



深圳市研祥智能科技股份有限公司

Shenzhen EVOc Intelligent Technology Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)



2003 Third Quarterly Report



* for identification purpose only

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

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The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Shenzhen EVOC Intelligent Technology Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumption that are fair and reasonable.

Financial Highlights

The turnover of the Company during the nine months ended 30 September 2003 was approximately RMB133 million, representing an increase of approximately 40% as compared to the same period last year.

The net profit attributable to shareholders during the nine months ended 30 September 2003 amounted to approximately RMB30 million, representing an increase of approximately 48% as compared to the same period last year.

Earnings per share of the Company was approximately RMB0.086 for the nine months ended 30 September 2003.

QUARTERLY RESULTS

The board of directors (the “Directors”) of Shenzhen EVOC Intelligent Technology Company Limited (the “Company”) is pleased to present the unaudited results of the Company, for the nine months and three months ended 30 September 2003, together with the comparative unaudited results of the Company for the corresponding periods in 2002, as follows:

CONDENSED INCOME STATEMENT

	Note	Three Months Ended 30 September		Nine Months Ended 30 September	
		2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000	2003 (Unaudited) RMB'000	2002 (Unaudited) RMB'000
Turnover	3	54,655	33,255	132,899	94,983
Cost of sales		(30,475)	(19,683)	(71,625)	(57,757)
Gross profit		24,180	13,572	61,274	37,226
Other revenues		2,258	1,906	4,507	5,462
Selling expenses		(5,645)	(4,328)	(18,486)	(11,554)
Administrative expenses		(1,444)	(845)	(4,628)	(2,845)
Other operating expenses		(2,578)	(1,872)	(7,718)	(3,090)
Profit from operating activities		16,771	8,433	34,949	25,199
Finance costs		(495)	(1,075)	(2,227)	(3,363)
Profit before tax		16,276	7,358	32,722	21,836
Taxation	4	(1,073)	(119)	(2,581)	(1,439)
Profit attributable to shareholders		15,203	7,239	30,141	20,397
Dividend	5	—	—	—	30,002
Earnings per share					
— Basic	6	RMB0.043	RMB0.021	RMB0.086	RMB0.058

Notes:

1. Corporation background

The Company was established in the People's Republic of China (the “PRC”) on 18 December 2000 as a joint stock limited company under the Company law. The Company's H Shares were listed on the GEM of the Stock Exchange on 10 October 2003 (the “Listing”). The Company is principally engaged in the research, development, manufacture and distribution of Embedded Intelligent Platform (“EIP”) products in the PRC.

2. Principal accounting policies and the basis of preparation of the accounts

The unaudited quarterly financial reports has been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountant (collectively "HKGAAP"). They have been prepared under the historical cost convention and in accordance with the disclosure requirements of the Hong Kong Companies Ordinance and the GEM Listing Rules of the Stock Exchange. The accounting policies adopted are consistent with those adopted in preparation of the Company's annual financial statements for 31 December 2002 as set out in the accountants' report in the prospectus of the Company dated 30 September 2003.


3. Turnover

Turnover represents invoiced value of goods sold, net of value-added tax, and after allowances for goods returned and trade discounts.

4. Taxation

Pursuant to the Regulations on Special Economic Zone Enterprises in Guangdong Province (廣東省經濟特區條例) stipulated by the Standing Committee of the National People's Congress, the corporate income tax rate applicable to Special Economic Zone Enterprises is 15%. However, pursuant to the Regulation on Certain Issues of the Taxation Policies for Shenzhen Economic Zone Enterprises stipulated by Shenzhen Municipal Government (深圳市人民政府關於深圳特區企業稅收政策若干問題的規定), manufacturing enterprises in Special Economics Zones with operating history of over ten years are entitled to an exemption from paying corporate income tax for a period of two years commencing from the year the Company records a profit, followed by a 50% reduction of normal tax rate for a period of three years. Being a manufacturing enterprise located in the Shenzhen Special Economic Zone with over ten years of operating history, the Company is exempted from paying PRC corporate income tax for the first two years from the year the Company records a profits and enjoys a 50% reduction of normal tax rate for the following three years (the "Shenzhen Enterprises Preferential Tax Treatment"). As a result, the Company was exempted from income tax for the years ended 31st December, 1999 and 2000 and is subject to a 7.5% income tax rate for the years ended 31 December, 2001 and 2002 and the year ending 31 December, 2003.

The Company was first appraised as a New and High technology Enterprise (高新技術企業) on 14 April, 2000 when it was still operating as Shenzhen EVOC Intelligent Technology Company Limited, the predecessor of the Company. Pursuant to an approval document issued by the Science and Technology Bureau of Shenzhen Municipal (深圳市科學技術局) dated 28 April 2001, the Company was again appraised as a New and High Technology Enterprise (高新技術企業) in April 2002 and has been re-assessed as a New and High Technology Enterprise (高新技術企業) in May 2003. Pursuant to the Regulations to further support the development of New and High Technology (Amended) (關於進一步扶持高新技術企業發展的若干規定(修訂)), as a New and High Technology Enterprise, the Company may apply to the Shenzhen Administration of Taxation for a 50% reduction of the income tax rate for a further period of five years after the Shenzhen Enterprises Preferential Tax Treatment expires.



No provision for Hong Kong Profits Tax has been made in the financial statements, as the Company has no assessable profit in Hong Kong for the period.

No provision for deferred taxation has been made in the financial statements, as there were no material timing differences arising during the period and at the balance sheet date.

5. **Dividend**

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2003 (2002: approximately RMB30 million)

6. **Earnings Per Share**

The calculation of basic earnings per share for the nine months ended 30 September 2003 is based on the profit attributable to shareholders of approximately RMB30,141,000 (2002: RMB20,397,000) and on the weighted average number of approximately 350,300,000 shares deemed to be in issue during the period and taking no account of 116,800,000 new H Shares issued pursuant to the Listing (2002: 350,300,000 shares).

Diluted earnings/(loss) per share were not presented because there were no dilutive potential share in existence during the periods.

7. **Share Capital**

	30 September 2003 RMB'000	30 September 2002 RMB'000
Authorized, issued and fully paid 350,300,000 ordinary shares of RMB0.1 each (<i>Note</i>)	35,030	35,030

Note: Pursuant to a Capital Reorganization, the Domestic Shares were subdivided from one Domestic Share of nominal value RMB1.00 to ten Domestic Shares of nominal value of RMB0.10 each as approved by the China Securities Regulatory Commission (中國證券監督管理委員會).

8. Reserves

	Share capital RMB'000	Statutory funds RMB'000	Retained earnings RMB'000	Total RMB'000
As at 1 January 2002	35,030	5,399	30,598	71,027
Profit for 2002	—	—	39,260	39,260
Transfer from/(to) reserves	—	5,737	(5,737)	—
Dividends	—	—	(30,002)	(30,002)
As at 31 December 2002	35,030	11,136	34,119	80,285
Profit for the period	—	—	30,141	30,141
As at 30 September 2003	35,030	11,136	64,260	110,426

There has been no transfer to or from reserves during the nine months ended 30 September 2003 (2002: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2003, the Company's turnover amounted to approximately RMB132.9 million which comprised the sale of board-type EIP products and chassis-type EIP products that accounted for approximately 62% and 35% of the Company's turnover for the period respectively. The Company's turnover rose approximately 40% as compared to the corresponding period of the previous year, which was mainly due to the significant rise in market demand for the Company's board-type products. The turnover of the Company's board-type products has increased by 46% as compared to the corresponding period of the previous year. The gross profit amounted to approximately RMB61.3 million, representing a gross profit margin of 46.1%. The increase in gross profit margin was mainly due to the increase in sales of board-type EIP products which have a higher profit margin.

Profit attributable to shareholders for the nine months ended 30 September 2003 amounted to approximately RMB30 million, representing an increase of approximately RMB9.7 million or approximately 48% as compared to the corresponding period in 2002. The increase in profit attributable to shareholders for the period was mainly due to the increase in turnover and gross profit margin. The selling expenses for the period was approximately RMB18.5 million, an increase of approximately 60% over the same period



in the previous year. The increase in selling expenses was mainly due to the increase of advertising costs and expansion of the Company's sales and marketing team from 302 to 330 personnel during the period. The administrative expenses for the period was approximately RMB4.6 million, an increase of approximately 62% over the same period in the previous year. The increase in administrative expenses was mainly due to the increase of statutory welfare costs and the running expenses incurred for the new office in Hong Kong during the current period. Other operating expenses for the period was approximately RMB7.7 million, an increase of approximately of 150% over the same period in the previous year. The increase in other operating expenses was mainly due to increase of R & D on software development and the expansion of R & D team from 59 to 86 personnel during the period.

Liquidity, Financial Resources and Gearing ratio

As at 30 September 2003, the Company had cash and cash equivalents of approximately RMB70,759,000 (31 December 2002: RMB81,284,000). The amount of bank loans as at 30 September 2003 is approximately RMB30,000,000 (31 December 2002: RMB68,000,000).

The Company's gearing ratio is 36% as at 30 September 2003 as compared with 64% as at 31 December 2002. The gearing ratio is calculated by dividing total liabilities by total assets. The improvement in gearing ratio is mainly due to the repayment of bank loan of RMB38 million during the period.

Business review

The Company continuously engaged in the research, development, manufacture and distribution of EIP products in the PRC. The Company offers over 180 EIP products, which can be broadly classified by distinctive function and features into three categories, namely, chassis-type EIP products, board-type EIP products and remote data modules. EIP products manufactured and distributed by the Company are widely applied in areas of tele-communication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance, etc.

Being one of the earliest domestic company developing EIP products in the EIP industry in PRC, after ten years of development, the Company had built up a strong foundation and leading position in the industry. Facing keen competition among overseas and domestic EIP manufacturers, the Company had developed a favorable position in the areas of R & D, sales networks and cost control.

Product Categories

The following table provides an analysis of the Company's turnover by products categories:

	Turnover			
	Nine months ended 30 September			
	2003 (unaudited)		2002 (unaudited)	
	RMB'000	%	RMB'000	%
Board-type EIP	82,198	61.9%	56,182	59.2%
Chassis-type EIP	46,422	34.9%	36,588	38.5%
Remote data modules	4,279	3.2%	2,213	2.3%
	132,899	100.0%	94,983	100.0%

Sales and Marketing

The Company currently has an established distribution network of five branches, three representative offices and about 50 authorized distribution agents located across the PRC. The current active customer base has exceeded 3,000 customers in the PRC on 30 September 2003. The Company actively advertises its products through a number of local magazines and publications, printed materials and through the internet during the period. The Company has also participated in a series of computer exhibitions held in different provinces in the PRC such as Beijing and Shenzhen during the year 2003. Outdoor advertisements were posted in major cities of the PRC including Beijing, Shanghai, Fuzhou, Shenzhen, Guangzhou, Chengdu, Tianjin, Kunming and Xian. The Company actively participated in national trade fairs and exhibitions, and sponsored national football tournament 2003 in the PRC. The Company has also entered into an agreement with Intel Corporation and became a member of Intel Communication Alliance to jointly promote each others' brandname.

Research and development

The Company continued R & D on Embedded Real-time Control Operating System ("ERCOS") technology and EIP products in the applications of data control panel, multimedia, network computing, advanced technology and digital video recording. The testing-completed EIP products under inspection included those for the applications of data control meters, network computers and multimedia.



OUTLOOK

The EIP products and related industry has maintained rapid growth in the PRC during the recent years. According to the research report of China Center of Information Industry development, it forecasts, in the coming years, the world EIP market are expected to have approximately 15% annualized growth, while the PRC market are expected to have more than 20% annualized growth. As the technology and living standard of human beings continue to improve, EIP products are expected to be widely used and have greater demand in the future.

Being one of the largest domestic EIP products manufacturer, the Company will continue to focus in the R&D on new products after Listing. At the same time, due to the strong demand of EIP products in PRC market, the Company will continue to expand its distribution networks so as to promote the “EVOC” brandname and enhance its images in the market place.

The Directors believe that the Company to retain its position as the domestic market leader in EIP industry shall continuously conduct product innovation through R & D. The Company has been dedicating increasing efforts to R & D and continuously introducing new products and enhancing the features of its existing products. R & D activities are directed towards developing new products in line with the demand of customers in different industries. The new products to be launched in the second half of 2003 includes, new series of Reduced Instruction Set Computing (“RISC”) platform EIP products, new EIP products adopting specific industrial applications and EIP products with inbuilt ERCOS platform.

The directors believe that in the EIP industry, the quality and timing of information regarding market demand are critical. New products are usually introduced in the light of market needs and the readiness of new technology. The Company will continue to launch new series of RISC platform EIP products, multi-connecter server products and EIP products with inbuilt ERCOS technology.

The Company realizes that the keys to increase its sales are to expand its sales channels and service centers in different cities. The Company plans to set up new regional sales and service offices in provinces such as Zhejiang, Fujian, Shandong, Liaoning and Xinjiang in the PRC in the coming years.

On the other hand, the Company will continue to promote the Company’s brand name “EVOC” through professional mass media so as to enhance the brand image of the Company’s products in the PRC.

As second half of the year is usually the peak season of the Company, the Directors forecast that the Company will maintain significant growth in the fourth quarter.

Business strategies

The Company will continue to focus on R & D of EIP and ERCOS technology, the Company plans to expand its research on ERCOS technology and explore opportunities for the development of ERCOS solutions in the PRC. While EIP technology focuses on the establishment of embedded hardware platforms for the connection of hardware products, ERCOS technology, is a technology focusing on the establishment of embedded software platforms which are used in embedded computer systems for hardware and system control and information management. It is expected that the success in the development of ERCOS technology will further expedite the development of the Company's EIP products. The directors believe that these objectives could be achieved through the expansion of its R & D department, the formation of strategic alliances with leading IT companies and the commercialization of the latest achievements in EIP and/or ERCOS technology.

DIRECTORS' AND SUPERVISORS' INTERESTS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2003, the interests or short positions of the directors, supervisors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, (the "SFO")), which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions in which they are taken or deemed to have under such provisions of the SFO), or which have been required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which have been required, pursuant to Rules 5.4 to 5.58 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange relating to securities transactions by the Directors, were as follows:

(a) Long position — Interests in the Company

	Type of interests	Number of Domestic Shares	Approximate percentage of holding of the relevant class of shares of the Company	Approximate percentage of holding of the total share capital of the Company
Director				
Chen Zhi Lie (陳志列)	interest of a controlled corporation	318,422,700 (Note 1)	90.9%	68.17%
Supervisor				
Zhou Cheng Yan (周臣岩)	Interest of a controlled corporation	1,751,500 (Note 2)	0.5%	0.38%

Notes:

- These Domestic Shares are held by Shenzhen Yanxiang Wangke Industry Co. Ltd. which is owned as to 70% by Mr. Chen Zhi Lie (陳志列) (Mr. Chen) and 4.5% by Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in Shenzhen Yanxiang Wangke Industry Co. Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Yanxiang Wangke Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.
- These Domestic Shares are held by Shenzhen Kelijian Electronic Industry Co. Ltd. which is owned as to 60% by Zhou Cheng Yan, a Supervisor and 40% by Xiong Li (熊麗), an Independent Third Party. By virtue of Zhou Cheng Yan's (周臣岩) holding of more than one-third interest in Shenzhen Kelijian Electronic Industry Co. Ltd. Zhou Cheng Yan (周臣岩) is deemed to be interested in all the Domestic Shares held by Shenzhen Kelijian Electronic Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

(b) Long position — Interests in associated corporations

Director	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列) (<i>Note</i>)	Shenzhen Yanxiang Wangke Industry Co. Ltd.	Beneficial owner Family	70% 4.5%
Wang Rong (王蓉) (<i>Note</i>)	Shenzhen Yanxiang Wangke Industry Co. Ltd.	Beneficial owner Family	4.5% 70%

Note: Wang Rong (王蓉) is the spouse of Mr. Chen Zhi Lie (陳志列) and therefore Mr. Chen is taken to be interested in the shares held by Wang Rong (王蓉) and Wang Rong (王蓉) is deemed to be interested in the shares held by Mr. Chen by virtue of Part XV of the SFO.

As at 30 September 2003, so far as the Directors are aware the persons who have an interest or short position in the shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company under section 336 of the SFO, are as follows:

Long positions in shares

Name of shareholder of the Company	Nature and capacity in holding shareholding interest	Number of Domestic Shares	Approximate percentage of shareholding
Shenzhen Yanxiang Wangke Industry Co. Ltd.	Registered and beneficial owner of the Domestic Shares	318,422,700	68.17%
Chen Zhi Lie (陳志列) (Note)	Interest of a controlled corporation	318,422,700	68.17%

Note: Mr. Chen is the beneficial owner of 70% interests in Shenzhen Yanxiang Wangke Industry Co. Ltd. and is deemed to be interested in the Domestic Shares owned by Shenzhen Yanxiang Wangke Industry Co. Ltd. pursuant to Part XV of the SFO as he is entitled to exercise or control the exercise of one-third or more of the voting power at the general meetings of Shenzhen Yanxiang Wangke Industry Co. Ltd..

Save as disclosed above:

- (i) none of the Directors, supervisors or chief executives has any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (if any) (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (including interest which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required pursuant to Rules 5.4 to 5.58 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange as at 30 September 2003; and

- (ii) So far as is known to any Director or supervisor, there is no person other than a Director or supervisor or chief executive who, as at 30 September 2003, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 10% 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 or any other substantial shareholders whose interest or short position were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS RIGHTS TO PURCHASE SHARES

At no time during the period, the Directors or supervisors (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meanings of the SFO Ordinance).

SHARE OPTION SCHEME

Up to 30 September 2003, the Company has not adopted any share option scheme or granted any option.

COMPETING INTERESTS

None of the Directors, initial management shareholders or their respective associates (as defined in the GEM Listing Rules), had any interests in any business which compete or may compete with the Company or any other conflicts of interest which any such person may have with the Company.

SPONSORS' INTERESTS

As at 30 September 2003, neither Oriental Patron Asia Limited ("Oriental Patron") nor its directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or right to subscribe for or to nominate persons to subscribe for securities of the Company.

According to an agreement dated 29 September 2003 entered into between the Company and Oriental Patron, Oriental Patron has received and will receive sponsorship fees as being the retained sponsor of the Company as required under the GEM Listing Rules for the period from 10 October 2003 up to 31 December 2005 or until the agreement is terminated upon the terms and condition set out therein.



AUDIT COMMITTEE

An audit committee was established with written terms of reference in compliance with the requirements as set out in Rules 5.23 to 5.25 of GEM Listing Rules. The primary duties of the audit committee are (i) to provide an important link between the Board and the Company's auditors in matters coming within the scope of the company audit, and (ii) to review and provide supervision over the financial reporting process, the effectiveness of the external audit and of internal controls and risk evaluation. At present, the audit committee comprises two independent non-executive directors, namely Miss Zhou Hong and Mr. Qi Yu Kun.

The Company's unaudited results for the nine months ended 30 September 2003 have been reviewed by the audit committee of the Company.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Company has not purchased, sold or redeemed any of the Company's shares during the period.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules throughout the nine months period.

By order of the Board
Chen Zhi Lie
Chairman

Shenzhen, PRC, 11 November 2003