chinese white wine Maotaijiu (茅台酒) with a new customer in the first quarter of 2017. The Wine Business has made a significant contribution to the Group's revenue accounting for approximately RMB20,995,000, representing approximately 75.0% of the Group's revenue for the three months ended 31 March 2017.

In view of the positive development of the Group's Wine Business as mentioned above, the Group looks forward to expanding the operation of this segment with its ongoing collaboration with Googut. The Group will continue to look for opportunities to deepen its partnership with Googut and other operators in the wine industry to strengthen its footprint in this industry.

Financial Review

The Group's revenue for the three months ended 31 March 2017 was approximately RMB28,071,000 (2016: RMB5,223,000), representing an increase of approximately 437.4% as compared to the corresponding period in 2016. Such increase was mainly resulted from the new business plan in targeting the wine and beverage industry.

The Group's cost of sales for the three months ended 31 March 2017 increased from approximately RMB1,593,000 to RMB21,832,000, representing an increase of approximately 1,270.5% as compared to that of the same period in 2016. The gross profit for the three months ended 31 March 2017 increased by approximately 71.9% to approximately RMB6,239,000 (2016: RMB3,630,000). The percentage of gross profit for the three months ended 31 March 2017 decreased from 69.5% to 22.2% as compared to the corresponding period in 2016, which was mainly due to increase in sales of liquor products which were with lower profit margin than card products.

The distribution and selling expenses decreased by approximately 47.9% to RMB122,000 (2016: RMB234,000). The decrease was mainly due to decrease in staff cost. The general and administrative expenses decreased by approximately 59.5% to approximately RMB5,485,000 (2016: RMB13,555,000) due to decrease 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 in last year.

For the three months ended 31 March 2017, the Group's profit attributable to owners of the Company was approximately RMB1,271,000 (2016: loss of RMB9,931,000).

As at 31 March 2017, the Group had total assets of RMB136,508,000 (31 December 2016: RMB73,115,000), which were financed by total liabilities and total equity of RMB121,099,000 (31 December 2016: RMB58,831,000) and RMB15,409,000 (31 December 2016: RMB14,284,000), respectively. The significant increase of approximately RMB63,393,000 in total assets as at 31 March 2017 was primarily due to the increase in inventories (liquor products) of approximately RMB52,384,000 and related VAT receivables of approximately RMB11,176,000 arising from the Wine Business.

Prospect

The Group expects that market for CPU smart cards will continue to grow moderately for people are putting more emphasis on the security of private data. In view of the moderate development of the Group's Card and Related Products Business and premised on its mature data encryption technology, the Group expects to maintain its existing operation in relation to CPU smart cards and other card products despite keen competition in such industry. It is the Group's intention to maintain its operation targeting internet finance, media and entertainment and precision instrument industries which require high standard of security. Going forward, the Group will also explore business opportunities in the IT and related technology sector.

On the other hand, leveraging on the expertise, experience and resources of its joint venture partner, Googut, it is expected that the Wine Business will continue to show healthy growth. In view of the rapid development of the Group's Wine Business as mentioned above, the Group looks forward to expanding the operation of this segment and divesting more resources to develop its Wine Business. The Group will continue to look for opportunities to deepen its partnership with Googut and other operators in the wine industry to strengthen its footprint in this industry.

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.

Provision for claims

(i) Reference is made to the Company's announcement dated 20 January 2014 that the Group received a civil judgment (2012) Shen Zhong Fa Shan Chu Zi No.7 (深中法商初字第7號) ("Judgment") 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) (the "Claimant") relating to a disputed debt transfer agreement against the Company, Li Qi Ming (who has resigned as an executive director of the Company on 31 March 2017), Sihui and Guo Fan (a former chief executive officer of the Company).

According to the summary of the Judgment, (i) the Group shall repay the Claimant the debt of approximately RMB16,579,000 together with the accrued interest of approximately RMB2,429,000, and (ii) Mr. Li Qi Ming has joint responsibility for the repayment of the above said amount for the Company. The Group was not satisfied with the Judgment, 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.

On 17 June 2016, an enforcement of judgment was issued by Intermediate People's Court of Shenzhen City Guangdong Province (the "Intermediate Court") to enforce the Company and Mr. Li Qi Ming to repay the debt of approximately RMB16,579,000 together with the interest accrued and court fee of approximately RMB179,000. Negotiations are being carried out between the Company and the Claimant, but no settlement was reached up to the date of this report. A provision for claim of approximately RMB19,008,000 was made in prior year and no additional provision was made for the period.

On 13 March 2017, the Claimant obtained an assistant enforcement order from the Intermediate Court pursuant to which all the domestic shares of the Company held by Mr. Li Qi Ming (the "Shares") would be frozen for a period of two years commencing on 22 March 2017, during which no registration of dealings in, transfer of or disposal of the Shares would be allowed.

(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 in prior year.

DISCLOSURE OF INTERESTS

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

Mr. Li Qi Ming, who resigned as an executive director of the Company on 31 March 2017, has interests in 172,640,000 domestic shares of the Company representing approximately 28.78% of the 599,800,000 issued domestic shares of the Company as at the date of this report. 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 31 March 2017.

(b) Interests discloseable under the SFO and substantial shareholders

So far as the Directors are aware, as at 31 March 2017, the persons or companies (not being a director or chief executive of the Company) have interests and/or long positions in the shares or underlying shares of the Company which are required to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO and recorded in the register required to be kept under section 336 of the SFO, and who were directly or indirectly deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company are listed as follows:

Name of substantial shareholder	Capacity	Number and class of securities	Approximate percentage of shares in the same class	Approximate percentage of total registered share capital
Li Qi Ming (Note 1)	Beneficial owner	172,640,000 domestic shares	28.78%	21.58%
Hu Xiao Rui	Beneficial owner	170,000,000 domestic shares	28.34%	21.25%
Zhang Nan	Beneficial owner	110,000,000 domestic shares	18.34%	13.75%

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
Zhuoyu Hengtai (Beijing) Safety Equipment Company Limited	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%
Princeps MB Asset Management Corp.	Beneficial owner	11,416,000 H shares	5.70%	1.43%

Note:

1. Mr. Li Qi Ming resigned as an executive director with effect from 31 March 2017.

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 31 March 2017.

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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by Directors (the "Model Code") on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Upon the specific enquiry made to all the Directors, the Company was not aware of any non-compliance with the Model Code regarding securities transactions by Directors during the three months ended 31 March 2017.

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. After the appointment of Mr. Lau Shu Yan as a member of the audit committee of the Company (the "Audit Committee") on 20 April 2017, the Audit Committee currently comprises three independent non-executive Directors, namely, Mr. Gao Xiang Nong, Mr. Yu Xiuyang and Mr. Lau Shu Yan.

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 first quarterly result of the Company for the three months ended 31 March 2017, which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements and that adequate disclosure have been made.

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

Since resignation of Mr. Chen Hong Lei on 14 November 2016, the Audit Committee comprises 2 independent non-executive Directors, which constitutes a non-compliance of the requirement for a minimum of 3 members for a audit committee under Chapter 5 of the GEM Listing Rules. After the appointment of Mr. Lau Shu Yan as a member of the Audit Committee on 20 April 2017, the Company is in compliance with rule 5.28 of the GEM Listing Rules.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the three months ended 31 March 2017, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares.

DIRECTORS

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

By Order of the Board
Shenzhen Mingwah Aohan High Technology Corporation Limited
Liu Guo Fei
Chief Executive Officer

Shenzhen, the PRC, 11 May 2017