



# 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)



## 2004 Interim Report



\* 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 six months ended 30 June 2004 was approximately RMB97.9 million, representing an increase of approximately 25.12% as compared to the same period last year.

The net profit attributable to shareholders for the six months ended 30 June 2004 amounted to approximately RMB22.2 million, representing an increase of approximately 48.4% as compared to the same period last year.

Earnings per share of the Company were approximately RMB0.047 for the six months ended 30 June 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 six months and three months ended 30 June 2004, together with the comparative unaudited results of the Company for the corresponding period in 2003, as follows:

## CONDENSED INCOME STATEMENT

	Notes	Three months ended 30 June 2004		Six months ended 30 June 2004	
		(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
Turnover	3	<b>55,629</b>	44,830	<b>97,896</b>	78,244
Cost of sales		<b>(33,437)</b>	(22,849)	<b>(58,812)</b>	(41,150)
Gross profit		<b>22,192</b>	21,981	<b>39,084</b>	37,094
Other revenue		<b>4,046</b>	1,931	<b>5,534</b>	2,249
Selling and distribution costs		<b>(5,208)</b>	(7,154)	<b>(11,134)</b>	(12,841)
Administrative expenses		<b>(1,635)</b>	(1,287)	<b>(3,404)</b>	(3,184)
Other operating expenses		<b>(3,334)</b>	(2,474)	<b>(5,485)</b>	(5,140)
Profit from operating activities		<b>16,061</b>	12,997	<b>24,595</b>	18,178
Finance costs		<b>(220)</b>	(651)	<b>(555)</b>	(1,732)
Profit before tax		<b>15,841</b>	12,346	<b>24,040</b>	16,446
Tax	4	<b>(1,134)</b>	(968)	<b>(1,872)</b>	(1,508)
Profit attributable to shareholders		<b>14,707</b>	11,378	<b>22,168</b>	14,938
Dividend	5	—	—	—	—
Earnings per share					
— Basic	6	<b>RMBO.031</b>	RMBO.032	<b>RMBO.047</b>	RMBO.043

## CONDENSED BALANCE SHEET

		<b>30 June 2004 (Unaudited) RMB'000</b>	31 December 2003 (Audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	30,154	32,513
<b>CURRENT ASSETS</b>			
Inventories		42,865	35,238
Trade receivables	8	20,589	13,589
Bills receivables		4,773	5,800
Prepayments, deposits and other receivables	9	3,467	1,795
Cash and cash equivalents	10	171,986	198,782
		<b>243,680</b>	255,204
<b>CURRENT LIABILITIES</b>			
Trade payables	11	22,420	12,641
Tax payables		1,912	2,544
Other payables and accruals	12	12,603	13,788
Interest-bearing bank borrowings		—	30,000
		<b>36,935</b>	58,973
<b>NET CURRENT ASSETS</b>		<b>206,745</b>	196,231
		<b>236,899</b>	228,744
<b>CAPITAL AND RESERVES</b>			
Issued capital	13	46,710	46,710
Reserves	14	190,189	168,021
Proposed final dividend		—	14,013
		<b>236,899</b>	228,744

## CONDENSED CASH FLOW STATEMENT

	Six months ended 30 June	
	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	<b>16,481</b>	16,483
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	<b>20,736</b>	(1,394)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<b>(44,013)</b>	(38,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS	<b>(6,796)</b>	(22,911)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>158,782</b>	81,284
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>151,986</b>	58,373

## STATEMENT OF CHANGES IN EQUITY

	For the six months ended	
	30 June	
	2004	2003
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Total equity at 1 January	228,744	80,285
Net profit for the period attributable to shareholders	22,168	14,938
Dividend paid	14,013	—
Total equity at 30 June	236,899	95,223

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, manufacturing 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 interim 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 May 2003 and has been re-assessed as a New and High Technology Enterprise (高新技術企業) in May 2004. 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 had applied 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. On 20 July 2004, the Company had already been approved for such 50% reduction of income tax rate for three more years until 2006.

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.

5. Dividends

The Directors do not recommend the payment of dividend for the six months ended 30 June 2004 (2003: Nil).

6. Earnings Per Share

The calculation of basic earnings per share for the six months ended 30 June 2004 is based on the unaudited profit attributable to shareholders of approximately RMB22,168,000 (2003: RMB14,938,000) and of 467,100,000 (2003: 350,300,000) ordinary shares in issue during the period. Diluted earnings per share amount for the six months ended 30 June 2003 and 2004 had not been presented as no diluting events existed during the period.

## 7. Fixed Assets, net

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
At 1 January 2004	12,023	3,804	13,869	12,109	956	42,761
Additions	—	112	3	279	—	394
Disposals	—	—	—	706	—	706
At 30 June 2004	12,023	3,916	13,872	11,682	956	42,449
Accumulated depreciation:						
At 1 January 2004	527	1,508	3,413	4,454	346	10,248
Provided during the period	192	320	623	1,033	67	2,235
Disposals	—	—	—	188	—	188
At 30 June 2004	719	1,828	4,036	5,299	413	12,295
Net book value:						
As at 30 June 2004	11,304	2,088	9,836	6,383	543	30,154
As at 31 December 2003	11,496	2,296	10,456	7,655	610	32,513

## 8. Trade Receivables

The ageing analysis of trade receivables at the balance sheet date, is as follows:

	<b>30 June 2004 RMB'000</b>	31 December 2003 RMB'000
O to 90 days	<b>17,481</b>	12,047
91 to 180 days	<b>548</b>	1,171
181 to 365 days	<b>2,302</b>	721
Over 1 year	<b>558</b>	234
	<b>20,889</b>	14,173
Less: Provision for doubtful debts	<b>(300)</b>	(584)
	<b>20,589</b>	13,589

The Company's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranges from 30 days to 120 days, extending up to 180 days for major customers. Each customer has a maximum credit limit. The Company seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

## 9. Prepayments, Deposits and Other Receivables

	<b>30 June 2004 RMB'000</b>	31 December 2003 RMB'000
Prepayments	<b>953</b>	308
Deposits and other receivables	<b>2,514</b>	1,487
	<b>3,467</b>	1,795

## 10. Cash and Cash Equivalents

	<b>30 June 2004 RMB'000</b>	31 December 2003 RMB'000
Time deposits	115,000	115,000
Cash and bank balance	56,986	83,782
	<b>171,986</b>	198,782

## 11. Trade Payables

An ageing analysis of trade payables at the balance sheet date, based on the invoice date, is as follows:

	<b>30 June 2004 RMB'000</b>	31 December 2003 RMB'000
0 to 90 days	20,023	10,767
91 to 180 days	1,104	798
181 to 365 days	393	32
Over 1 year	900	1,044
	<b>22,420</b>	12,641

## 12. Other Payables and Accruals

	<b>30 June 2004 RMB'000</b>	31 December 2003 RMB'000
Other payables	10,953	11,329
Accruals	1,650	2,459
	<b>12,603</b>	13,788

## 13. Issued Capital

	<b>30 June 2004</b>	31 December 2003
	<b>RMB'000</b>	RMB'000
Authorized, issued and fully paid: 467,100,000 (2003: 467,100,000) ordinary shares of RMB0.10 each	<b>46,710</b>	46,710

## 14. Reserves

	Share premium account	Statutory funds	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	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	—	—	22,168	22,168
As at 30 June 2004	85,190	18,847	86,125	190,189

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months ended 30 June 2004, the Company reported an unaudited turnover of RMB97,896,000 (2003: RMB78,244,000), representing a growth of 25.12% as compared with the same period of last year, which was mainly due to the increase in the turnover for the company's chassis-type EIP products as a result of a reduction in selling price.

For the six months ended 30 June 2004, the Company recorded an unaudited net profit of RMB22,168,000, represented a growth of 48.4% as compared with the same period of last year. The gross profit margin was 39.9% as compared to the 47.4% 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 increase in turnover, other revenue and control of selling and distribution expenses.

### Liquidity, Financial Resources and Gearing ratio

As at 30 June 2004, the Company had shareholders' funds/net assets of approximately RMB236.9 million. It mainly comprised bank balances which amounted to approximately RMB172 million, inventories of approximately RMB42.9 million and trade receivables amounted to approximately RMB20.6 million. The Company did not have any long-term liabilities. Current liabilities of the Company mainly comprised trade and other payables of approximately RMB36.9 million. Net assets value per share of the Company is approximately RMB0.51.

As at 30 June 2004, the gearing ratio of the Company is about 13.5% (2003: 20%). It is defined as the Company's total liabilities over the total assets.

## Capital Structure

On 23 September 2003, the authorized share capital of the Company was increased from RMB35,030,000 to RMB46,710,000 by the creation of 116,800,000 ordinary shares of RMBO.10 each. On 8 October 2003, 116,800,000 ordinary shares of RMBO.10 each were issued to the public by way of a placement of shares at HK\$0.90. The Company relies on internal resources and the net proceeds from the Listing as a source of funding. The Company keeps most of its cash in Renminbi in bank accounts as working capital of the Company.

## Employee Information

As at 30 June 2004, the Company had 844 employees (31 December 2003: 902 employees) and the total remuneration for the period was approximately RMB6.9 million (for the six months 31 December 2003: RMB9.5 million). The decreases in employees was attributable to an increase of about 30 production staff and a decrease of about 90 sales and marketing staff. The Company continues to layoff inefficient sales staff and devotes to improve sales amount of each marketing staff. The Company's remuneration policies are in line with prevailing market practice and are determined on the basis of the performance and experience of individual employees. The Company participates in a central pension scheme, operated by the PRC government for all of its staff. In addition, various training sessions are offered to employees to enhance their product and market knowledge.

## Contingent Liabilities

As at 30 June 2004, the Company did not have any contingent liabilities (2003: approximately RMB1.7 million).

## Charges on assets

During the period under review, no assets of the Company were pledged (six months ended 31 December 2003: Nil).

## Exposure to fluctuations in exchange rates

All of the Company's assets, liabilities and transaction are denominated either in Hong Kong dollars or Renminbi (RMB). As the exchange rate of HK\$ against RMB was stable for the period under review, so the Directors do not consider that the Company is exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

## 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 200 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 telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance, etc.

The Company had continued focusing 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 嵌入實時操作系統 (E-con); (ii) Embedded applicable software development kit 嵌入應用軟件開發工具 (ESDK); (iii) Embedded applicable module on industrial control 嵌入工業控制應用組件 (Control X 組件). The research of first part E-con system had already been completed and was launched in the first quarter. While the other two parts are under research and development process. For the six months ended 30 June 2004, the Company has three sub-items (Hero-I Reduced Instruction Set Computing ("RISC") nuclear board, Hero-I RISC expand board and 3.5" RISC single board computer) already completed. The development of RISC had completed and entered the middle testing stage.



## Product Categories

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

	Turnover			
	Six months ended 30 June			
	2004		2003	
	(unaudited)		(unaudited)	
	RMB'000	%	RMB'000	%
Board-type EIP	56,630	57.8	51,013	65.2
Chassis-type EIP	37,971	38.8	24,173	30.9
Remote data modules	3,295	3.4	3,058	3.9
	<b>97,896</b>	<b>100</b>	78,244	100

## Sales and Marketing

The Company currently has an established network of five branches, six representative offices and around 15 (2003: 63) authorized distribution agents located across the PRC. The substantial decrease in distribution agents was mainly due to the Company had altered its marketing strategy in which marketing functions will be carried out by its branches and representative offices. The Company has an active customer base consisting of over 3,000 customers at the moment. The Company actively advertises its products through a number of local magazines and publications, highway sign-boards, printed materials and through the internet during the period. The Company has also participated in a series of trade fairs and product exhibitions in the 6th China Highway Fair (第六屆中國高速公路展會), the 4th Chinese International Defense Electrical Fair (第四屆中國國際國防電子展會), the 8th International Traffic's New Technology Application Fair (第八屆國際交通新技術應用大會), Chinese International Automatic and Meter Fair (中國國際自動化及儀表展覽會), Chinese Development Trend of

Safety Information Seminar (中國信息安全發展趨勢與戰略研討會), Tianjin Automatic Meter Fair (天津自動化儀表展). The Company has jointly organized with INTEL on EVOC Financial Industry EIP Technology Application Seminar 2004.

## PROSPECTS

The EIP products and related industry has maintained rapid growth in the PRC during the recent year. 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 upgrading and transforming 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 Hangzhou in the PRC in the second half 2004.

In addition, pursuant to the policy of further supporting the development of New and High Technology Enterprise, as agree with Shenzhen High Technology and Production Leading Team (深圳市高新技術產業區領導小組), in November 2003, Shenzhen Development Bureau (深圳市發展計劃局) had provided a land of a total area of 9,000 square meters at the price of RMB6,270,000 to the Company for the research and development, testing, production and management center in Nanshan district. The Company is planning to construct a new factory of office, research center and plant factory. After the construction of the research and development center, the Company's research and development, management and production can centralize into the new factory building, which may lead to more efficient on operation.

## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual business progress in comparison to the business objectives set out on pages 84 to 87 of the prospectus of the Company dated 30 September 2003 (the "Prospectus") for the six months ended 30 June 2004:

<b>Business Objectives</b>	<b>Actual Business Progress during the Period</b>
1. Research and Development	
— New Technologies	
● Continue R&D on RISC platforms	● Partially completed, specific industrial application of multi function ARM9 board card is now on testing.
● Continue R&D on industrial motherboard server	● Completed intermediate stage for those supporting TFT/DSTN/LCD monitors.
● Develop second generation of EIP products	● The basic development of lower power and enhanced function of new EIP products were completed.
● Continue to refine existing EIP products for specific industry applications	● New products launched, mainly applied in data control, gambling machines, ATM machines, highway fees and industrial control etc.

Business Objectives	Actual Business Progress during the Period
<ul style="list-style-type: none"> <li>● Identify and evaluate potential opportunities to establish new strategic alliance with leading IT companies to develop new EIP technologies and products</li> <li>● Research on compact PCI-based technology</li> <li>● Continue development of ERCOS products</li> </ul>	<ul style="list-style-type: none"> <li>● Jointly develop technologies with the leading IT companies.</li> <li>● Completed all stages, products testing.</li> <li>● Completed the second stage of embedded applicable software development kit (ESDK).</li> </ul>
<p>— Expansion of R&amp;D department</p> <ul style="list-style-type: none"> <li>● Renew R&amp;D facilities for functions and applications testing</li> <li>● Recruitment of 30 staff</li> </ul>	<ul style="list-style-type: none"> <li>● Postponed because of new R&amp;D center is now under feasibility study.</li> <li>● Recruited 2 new staff, postponed due to lack of quality staff.</li> </ul>
<p>— Acquiring new machineries</p> <ul style="list-style-type: none"> <li>● Enhancement of production facilities for board-type EIP products</li> </ul>	<ul style="list-style-type: none"> <li>● Postponed because of new factory building plan is now under feasibility study.</li> </ul>

Business Objectives	Actual Business Progress during the Period
2. Launch and promotion of new products	
<ul style="list-style-type: none"> <li>— New products               <ul style="list-style-type: none"> <li>● Continue to launch new series of RISC platform EIP products</li> <li>● Launch EIP products with inbuilt ERCOS platform</li> <li>● Launch multi-connector server products</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Consistent with Prospectus.</li> <li>● Completed the second stage of embedded applicable software development kit (ESDK).</li> <li>● Sampling products on production</li> </ul>
3. Brand building and marketing	
<ul style="list-style-type: none"> <li>— Trade fairs, training courses and seminars               <ul style="list-style-type: none"> <li>● Participate in trade fairs and product exhibitions in the PRC in relation to embedded systems and applications for various industries</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>● Participated in the 6th China Highway Fair (第六屆中國高速公路展會), the 4th Chinese International Defense Electrical Fair (第四屆中國國際國防電子展會), the 8th International Traffic's New Technology Application Fair (第八屆國際交通新技術應用大會), Chinese International Automatic and Meter Fair (中國國際自動化及儀表展覽會), Chinese Development Trend of Safety Information Seminar (中國信息安全發展趨勢與戰略研討會), Tianjin Automatic Meter Fair (天津自動化儀表展). Baituo 100 Seminar (百拓100研討會) has organized in more than 50 times in Beijing, Haerbin, Baoding, Henan etc.</li> </ul>

Business Objectives	Actual Business Progress during the Period
<ul style="list-style-type: none"> <li>● Evaluate on sales strategy conducted by authorized distribution agents</li> <li>● Sponsor sport activities and organize IT seminars</li> </ul>	<ul style="list-style-type: none"> <li>● Distribution agents will be retained on those provinces without our branches and representative office</li> <li>● Sponsored national football Series A tournament at Shenzhen stadium.</li> </ul>
<p>— Promotions and advertising</p> <ul style="list-style-type: none"> <li>● Conduct promotional and advertising campaigns on public facilities through professional mass media in major cities of the PRC</li> <li>● Organize joint marketing campaigns with strategic sales and marketing partners</li> <li>● Post advertisements on local and international IT related publications</li> <li>● Post outdoor advertisements in major cities of the PRC</li> </ul>	<ul style="list-style-type: none"> <li>● Placed advertisements in 22 local professional mass media and internet to promote our new products and the company's names.</li> <li>● Jointly organized with INTEL and 中聯盾公司 on EVOC Financial Industry EIP Technology Application Seminar 2004 [2004年研祥金融行業嵌入式應用研討會].</li> <li>● Attended the Spring Intel Developer Forum (IDF) organized by INTEL in Bangkok Thailand.</li> <li>● Placed advertisements in more than 20 local IT related publications and professional mass media to promote our new products and the company's names.</li> <li>● Increase outdoor advertisements for promoting our new products and the Company's brandnames in Shenyang, Wuhan, Kunshan, Fuzhou, highway in Jinan and airports in the PRC.</li> </ul>

Business Objectives	Actual Business Progress during the Period
4. Business development	
<ul style="list-style-type: none"><li>— Sales channels and distribution network<ul style="list-style-type: none"><li>● Expand the existing distribution network by engaging new authorised distribution agents</li><li>● Set up new regional sales and the service office in provinces such as Zhejiang, Fujian in the PRC</li></ul></li></ul>	<ul style="list-style-type: none"><li>● The total number of authorized distribution decrease to 15 (2003: 63) due to the Company had altered its marketing strategy in which marketing functions will be carried out by its branches and representatives offices.</li><li>● Set up new representative office in Shenyang.</li></ul>

### Use of Proceeds from Issuance of New Shares

The actual net proceeds from the Company's issue of new shares at the time of its listing on GEM on 10 October 2003 was approximately HK\$91,090,000 as compared to the budgeted net proceeds of approximately HK\$91,100,000 in the Prospectus. Details of utilization of fundings from the actual net proceeds versus the proposed applications and set out on page 88 of the Prospectus during the period from 10 October 2003 to 30 June 2004 (the "Period") are as follows:

	<b>Proposed fundings required during the Period HK\$'000</b>	<b>Actual fundings spent during the Period HK\$'000</b>
For the expansion of the R&D department (Note i)	7,200	5,593
For capital expenditure to acquire machinery for new EIP and ERCOS technology related products (Note i)	9,500	269
For building sales channels and distribution network (Note ii)	7,000	426
For brand building and marketing activities (Note iii)	8,500	5,095
<b>Total:</b>	<b>32,200</b>	<b>11,383</b>



## Notes:

- (i) For the expansion of R&D department, the Company has enhanced the new environmental laboratory and has recruited 2 new R&D staff during the Period. However, as the enhancement of production facilities of chassis-type EIP products was postponed to 2005 and the utilization of all production facilities are being carefully reviewed by the management, the full expansion of the R&D department, including renewing R&D facilities and recruiting additional staff, will be done in the second half of 2004. The Company is currently running test and inspection on some new products developed during the year and will continue to develop new technology and products in the second half of 2004.
- (ii) During the first half of 2004, the Company has set up one additional representative office in Shenyang, the PRC. The total number of branches and representative offices has increased to 11. The unutilized proceeds for the Period will be devoted by the Company to establish new regional sales and service offices in other major cities in the PRC during the year 2004 in order to provide full upgraded maintenance and after-sales services to its customers.
- (iii) The Company has also actively participated in trade fairs and organized training courses and seminars through our branches and representative offices in order to provide high quality products and services to customers. At the same time, the Company devotes full efforts in promoting its brandname and products through advertisement and sponsoring activities. However, in order to enhance the efficiency in conducting marketing activities, the Company has monitored carefully the marketing expenses during the Period and will continue to monitor the marketing budget with in-depth analysis and consideration of the then and prospective market condition, timing of their products promotion and competitors' marketing activities during second half of year 2004.

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

As at 30 June 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 Rule 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
<b>Director</b>				
Chen Zhi Lie (陳志列)	interest of a controlled corporation	318,422,700 (Note 1)	90.9%	68.17%
<b>Supervisor</b>				
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	70%
		Family	4.5%
Wang Rong (王蓉)	Shenzhen Yanxiang Wangke Industry Co. Ltd.	Beneficial owner	4.5%
		Family	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 30 June 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 shares	Class of Shares	Percentage	Percentage
				of the relevant class of shares	of total registered share capital
Shenzhen Yanxiang Wangke Industry Co. Ltd.	Registered and beneficial owner of the Domestic Shares	318,422,700	Domestic Shares	90.9%	68.17%
Chen Zhi Lie (陳志列) (Note)	Interest of a controlled corporation	318,422,700	Domestic Shares	90.9%	68.17%
AIG Global Investment Corporation (Asia) Ltd	Investment manager	15,000,000	H Shares	12.84%	3.21%
Commerzbank Asset Management Asia Ltd.	Investment manager	10,500,000	H Shares	8.98%	2.25%

Name of shareholder of the Company	Nature and capacity in holding shareholding interest	Number of shares	Class of Shares	Percentage	Percentage
				of the relevant class of shares	of total registered share capital
Pheim Asset Management (Asia) Pte Ltd	Investment manager	8,140,000	H Shares	6.97%	1.74%
Neon Liberty Capital Management, LLC	Investment manager	7,060,000	H Shares	6.04%	1.51%
UBS AG	Person having a security interest in shares	7,060,000	H Shares	6.04%	1.51%

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 30 June 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 30 June 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 30 June 2004, the Company has not adopted any share option scheme or granted any option.

#### REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the six months ended 30 June 2004, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the six months ended 30 June 2004.

## 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 June 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 30 June 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 interim results for the six months ended 30 June 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, 10 August 2004