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

2018
Interim Report

* For identification purpose only

CHARACTERISTICS OF THE 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 six months ended 30 June 2018, unaudited revenue was approximately RMB42,217,000, which represents a decrease of approximately of 6.1% as compared to that of the corresponding period in previous year. The profit attributable to owners of the Company for the six months ended 30 June 2018 was approximately RMB772,000 (2017: loss of RMB1,834,000). The turnaround from loss to profit mainly attributable to (i) the increase in other income due to an increase in value-added tax refund; and (ii) a reduction in general and administrative expenses due to tighter cost control measures implemented by the Group.

- Earnings per share of the Group was approximately RMB0.10 cents for the six months ended 30 June 2018.

To all shareholders,

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months and six months ended 30 June 2018 together with comparative figures for the corresponding period in 2017, as follows:

THE FINANCIAL STATEMENTS

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

For the three months and six months ended 30 June 2018 and 30 June 2017

	Notes	For the three months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	3	**12,325**	16,871	**42,217**	44,942
Cost of sales		**(10,335)**	(14,726)	**(34,660)**	(36,558)
Gross profit		**1,990**	2,145	**7,557**	8,384
Other income		**2,687**	156	**3,008**	1,046
Distribution and selling expenses		**(513)**	(322)	**(1,198)**	(444)
General and administrative expenses		**(3,936)**	(5,447)	**(8,311)**	(10,932)
Net gain on disposal of subsidiaries	17	**619**	—	**485**	—
Share of result of joint ventures		**—**	(4)	**(1)**	(4)
Profit/(Loss) taxation	5	**847**	(3,472)	**1,540**	(1,950)
Income tax (expense)/credit	6	**(362)**	313	**(535)**	(13)
Profit/(Loss) for the period		**485**	(3,159)	**1,005**	(1,963)
Other comprehensive income for the period		**825**	61	**1,410**	(10)
Total comprehensive income for the period		**1,310**	(3,098)	**2,415**	(1,973)
Profit/(Loss) attributable to:					
Owners of the Company		**173**	(3,105)	**772**	(1,834)
Non-controlling interests		**312**	(54)	**233**	(129)
		485	(3,159)	**1,005**	(1,963)
Total comprehensive income attributable to:					
Owners of the Company		**998**	(3,044)	**2,182**	(1,844)
Non-controlling interests		**312**	(54)	**233**	(129)
		1,310	(3,098)	**2,415**	(1,973)
Dividend	7	**—**	—	**—**	—
Earnings/(Loss) per share — Basic (cents)	8	**0.02**	(0.39)	**0.10**	(0.23)
— Diluted (cents)	8	**N/A**	N/A	**N/A**	N/A

Unaudited Condensed Consolidated Statement of Financial Position

At 30 June 2018 and 31 December 2017

	Note	2018 RMB'000 (Unaudited)	2017 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		**779**	1,250
Intangible assets		**9,828**	10,729
Interest in joint ventures		**4,986**	4,987
		15,593	16,966
Current assets			
Inventories		**3,077**	1,023
Trade receivables	9	**47,619**	77,873
Other receivables		**6,176**	7,642
Bank balances and cash		**1,143**	8,514
		58,015	95,052
Current liabilities			
Trade and other payables	10	**49,386**	84,013
Amount due to former directors		**4,478**	4,947
Income tax payable		**2,124**	1,606
Provision for claims	11	**—**	5,000
		55,988	95,566
Net current assets/(liabilities)		**2,027**	(514)
Total assets less current liabilities		**17,620**	16,452
Net assets		**17,620**	16,452

Unaudited Condensed Consolidated Statement of Financial Position (Continued)

At 30 June 2018 and 31 December 2017

	Note	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Audited)
Capital and reserves			
Share capital	12	**80,000**	80,000
Reserves		**(62,726)**	(63,642)
Equity attributable to owners of the Company		**17,274**	16,358
Non-controlling interests		**346**	94
Total equity		**17,620**	16,452

Unaudited Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018 and 30 June 2017

	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)	Total RMB'000 (Unaudited)	Non-controlling interests RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
At 1 January 2017	80,000	71,974	5,954	2,978	(386)	(145,662)	14,858	(574)	14,284
Total comprehensive income for the period	–	–	–	–	(10)	(1,834)	(1,844)	(129)	(1,973)
At 30 June 2017	80,000	71,974	5,954	2,978	(396)	(147,496)	13,014	(703)	12,311
At 1 January 2018	**80,000**	**71,974**	**5,954**	**2,978**	**(492)**	**(144,056)**	**16,358**	**94**	**16,452**
Disposal of subsidiaries (Note 17)	**–**	**–**	**–**	**–**	**141**	**–**	**141**	**19**	**160**
Total comprehensive income for the period	**–**	**–**	**(844)**	**(422)**	**1,269**	**772**	**775**	**233**	**1,008**
At 30 June 2018	**80,000**	**71,974**	**5,110**	**2,556**	**918**	**(143,284)**	**17,274**	**346**	**17,620**

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2018 and 30 June 2017

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(3,143)**	(2,630)
Net cash generated from/(used in) investing activities	**1,241**	(5,650)
Net cash (used in)/generated from financing activities	**(5,469)**	332
Net decrease in cash and cash equivalents	**(7,371)**	(7,948)
Cash and cash equivalents at beginning of the period	**8,514**	14,613
Cash and cash equivalents at end of the period — represented by bank balances and cash	**1,143**	6,665

Notes to the Condensed Financial Statements

For the period ended 30 June 2018

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 GEM of the Stock Exchange.

The Group is principally engaged in (i) the sale of IC cards, magnetic cards, related equipment and application systems, and (ii) trading of liquor products.

2. BASIS OF PREPARATION

The accompanying unaudited condensed consolidated results of the Group are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of Chapter 18 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 2017.

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 gross invoiced value of goods sold, net of value added tax, sale returns and discounts to outside customers, and are summarised as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Sales of card products	**2,069**	4,872	**5,126**	11,441
Sales of non-card products	**—**	479	**66**	986
Sales of liquor products	**10,256**	11,520	**37,025**	32,515
	12,325	16,871	**42,217**	44,942

4. SEGMENTAL INFORMATION

Business segments

For management purpose, the Group's products are divided into three kinds, namely card products, non-card products and liquor products. Card products include design, development and trading of IC and magnetic cards and application systems. Non-card products include design, development and trading of card related equipment. Liquor products include trading of liquor products. These products are the basis on which the Group reports its business segmental information.

The Group's primary format for reporting segmental information is by business segments.

4. SEGMENTAL INFORMATION (Continued)

Segmental information about the business is presented below:

For the six months ended 30 June 2018

	Card products RMB'000 (Unaudited)	Non-card products RMB'000 (Unaudited)	Liquor products RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Segment revenue				
Sales to external customers	5,126	66	37,025	42,217
Segment results	648	(165)	3,723	4,206
Unallocated corporates income and expense				(2,666)
Profit from operations				1,540
Profit before taxation				1,540

4. SEGMENTAL INFORMATION (Continued)

For the six months ended 30 June 2017

	Card products RMB'000 (Unaudited)	Non-card products RMB'000 (Unaudited)	Liquor products RMB'000 (Unaudited)	Consolidated RMB'000 (Unaudited)
Segment revenue				
Sales to external customers	11,441	986	32,515	44,942
Segment results	1,074	(2,627)	371	(1,182)
Unallocated corporates income and expense				(768)
Loss from operations				(1,950)
Loss before taxation				(1,950)

5. LOSS BEFORE TAXATION

Loss before taxation has been arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	**2018 RMB'000 (Unaudited)**	2017 RMB'000 (Unaudited)
Depreciation of property, plant and equipment	**37**	108	**71**	182
Amortisation of intangible assets (included in cost of sales)	**453**	453	**907**	907

6. INCOME TAX EXPENSE/(CREDIT)

The expense/(credit) represents enterprise income tax in the PRC.

	For the three months ended 30 June		For the six months ended 30 June	
	2018	2017	**2018**	2017
	RMB'000	RMB'000	**RMB'000**	RMB'000
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
PRC enterprise income tax				
Current period	**362**	(313)	**535**	13

PRC enterprise income tax of the Group is calculated at the applicable rate of 25% (2017: 25%) on estimated assessable profits.

The Group did not have any significant unprovided deferred taxation as at 30 June 2018 and 30 June 2017.

7. DIVIDEND

No dividend was paid during the period. The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (2017: Nil).

8. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2018 is based on the unaudited net profit attributable to owners of the Company for the relevant period of approximately RMB772,000 (2017: loss of RMB1,834,000) and the weighted average number of 800,000,000 shares (2017: 800,000,000 shares).

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

9. TRADE RECEIVABLES

Details of the aging analysis are as follows:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
1 to 90 days	**14,400**	62,480
91 to 180 days	**33,219**	13,726
181 to 365 days	**—**	1,540
Over 365 days	**—**	127
	47,619	77,873

Included in the Group's trade receivables balance are debtors with a carrying amount of approximately RMB33,219,000 (2017: RMB15,393,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

10. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade and other payables at the reporting date:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
1–90 days	**11,400**	779
91–180 days	**30,028**	—
181–365 days	**—**	54,939
Over 365 days	**—**	2,596
Trade payables	**41,428**	58,314
Value-added tax payable	**1,224**	10,428
Accrued expenses and other payables	**6,734**	15,271
	49,386	84,013

The fair value of the Group's trade and other payables at 30 June 2018 approximates to the corresponding carrying amount.

11. PROVISION FOR CLAIMS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
At the beginning of the period/year	**5,000**	22,704
Add: Interest and other legal expenses	**—**	5,595
Less: Settled	**(5,000)**	(23,299)
At the end of the period/year	**—**	5,000

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. During the year ended 31 December 2017, a further provision for accrued interest of approximately RMB1,304,000 was charged to profit or loss to make up the total claim of approximately RMB5,000,000 as 31 December 2017. The case was closed upon a full payment of RMB5,000,000 was made to Wenzhou Fuguo on 6 February 2018.

12. SHARE CAPITAL

		Nominal value		
	Number of shares '000	Domestic shares RMB'000	H shares RMB'000	Total RMB'000
Registered, issued and fully paid:				
At 31 December 2017 (Audited) and at 30 June 2018 (Unaudited)	800,000	59,980	20,020	80,000

13. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2018 and 31 December 2017.

14. CAPITAL COMMITMENTS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Capital contribution to joint ventures	**5,000**	5,000
Capital contribution to subsidiaries	**13,000**	3,000
	18,000	8,000

15. 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:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within one year	**870**	1,438
In the second to fifth years inclusive	**308**	—
	1,178	1,438

16. 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 GEM Listing Rules:

Name of related party	Nature of transactions	For the three months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	For the six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Shenzhen Mingwah Aohan Smart Card Corporation Ltd. (深圳市明華澳漢智能卡有限公司) (Note i)	Purchases of goods	**—**	248	**153**	563
Former directors, Mr. Li Qi Ming and Mr. Liu Guo Fei (Note ii)	Sale of a subsidiary (Note 17)	**—**	—	**790**	—

(i) 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 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. Mr. Li Xiang retired as the supervisor of the Company at the annual general meeting held on 17 May 2018.

(ii) Mr. Li Qi Ming resigned as an executive director and chairman of the Board of the Company on 31 March 2017. Mr. Liu Guo Fei resigned as an executive director of the Company on 8 February 2018.

17. NET GAIN ON DISPOSAL OF SUBSIDIARIES

(i) On 19 January 2018, the Company entered into a sale and purchase agreement to dispose of its 100% equity interest in its subsidiary, Fast Key Holdings Limited ("Fast Key") (快鍵集團有限公司) to former directors at a consideration of HK$950,000 (equivalent to approximately RMB790,000). The principal activity of Fast Key is provision of administrative support. The net assets of the subsidiary were as follows:

	RMB'000
Net assets disposed of	
Property, plant and equipment	566
Prepayments, deposits and other receivables	226
Bank balances and cash	4
Other payables and accruals	(13)
	783
Release of translation reserve	141
Loss on disposal of subsidiary	(134)
Total consideration satisfied by:	
Cash consideration received	790

(ii) The Company disposed of its 90% equity interest in its subsidiary, Guangzhou Mingwah Aohan High Technology Co., Ltd. ("Guangzhou Mingwah") (廣州市明華澳漢科技有限公司) to an independent third party at a consideration of RMB450,000 on 1 April 2018. The principal activity of Guangzhou Mingwah is trading in IC cards, magnetic cards, related equipment and application systems. The net liabilities of the subsidiary were as follows:

	RMB'000
Net liabilities disposed of	
Property, plant and equipment	5
Inventories	85
Trade receivables	515
Prepayments, deposits and other receivables	20
Bank balances and cash	150
Trade payables	(769)
Other payables and accruals	(194)
	(188)
Non-controlling interest	19
Gain on disposal of subsidiary	619
Total consideration satisfied by:	
Cash consideration received	450

18. EVENT AFTER REPORTING PERIOD

On 7 July 2017, 1 August 2017, 29 December 2017 and 20 April 2018, the Company entered into a placing agreement, the first supplemental placing agreement, the second supplemental placing agreement and the third supplemental placing agreement (collectively, the "Placing Agreements") with Fulbright Securities Limited (the "Placing Agent"). Pursuant to the Placing Agreements, the Company conditionally agreed to allot and issue, and the Placing Agent has conditionally agreed to procure, on a best effort basis, not less than six placees to subscribe for up to 52,000,000 new H Shares (the "Placing Shares") and in any event not less than 36,000,000 Placing Shares at the placing price of HK$0.60 per placing Share (the "Placing"). On 7 July 2017, 1 August 2017, 29 December 2017 and 20 April 2018, the Company respectively entered into a subscription agreement, the first supplemental subscription agreement, the second supplemental subscription agreement and the third supplemental subscription agreement (collectively the "Subscription Agreements") with Googut Wine & Spirits Trading Company Limited (the "Subscriber"), a wholly owned subsidiary of Googut. Pursuant to the Subscription Agreements, the Subscriber conditionally agreed to subscribe for, and the Company conditionally agreed to allot and issue, a total of 108,000,000 new H Shares (the "Subscription Shares") at the subscription price of HK$0.60 per Subscription Share (the "Subscription"). The Placing Shares and Subscription Shares are to be issued under the specific mandates as approved by shareholders at the first extraordinary general meeting and the first class meetings held on 26 September 2017, and at the second extraordinary general meeting and the second class meetings held on 5 March 2018, and to be sought at the third extraordinary general meeting and the third class meetings held on 19 June 2018.

The Company intends to use the proceeds from the Placing and the Subscription for further developing its Wine Business, investing in existing information technology business and use as general working capital. Assuming the maximum number of the Placing Shares are placed, the gross proceeds under the Placing and the Subscription are expected to be approximately HK$96,000,000, and the net proceeds of the Placing and the Subscription (after deducting related placing commission, professional fees and related expenses payable by the Company) are estimated to be approximately HK$91,953,000 (equivalent to approximately RMB76,560,000).

On 26 June 2018, the Company entered into a deed of termination pursuant to which the Placing Agreements have been terminated with effect from 26 June 2018 (the "Termination of Placing"). As a result of the Termination of Placing, the Company and the Subscriber have entered into a deed of termination on 11 July 2018 pursuant to which the Subscription Agreements has been terminated with effect from 11 July 2018. No new H Shares will be issued by the Company under the Placing Agreements and Subscription Agreements accordingly.

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 Group 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. Revenue of approximately RMB5,192,000 attributable to the Card and Related Products Business for the six months ended 30 June 2018 were mainly derived from three contracts for its application system.

The Wine Business

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 (the "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.

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 and a joint venture company in the PRC, namely, 上海歌漢貿易有限公司, was incorporated in October 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

To further cooperation between the Group and the Googut Group, the Company entered into the Memorandum of Understanding on 15 June 2017 relating to the cooperation with Googut in the alcoholic beverages business (the "MOU"). In addition, the Company has also entered into the Strategic Cooperation Agreement with Googut on 7 July 2017. Both parties plan to initiate close strategic cooperation in the alcoholic beverages business, which includes: (i) Googut to share the alcohol trading business channel with the Company; (ii) the Company to share capital market experience; (iii) increase investment in existing Joint Venture Companies, which are investing and trading in alcoholic beverages; (iv) to strengthen the storage, logistic ability and network in strategic locations (i.e. first and second tier cities in the PRC); and (v) to cooperate in the investment in vintage fine wine. It would be initially a three-year strategic cooperation from the date of the MOU with an option to extend on the same terms for a further three years.

The Group has entered into four sales contracts for Chinese white wine Maotaijiu (茅台酒) in the first half year of 2018. The Wine Business has continued to make a significant contribution to the Group's revenue accounting for approximately RMB37,025,000, representing approximately 87.7% of the Group's revenue for the six months ended 30 June 2018.

In view of the positive development of the Group's Wine Business as mentioned above, the Group looks forward to maintaining the operation of this segment with its ongoing collaboration with Googut.

Financial Review

The Group's revenue of the six months ended 30 June 2018 was approximately RMB42,217,000, representing an decrease of approximately 6.1% as compared with approximately RMB44,942,000 recorded in last corresponding period.

Because of the decrease in sales, for the six months ended 30 June 2018, the Group's cost of sales decreased to approximately RMB34,660,000 (2017: RMB36,558,000). The gross profit for the six months ended 30 June 2018 was approximately RMB7,557,000 (2017: RMB8,384,000). The gross profit margin was approximately 17.9% (2017: 18.7%). The underlying reason for such decrease was mainly due to increase in sales of liquor products which were with lower profit margin.

The Group's other income of six months ended 30 June 2018 was approximately RMB$3,008,000, representing an increase of approximately 187.6% (2017: RMB1,046,000) was mainly due to increase in value-added tax refund.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

When compared to the corresponding period last year, the distribution and selling expenses increased by 169.8% to approximately RMB1,198,000 (2017: RMB444,000) mainly due to increase in staff cost. The general and administrative expenses decreased by 24.0% to approximately RMB8,311,000 (2017: RMB10,932,000) mainly due to tightly cost controlled.

In January 2018, the Group entered into an agreement to dispose of its 100% equity interest in Fast Key Holdings Limited ("Fast Key") to former directors for an aggregate consideration of HK$950,000 (equivalent to approximately RMB790,000). In April 2018, the Group entered into an agreement to dispose of its 90% equity interest in Guangzhou Mingwah Aohan High Technology Co., Ltd. to an independent third party for an aggregate consideration of RMB450,000. The disposals were completed during the six months ended 30 June 2018, and the net gains on disposal of subsidiaries of RMB485,000 was recognised (see Note 17).

For the six months ended 30 June 2018, the Group's profit attributable to owners of the Company was approximately RMB772,000 (2017: loss of RMB1,834,000).

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 maintaining the operation of this segment and divesting more resources to develop its Wine Business.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Financial Position

The Group's financial position is healthy. As at 30 June 2018, its net assets amounted to approximately RMB17,620,000 (31 December 2017: RMB16,452,000). The net assets increased was mainly due to the profit incurred during the six months ended 30 June 2018. As at 30 June 2018, the Group had net current assets of approximately RMB2,027,000 (31 December 2017: net current liabilities of approximately RMB514,000). The significant decrease of approximately RMB37,037,000 in current assets at 30 June 2018 was primarily due to the decrease in trade receivables arising from the Wine Business. Current assets as at 30 June 2018 comprise inventories of approximately RMB3,077,000 (31 December 2017: RMB1,023,000), trade receivables of approximately RMB47,619,000 (31 December 2017: RMB77,873,000), other receivables of approximately RMB6,176,000 (31 December 2017: RMB7,642,000), and bank balances and cash of approximately RMB1,143,000 (31 December 2017: RMB8,514,000). Current liabilities as at 30 June 2018 comprise trade and other payables of approximately RMB49,386,000 (31 December 2017: RMB84,013,000), amount due to former directors RMB4,478,000 (31 December 2017: RMB4,947,000), income tax payable of approximately RMB2,124,000 (31 December 2017: RMB1,606,000) and provision for claims of RMBNil (31 December 2017: RMB5,000,000).

CAPITAL COMMITMENTS

Details of capital commitments were set out in note 14 to this interim report.

FINANCIAL RESOURCES

As at 30 June 2018, the Group had bank balances and cash of approximately RMB1,143,000. The Company intends to finance the Group's future operations, capital expenditure and other capital requirements with the existing cash and bank balances.

GEARING RATIO

As the Group had a net cash position at 30 June 2018 and 31 December 2017, the Group's gearing ratio as at that dates were not applicable.

MATERIAL ACQUISITIONS OR DISPOSALS

The Group had no material acquisitions or disposals during the six months ended 30 June 2018.

SEGMENTAL INFORMATION

An analysis of the Group's revenue and results by products for the six months ended 30 June 2018 is set out in note 4 to this interim report.

EMPLOYEE INFORMATION AND REMUNERATION POLICY

As at 30 June 2018, the Group had 26 full time employees, comprising 13 in administration and finance, 8 in customer services and 5 in sales.

Remuneration policy has been consistently applied by the Group as disclosed in the 2017 annual report of the Company.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2018, the Company had not pledged any assets for banking facilities.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

The Directors do not have any future plans for material investment or capital assets as at 30 June 2018.

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 provision for claims, note 11 to this interim report.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 30 June 2018 and 31 December 2017.

SIGNIFICANT INVESTMENT HELD

The Group did not have any significant investment held as at 30 June 2018.

DIRECTORS' AND SUPERVISOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

None of the Directors or supervisors (the "Supervisors") of the Company or their respective associates was granted by the Company or its subsidiaries any right to acquire shares or debentures of the Company or any other body corporate, or had exercised any such right as at 30 June 2018.

DISCLOSURE OF INTERESTS

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

As at 30 June 2018, 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.

(b) Interests discloseable under the SFO and substantial shareholders

So far as the Directors are aware, as at 30 June 2018, 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
Shanghai Beiyan Enterprises Limited* (上海北燕實業有限公司) ("Shanghai Beiyan") (Note 1)	Beneficial owner	172,640,000 domestic shares	28.78%	21.58%

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
Mr. Zheng Qi (鄭琪) (Note 2)	Interest in controlled corporation	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%
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%

Notes:

1. The Company has been informed by Mr. Li Qi Ming (a former Director) on 4 January 2018 that he has completed the sale of 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 to Shanghai Beiyan, an independent third party. Details of the above are set out in the announcement of the Company dated 4 January 2018.

2. Mr. Zheng Qi owned 80% of the shares of Shanghai Beiyan. By virtue of SFO, Mr. Zheng Qi is deemed to be interested in the shares of the Company held by Shanghai Beiyan.

SHARE OPTION SCHEME

The Company has not granted or issued any option or adopted any share option scheme up to 30 June 2018.

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 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 who were holding office as a director on 30 June 2018, the Directors confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 June 2018.

The Company has adopted a code of conduct regarding securities transactions by the relevant employees of the Group who are considered likely to be in possession of unpublished price sensitive information of the Group on no less exacting terms than the Model Code in relation to their dealings in the securities of the Company pursuant to Code Provision A.6.4 of the CG Code (as defined below). To the best knowledge and belief of the Directors, all relevant employees have complied with the required standard of such code.

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. Lau Shu Yan, Mr. Yu Xiuyang and Mr. You Xiaohua.

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 interim results of the Company for the six months ended 30 June 2018, 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 Board has adopted the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 15 of 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.

DEVIATION FROM THE CORPORATE GOVERNANCE CODE

After the appointment of Mr. Zhang Tao as the chief executive officer of the Company (the "Chief Executive Officer") on 8 February 2018, he has served as both the chairman of the Board (the "Chairman") and the Chief Executive Officer, such practice deviates from code provision A.2.1 of the CG Code. By taking into account the current circumstances of the Group as a whole, the Board considers Mr. Zhang Tao, being a key leadership of the Group, as a suitable candidate to be the Chief Executive Officer, ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board will consider splitting the roles of Chairman and Chief Executive Officer at a time when it is appropriate. Therefore, the Board considers that the deviation from the code provision A.2.1 of the CG Code is appropriate in such circumstance. In addition, under the supervision of the Board which is comprised of three executive Directors, one non-executive Director and three independent non-executive Directors, the Board is appropriately structured with balance of power to provide sufficient checks to protect the interests of the Company and its shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares.

INTERIM DIVIDEND

The Board does not declare an interim dividend for the six months ended 30 June 2018 (six months ended 30 June 2017: Nil).

DIRECTORS

As at the date hereof, the executive Directors are Mr. Zhang Tao, Ms. Wang Hong and Mr. Chan Ngai Fan; the non-executive Director is Mr. Zhou Liang Hao; and the independent non-executive Directors are Mr. Yu Xiuyang , Mr. Lau Shu Yan and Mr. You Xiaohua.

By Order of the Board
Shenzhen Mingwah Aohan High Technology Corporation Limited
Zhang Tao
Chairman

Shenzhen, the PRC, 10 August 2018