



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)



First Quarterly Report 2004

* for identification purpose only

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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 Growth Enterprise Market of the Stock Exchange 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 for the three months ended 31 March 2004 was approximately RMB42.3 million, representing an increase of approximately 26.5% as compared to the same period last year.

The net profit attributable to shareholders for the three months ended 31 March 2004 amounted to approximately RMB7.5 million, representing an increase of approximately 109.6% as compared to the same period last year.

Earnings per share of the Company were approximately RMB0.016 for the three months ended 31 March 2004.



UNAUDITED 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 three months ended 31 March 2004, together with the comparative audited results of the Company for the corresponding period in 2003, as follows:

CONDENSED INCOME STATEMENT

		Three months ended 31 March	
	Notes	2004 (Unaudited) RMB'000	2003 (Audited) RMB'000
Turnover	3	42,267	33,414
Cost of sales		(25,375)	(18,301)
Gross profit		16,892	15,113
Other revenue		1,488	318
Selling and distribution costs		(5,926)	(5,687)
Administrative expenses		(1,769)	(1,897)
Other operating expenses		(2,151)	(2,666)
Profit from operating activities		8,534	5,181
Finance costs		(335)	(1,081)
Profit before tax		8,199	4,100
Tax	4	(738)	(540)
Profit attributable to shareholders		7,461	3,560
Dividend	5	—	—
Earnings per share — Basic	6	RMB0.016	RMB0.010

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, government, 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 Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

3. Turnover

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

4. Tax

The Company is located in the Shenzhen Special Economic Zone and therefore is subject to a corporate income tax rate of 15%. In accordance with the relevant income tax laws and regulations in the PRC, the Company was exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and entitled to 50% tax exemption for the next three years (the "Shenzhen Enterprise Preferential Tax Treatment").

The year ended 31 December 2003 was the fifth year since the Company's first year of operations with assessable profits and accordingly, the Company was entitled to a 50% exemption from corporate income tax for the year ended 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. The Company has applied for such 50% reduction of the income tax rate in April 2004.

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

5. Dividends

The Directors do not recommend the payment of dividend for the three months ended 31 March 2004 (2003: Nil).



6. Earnings Per Share

The calculation of basic earnings per share for the three months ended 31 March 2004 is based on the unaudited profit attributable to shareholders of approximately RMB7,461,000 (2003: RMB3,560,000) and the weighted average number of 467,100,000 (2003: 350,300,000) ordinary shares in issue during the period. Diluted earnings per share amount for the three months ended 31 March 2003 and 2004 had not been presented as no diluting events existed during the period.

7. Share Capital

	31 March 2004 RMB'000	31 March 2003 RMB'000
Authorized, issued and fully paid: 467,100,000 (2003: 350,300,000) ordinary shares of RMB0.10 each	46,710	35,030


8. Reserves

	Share premium account RMB'000	Statutory funds RMB'000	Retained earnings RMB'000	Total RMB'000
Balance as at 1 January 2003	—	11,136	34,119	45,255
Shares issued on placing	100,331	—	—	100,331
Share issue expenses	(15,141)	—	—	(15,141)
Net profit for the year	—	—	51,589	51,589
Transfer from/(to) reserves	—	7,738	(7,738)	—
Dividends	—	—	(14,013)	(14,013)
As at 31 December 2003	85,190	18,874	63,957	168,021
Net profit for the period	—	—	7,461	7,461
As at 31 March 2004	85,190	18,847	71,418	175,482

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the three months ended 31 March 2004, the Company reported an unaudited turnover of RMB42,267,000 (2003: RMB33,414,000), representing a growth of 26.5% as compared with the same period of last year, which was mainly due to strong market demand for the company's board-type EIP products.



For the three months ended 31 March 2004, the Company recorded an unaudited net profit of RMB7,461,000, represented a growth of 109.6% as compared with the same period of last year. The gross profit margin was 40.0% as compared to the 45.2% of the same period of last year. The decrease in gross profit margin was mainly due to the decrease in selling price of chassis-type and remote data modules products. The growth of net profit was mainly due to the interest receipts from deposits and the decrease of financial expenses.

Liquidity, Financial Resources and Gearing ratio

As at 31 March 2004, the Company had shareholders' funds/net assets of approximately RMB236.2 million. It mainly comprised bank balances and amounted approximately RMB196.4 million, inventories of approximately RMB40.1 million and trade receivables amounted to approximately RMB18.1 million. The company did not have any long-term liabilities. Current liabilities of the Company mainly comprised interest-bank borrowings of RMB30 million and trade and other payables of approximately RMB31.2 million. Net assets value per share of the Company is approximately RMB0.51.

As at 31 March 2004, the gearing ratio of the Company is 20.5% (31 March 2003: 46%). It is defined as the Company's total liabilities over the total assets.

Business Review

During the period under review, the Company continued to engage in the research, development, manufacturing 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.

The Company had continued focus on research and development of EIP and Embedded Real-time Control Operating System ("ERCOS") technology. ERCOS products are composed of three parts of platform (i) Easy control operating system (E-con); (ii) Embedded applicable software development kit (ESDK); (iii) Embedded applicable module on industrial control (Control X module) The first part E-con system had already completed and being launched in the first quarter. While the other two parts are under research and development process. For Reduced Instruction Set Computing ("RISC") platforms, the product will reach the final stage of development in the second quarter.



Product Categories

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

	Turnover Three months ended 31 March			
	2004 (unaudited)		2003 (audited)	
	RMB'000	%	RMB'000	%
Board-type EIP	25,423	60.1	20,389	61.0
Chassis-type EIP	15,449	36.6	11,912	35.7
Remote data modules	1,395	3.3	1,113	3.3
	42,267	100.0	33,414	100.0

Sales and Marketing

In the first quarter, the Company introduces a series of marketing and promotion activities to promote its existing products in northern China. In addition, the Company also participated in the "China semiconductor market annual meeting 2004" jointly organized by China Semiconductor Industry Association (CSIA 中國半導體行業協會) and China Center of Information Industry (CCID) in Shanghai with a view to explore of new IT market trend in the PRC.

In December 2003, the Company brandname "EVOC" was named Guangdong's most famous brandname one of "Guangdong's 216 Top famous brandname" by Guangdong Famous Brandname Appraised Committee (廣東著名商標評定委員會).

In March 2004, the Company was named "China's top ten most competent H Share's Company", ranking number nine by Institute of Industrial Economics of China Academy of Social Sciences (中國社會科學院工業經濟研究所).

PROSPECTS

With the rising level of information technology in the PRC, the ratio of domestically-product information products are on an uptrend. According to the forecast of CCID Consulting Company Limited, the PRC's fast-growing EIP industry will hit sales volumes of



about RMB5.1 billion in the domestic market in 2004. As the technology and living standard of human beings continue to improve, the directors believe that the EIP products will continue to have strong demand in 2004.

As one of the leading domestic EIP products manufacturer, the Company will work constantly to help upgrade and transform traditional Chinese industries and enabling them to benefit from the rapid development in information 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 the cities of Hangzhon, Shengyang in the PRC in the 2004.



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

As at 31 March 2004, 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 5.46 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:

1. 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.

2. 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)	Shenzhen Yanxiang Wangke Industry Co. Ltd.	Beneficial owner Family	70% 4.5%
Wang Rong (王蓉)	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.



SUBSTANTIAL SHAREHOLDERS

As at 31 March 2004, 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 5% 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) (<i>Note</i>)	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 5.46 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange as at 31 March 2004; 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 31 March 2004, 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 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 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 31 March 2004, 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 31 March 2004, 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.



PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CONNECTED TRANSACTIONS

There were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

CORPORATE GOVERNANCE

The Company has complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules throughout the year ended 31 March 2004.

AUDIT COMMITTEE

An audit committee was established with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the 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. The Company's unaudited quarterly results for the three months ended 31 March 2004 has been reviewed by the audit committee, who was of the opinion that such results complied with the applicable accounting standard. At present, the audit committee currently comprises Miss Zhou Hong and Mr. Qi Yu Kun, who are the independent non-executive directors of the Company.

By order of the Board
Chen Zhi Lie
Chairman

Shenzhen, PRC, 11 May 2004