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

2019
First Quarterly Report

* For identification purpose only

CHARACTERISTICS OF THE GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. 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.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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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 three months ended 31 March 2019, the unaudited revenue was approximately RMB1,739,000 which representing a significant drop of approximately 94.2% as compared to that of the corresponding period in 2018. The loss attributable to owners of the Company for the three months ended 31 March 2019 was approximately RMB2,271,000 (2018: profit of RMB599,000).

- Loss per share of the Group was approximately RMB0.28 cents for the three months ended 31 March 2019.

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 ended 31 March 2019 ("First Quarter"), together with the comparative unaudited figures for the corresponding period in 2018, as follows:

THE FINANCIAL STATEMENTS

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

For the three months ended 31 March 2019 and 31 March 2018

	Notes	For the three months ended 31 March 2019 RMB'000 (Unaudited)	 2018 RMB'000 (Unaudited)
Revenue	3	**1,739**	29,892
Cost of sales		**(1,040)**	(24,325)
Gross profit		**699**	5,567
Other income		**336**	321
Distribution and selling expenses		**(93)**	(685)
General and administrative expenses		**(3,062)**	(4,375)
Loss on disposal of a subsidiary		**–**	(134)
Finance costs		**(150)**	–
Share of result of joint ventures		**(1)**	(1)
(Loss)/profit before taxation		**(2,271)**	693
Income tax expenses	4	**–**	(173)
(Loss)/profit for the period		**(2,271)**	520
Other comprehensive income for the period		**(454)**	585
Total comprehensive income for the period		**(2,725)**	1,105
(Loss)/profit attributable to:			
Owners of the Company		**(2,271)**	599
Non-controlling interests		**–**	(79)
		(2,271)	520
Total comprehensive income attributable to:			
Owners of the Company		**(2,725)**	1,184
Non-controlling interests		**–**	(79)
		(2,725)	1,105
Dividend	5	**–**	–
(Loss)/earnings per share			
– Basic (cents)	6	**(0.28)**	0.07
– Diluted (cents)	6	**N/A**	N/A

Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2019 and 31 March 2018

	Attributable to owners of the Company								
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Translation reserve	Accumulated losses	Sub-total	Non-controlling interest	Total
	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)	RMB'000 (Unaudited)
At 1 January 2018	80,000	71,974	5,954	2,978	(492)	(144,056)	16,358	94	16,452
Total comprehensive income	–	–	–	–	585	599	1,184	(79)	1,105
At 31 March 2018	80,000	71,974	5,954	2,978	93	(143,457)	17,542	15	17,557
At 1 January 2019	**80,000**	**71,974**	**5,040**	**2,411**	**(897)**	**(141,816)**	**16,712**	**347**	**17,059**
Total comprehensive income	**–**	**–**	**–**	**–**	**(454)**	**(2,271)**	**(2,725)**	**–**	**(2,725)**
At 31 March 2019	**80,000**	**71,974**	**5,040**	**2,411**	**(1,351)**	**(144,087)**	**13,987**	**347**	**14,334**

Notes to the Unaudited Condensed Financial Statements

For the three months ended 31 March 2019

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 provision of application development services and 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 2018.

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	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of card products	**1,739**	3,057
Sales of non-card products	**–**	66
Sales of liquor products	**–**	26,769
	1,739	29,892
Timing of revenue recognition		
At point in time	**1,739**	29,892

4. INCOME TAX EXPENSES

	For the three months ended 31 March	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC enterprise income tax		
Current period	**–**	173

PRC enterprise income tax of the Group is calculated at the applicable rate of 25% (2018: 25%) on estimated assessable profits.

The Group did not have any significant unprovided deferred taxation as at 31 March 2019 and 31 March 2018.

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 2019 (2018: Nil).

6. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the three months ended 31 March 2019 is based on the unaudited net loss attributable to owners of the Company for the relevant period of approximately RMB2,271,000 (2018: profit of RMB599,000) and the weighted average number of 800,000,000 shares (2018: 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 31 March **2019** **RMB'000** **(Unaudited)**	 2018 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	**–**	153
Former directors, Mr. Li Qi Ming and Mr. Liu Guo Fei (Note ii)	Sale of a subsidiary	**–**	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.

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 provision of application development services and the sale of IC cards, magnetic cards related equipment and application systems in the PRC (the "Card and Related Products Business"); and (ii) the trading of liquor products (the "Wine Business").

The Card and Related Products Business

Affected adversely by the market environment and intensified market competition, the revenue from the sales of traditional card products and application system has declined during the first three months of 2019 as compared with the corresponding period in 2018. However, as the application market continued to grow in 2018, the Group has explored business opportunities in application development services in the second half of 2018 and continued in the first three months of 2019. Revenue of approximately RMB1,739,000 (2018: RMB3,123,000) attributable to the Card and Related Products Business for the three months ended 31 March 2019 were mainly derived from two (2018: three) contracts.

The Wine Business

The Group commenced its wine business in the last quarter of 2016 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 and formed two joint venture companies in the PRC and Hong Kong, respectively in 2017. The Company also entered into a memorandum of understanding and the strategic cooperation agreement with Googut in 2017. 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.

There have been changes in the PRC's regulations which led to the fact that the Group had generated no revenue from the sales of liquor products during the three months ended 31 March 2019 (2018: RMB26.8 million). Authorities in Southwest China's Guizhou province have banned officials from taking part in the operation and using their position to influence the sales of the Moutai liquor as part of the anti-graft drive. Our major clients' demand of Chinese white wine Maotaijiu (茅台酒) is dropping significantly, thus, the Group will strive to expand our customer base and product mix 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 2019 was approximately RMB1,739,000 (2018: RMB29,892,000), representing a significant drop of approximately 94.2% as compared to the corresponding period in 2018. The decrease in revenue was attributable to the decrease in sales of liquor products for the three months ended 31 March 2019.

The Group's cost of sales for the three months ended 31 March 2019 decreased from approximately RMB24,325,000 to RMB1,040,000, representing a decrease of approximately 95.7% as compared to that of the same period in 2018. The gross profit for the three months ended 31 March 2019 decreased by approximately 87.4% to approximately RMB699,000 (2018: RMB5,567,000). The percentage of gross profit for the three months ended 31 March 2019 increased from 18.6% to 40.2% as compared to the corresponding period in 2018. The underlying reason for such increase was due to all sales were contributed with Card and Related Products Business which had a higher profit margin.

The distribution and selling expenses decreased by approximately 86.4% to RMB93,000 (2018: RMB685,000). The decrease was mainly due to decrease in staff cost. The general and administrative expenses decreased by approximately 30.0% to approximately RMB3,062,000 (2018: RMB4,375,000) due to tighter cost control during the three months ended 31 March 2018.

Finance costs of approximately RMB150,000 were incurred during the three months ended 31 March 2019 (2018: Nil). The finance costs represented the interests on borrowings from independent third parties for the three months ended 31 March 2019 and the balance of such borrowings as at 31 March 2019 was approximately RMB10.4 million.

For the three months ended 31 March 2019, the Group's loss attributable to owners of the Company was approximately RMB2,271,000 (2018: profit of RMB599,000).

Prospect

Premised on its mature data encryption technology, the Group expects to maintain its existing operation in relation to application system and plan to explore more opportunities in the information technology sector in the rest of 2019.

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 and as the application market continued to grow in 2018 and the first quarter of 2019, the Group has recruited a professional team to provide application development services in the third quarter of 2018. Going forward, the Group will also further explore business opportunities in the IT and related technology sector.

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

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 RMB5,000,000 was made based on a settlement agreement dated 12 January 2018 with Wenzhou Fuguo. As the case was closed upon a full payment of RMB5,000,000 was made to Wenzhou Fuguo on 6 February 2018, no provision was made in relation to this case as at 31 March 2019 (31 March 2018: Nil).

DISCLOSURE OF INTERESTS

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

As at 31 March 2019, none of the Directors, supervisors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures 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 31 March 2019, the persons or companies (not being a director, chief executive or supervisor of the Company) have interests and/or short 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")	Beneficial owner	172,640,000 domestic shares	28.78%	21.58%
Mr. Zheng Qi (鄭琪) (Note 1)	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%

Note:

1. 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.

* For identification purposes only

SHARE OPTION SCHEME

The Company has not granted or issued any option up to 31 March 2019.

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 AND CONFLICT OF INTEREST

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 or has other conflicts of interest with the Group during the period under review.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") pursuant to the requirements 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 31 March 2019, the Directors confirmed that they had complied with the required standard set out in the Model Code during the three months ended 31 March 2019.

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. 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 which have been amended from time to time 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. Wei Wei.

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 2019, 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

The Company has compiled with the CG Code throughout the three months ended 31 March 2019, except for the following deviation:

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 three months ended 31 March 2019, 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. Zhang Tao, Ms. Wang Hong and Mr. Huang Qing; 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. Wei Wei.

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

Shenzhen, the PRC, 15 May 2019