



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

Third Quarterly 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 nine months ended 30 September 2018, unaudited revenue was approximately RMB46,492,000, which represents a decrease of approximately of 16.6% as compared to that of the corresponding period in previous year. The profit attributable to owners of the Company for the nine months ended 30 September 2018 was approximately RMB1,436,000 (2017: RMB735,000). Such improvement is 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 tightly cost control measures implemented by the Group.
- Earnings per share of the Group was approximately RMB0.18 cents for the nine months ended 30 September 2018.

To all shareholders,

The board of Directors (the "Board") is pleased to announce the unaudited condensed consolidated quarterly results of the Group for the three months and nine months ended 30 September 2018 together with comparative figures for the three months and corresponding periods ended 30 September 2017, 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 2018 and 30 September 2017

	Notes	For the three months ended 30 September		For the nine months ended 30 September	
		2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Revenue	3	4,275	10,826	46,492	55,768
Cost of sales		(1,232)	(5,553)	(35,892)	(42,111)
Gross profit		3,043	5,273	10,600	13,657
Other income		—	1	3,008	1,047
Distribution and selling expenses		(254)	(294)	(1,452)	(738)
General and administrative expenses		(1,996)	(4,376)	(10,307)	(15,308)
Net gains on disposal of subsidiaries	8	—	2,472	485	2,472
Share of result of joint ventures		—	(1)	(1)	(5)
Profit before taxation		793	3,075	2,333	1,125
Income tax credit/(expense)	4	165	(548)	(370)	(561)
Profit for the period		958	2,527	1,963	564
Other comprehensive income		(1,237)	(6)	173	(16)
Total comprehensive income for the period		(279)	2,521	2,136	548
Profit attributable to:					
Owners of the Company		664	2,569	1,436	735
Non-controlling interests		294	(42)	527	(171)
		958	2,527	1,963	564
Total comprehensive income attributable to:					
Owners of the Company		(573)	2,563	1,609	719
Non-controlling interests		294	(42)	527	(171)
		(279)	2,521	2,136	548
Dividend	5	—	—	—	—
Earnings per share					
— Basic (cents)	6	0.08	0.32	0.18	0.09
— 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 2018 and 30 September 2017

	Attributable to owners of the Company							Non-controlling	
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Translation reserve	Accumulated losses	Total	interest	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 2017	80,000	71,974	5,954	2,978	(386)	(145,662)	14,858	(574)	14,284
Total comprehensive income for the period	—	—	—	—	(16)	735	719	(171)	548
Eliminated on disposal of subsidiary	—	—	—	—	—	—	—	519	519
At 30 September 2017	80,000	71,974	5,954	2,978	(402)	(144,927)	15,577	(226)	15,351
At 1 January 2018	80,000	71,974	5,954	2,978	(492)	(144,056)	16,358	94	16,452
Total comprehensive income for the period	—	—	—	—	173	1,436	1,609	527	2,136
Release of statutory surplus reserve and statutory public welfare fund upon disposal of subsidiary	—	—	(844)	(422)	—	—	(1,266)	—	(1,266)
Eliminated on disposal of subsidiary (Note 8)	—	—	—	—	—	—	—	19	19
At 30 September 2018	80,000	71,974	5,110	2,556	(319)	(142,620)	16,701	640	17,341

Notes to the unaudited Condensed Financial Statements

For the nine months ended 30 September 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 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 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 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	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Sales of card products	3,956	5,984	9,082	17,425
Sales of non-card products	—	568	66	1,554
Sales of liquor products	319	4,274	37,344	36,789
	4,275	10,826	46,492	55,768

4. INCOME TAX (CREDIT)/EXPENSE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
PRC enterprise income tax				
Current period	(165)	548	370	561

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

The Group does not have any significant unprovided deferred taxation as at the 30 September 2018 and 31 December 2017.

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 2018 (2017: Nil).

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended 30 September 2018 is based on the unaudited net profit attributable to the owners of the Company for the relevant period of approximately RMB1,436,000 (2017: RMB735,000) and the weighted average number of 800,000,000 shares (2017: 800,000,000 shares).

Diluted 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 GEM Listing Rules:

Name of related party	Nature of transactions	For the three months ended		For the nine months ended	
		30 September 2018	2017	30 September 2018	2017
		RMB'000 (Unaudited)	RMB'000 (Unaudited)	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) (Note i)	Purchases of goods	—	172	153	735
Former directors, Mr. Li Qi Ming and Mr. Liu Guo Fei (Note ii)	Sale of a subsidiary (Note 8)	—	—	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.

8. 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)
	790
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
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Total consideration satisfied by:	
Cash consideration received	450
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9. EVENT AFTER REPORTING PERIOD

In order to fully utilise the financing function in the capital market and optimise the Company's capital structure, the Company made an application on 10 October 2018 to China Securities Regulatory Commission (中國證券監督管理委員會) ("CSRC") for its approval (the "CRSC Approval") in relation to the proposed issuance (the "Proposed H Share Issuance") of up to 40,040,000 new overseas listed foreign invested shares of nominal value of RMB0.10 (the "H Shares", and the H Shares being the subject matter of the Proposed H Share Issuance collectively, the "New H Shares") under the general mandate. The net proceeds from the Proposed H Share Issuance are intended to be used for i) developing the Group's business of electronics technology and/or security services; and ii) general working capital of the Group.

On 24 October 2018, the Company, Ms. Fang Hui (the "Vendor"), Shanghai Aoyi Electronic Technology Company Limited* (上海奧宜電子科技有限公司), a company established in the PRC with limited liability (the "Target Company") and Shenzhen Zhifen Technology Corporation Limited* (深圳市智紛科技有限公司), a company established in the PRC with limited liability and is wholly owned by the Company (the "Invested Company") entered into an agreement (the "Agreement"), pursuant to which, among other matters, (i) the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire, approximately 14.6% of equity interest in the Target Company at a consideration of RMB10 million (the "Acquisition"), (ii) the Target Company has agreed to contribute additional capital of RMB4.9 million as registered capital to the Invested Company after the completion of the Acquisition, and (iii) the Company has agreed to contribute additional capital of RMB0.1 million as registered capital to the Invested Company after completion of the Acquisition (the "Capital Contribution"). After completion of the Acquisition, the Company will be interested in approximately 14.6% of equity interest in the Target Company. After the completion of the Capital Contribution, the Invested Company will be owned as to 51.0% by the Company and as to 49.0% by the Target Company.

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. Looking at the pace with the application market grew, the Group have recruited a professional team to provide application development services in the third quarter of 2018. Revenue of approximately RMB9,148,000 attributable to the Card and Related Products Business for the nine months ended 30 September 2018 were mainly derived from three contracts for its application system and one contract for its application development services.

The Wine Business

In 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, respectively. 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.

To further the cooperation between the Group and the Googut Group, the Company has entered into a memorandum of understanding and the Strategic Cooperation Agreement with Googut on 15 June 2017 and 7 July 2017, respectively.

The Group has entered into four sales contracts for Chinese white wine Maotaijiu (茅台酒) during the nine months ended 30 September 2018. The Wine Business has continued to make a significant contribution to the Group's revenue accounting for approximately RMB37,344,000, representing approximately 80.3% of the Group's revenue for the nine months ended 30 September 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 Group.

Financial Review

The Group's revenue of the nine months ended 30 September 2018 was approximately RMB46,492,000, representing a decrease of approximately 16.6% as compared with approximately RMB55,768,000 recorded in last corresponding period.

Because of the decrease in sales, for the nine months ended 30 September 2018, the Group's cost of sales decreased to approximately RMB35,892,000 (2017: RMB42,111,000). The gross profit for the nine months ended 30 September 2018 was approximately RMB10,600,000 (2017: RMB13,657,000). The gross profit margin was approximately 22.8% (2017: 24.5%). The underlying reason for such decrease was mainly due to increase in sales of liquor products which were with lower profit margin.

When compared to the corresponding period last year, the distribution and selling expenses increased by 96.8% to approximately RMB1,452,000 (2017: RMB738,000) mainly due to increase in staff cost. The general and administrative expenses decreased by 32.7% to approximately RMB10,307,000 (2017: RMB15,308,000) mainly due to tighter cost control measures implemented by the Group.

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 8)

For the nine months ended 30 September 2018, the Group's profit attributable to owners of the Company was approximately RMB1,436,000 (2017: RMB735,000). Such improvement was mainly attributable (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.

Prospect

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 further develop its existing operation in relation to application system 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. Looking at the pace with the application market grew, the Group has recruited a professional team to provide application development services in the third quarter of 2018. Going forward, the Group will also explore business opportunities in the IT and related technology sector.

On the other hand, in view of the revenue contribution 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.

In order to fully utilise the financing function in the capital market and optimise the Company's capital structure, the Company made an application on 10 October 2018 to China Securities Regulatory Commission (中國證券監督管理委員會) ("CSRC") for its approval in relation to the proposed issuance (the "Proposed H Share Issuance") of up to 40,040,000 new overseas listed foreign invested shares of nominal value of RMB0.10 per share (the "H Shares", and the H Shares being the subject matter of the Proposed H Share Issuance collectively, the "New H Shares") under the general mandate. The net proceeds from the Proposed H Share Issuance are intended to be used for i) developing the Group's business of electronics technology and/or security services; and ii) general working capital of the Group.

The PRC government now aims to develop its Internet of Things ("IoT") market. Driven by "Made in China 2025" and "Internet + Double-innovation" strategies in recent years, significant progress has been made in the development of IoT. The PRC has set up a batch of key laboratories which pool and integrate innovative resources from various industries and various fields, which basically cover each segment involved in the technological innovations of IoT. The number of IoT patent applications has been increasing year by year. The three basic telecommunications enterprises in the PRC have launched Narrowband-IoT network construction. Nation-wide coverage will be achieved progressively. In 2017, the number of full-network base station in the PRC exceeds 400,000. The local governments are also taking part in the Narrowband-IoT development.

Given the background above, on 24 October 2018, the Company, the Vendor, the Target Company and the Invested Company entered into the Agreement, pursuant to which, among other matters, (i) the Vendor has conditionally agreed to sell, and the Company has conditionally agreed to acquire, approximately 14.6% of equity interest in the Target Company at a consideration of RMB10 million, (ii) the Target Company has agreed to contribute additional capital of RMB4.9 million as registered capital to the Invested Company after the completion of the Acquisition, and (iii) the Company has agreed to contribute additional capital of RMB0.1 million as registered capital to the Invested Company after completion of the Acquisition. After completion of the Acquisition, the Company will be interested in approximately 14.6% of equity interest in the Target Company. After the completion of the Capital Contribution, the Invested Company will be owned as to 51.0% by the Company and as to 49.0% by the Target Company. The IoT devices, smart locks and other products produced by the Target Company are in line with the Company's business plan and are expected to increase the Company's revenue, optimise the Company's capital advantage. By building a synergistic relationship, it is expected that the Target Company could assist in the development of the Company's existing business and expand the Company's operation.

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

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. 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 at 31 December 2017. The case was closed upon a full payment of RMB5,000,000 was made to Wenzhou Fuguo on 6 February 2018.

DISCLOSURE OF INTERESTS

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

As at 30 September 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 September 2018, 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
Shanghai Beiyuan Enterprises Limited* (上海北燕實業有限公司) ("Shanghai Beiyuan") (Note 1)	Beneficial owner	172,640,000 domestic shares	28.78%	21.58%
Mr. Zheng Qi (鄭琪) (Note 2)	Interest in controlled corporation	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
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%
Principes MB Asset Management Corp.	Beneficial owner	11,416,000 H shares	5.70%	1.43%

Notes:

- 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 Beiyuan, an independent third party. Details of the above are set out in the announcement of the Company dated 4 January 2018.
- Mr. Zheng Qi owned 80% of the shares of Shanghai Beiyuan. By virtue of SFO, Mr. Zheng Qi is deemed to be interested in the shares of the Company held by Shanghai Beiyuan.

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 30 September 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 September 2018, the Directors confirmed that they had complied with the required standard set out in the Model Code during the nine months ended 30 September 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 of the Company (“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 nine months ended 30 September 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 nine months ended 30 September 2018, 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 of this report, 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. Lau Shu Yan, Mr. Yu Xiuyang and Mr. You Xiaohua.

By Order of the Board

Shenzhen Mingwah Aohan High Technology Corporation Limited

Zhang Tao

Chairman

Shenzhen, the PRC, 7 November 2018