



Third Quarterly Report 2004



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)

* for identification purpose only

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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 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 nine months ended 30 September 2004 was approximately RMB168 million, representing an increase of approximately 26.4% as compared to the same period of last year.

The net profit attributable to shareholders for the nine months ended 30 September 2004 amounted to approximately RMB33.6 million, representing an increase of approximately 11.6% as compared to the same period of last year.

Earnings per share of the Company were approximately RMB0.072 for the nine months ended 30 September 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 nine months and three months ended 30 September 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 September		Nine months ended 30 September	
		2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Turnover	3	70,031	54,655	167,927	132,899
Cost of sales		(42,537)	(30,475)	(101,349)	(71,625)
Gross profit		27,494	24,180	66,578	61,274
Other revenue		2,470	2,258	8,004	4,507
Selling and distribution costs		(6,807)	(5,645)	(17,941)	(18,486)
Administrative expenses		(2,066)	(1,444)	(5,470)	(4,628)
Other operating expenses		(8,742)	(2,578)	(14,227)	(7,718)
Profit from operating activities		12,349	16,771	36,944	34,949
Finance costs		(32)	(495)	(587)	(2,227)
Profit before tax		12,317	16,276	36,357	32,722
Tax	4	(860)	(1,073)	(2,732)	(2,581)
Profit attributable to shareholders		11,457	15,203	33,625	30,141
Dividends	5	—	—	—	—
Earnings per share — Basic	6	RMB0.025	RMB0.043	RMB0.072	RMB0.086

Notes:

1. Corporate 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 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 Institute of Certified Public Accountants (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 (the "GEM Listing Rules").

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 EVOC Intelligent, 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 profits arising in Hong Kong for the period.

5. Dividends

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

6. Earnings per share

The calculation of basic earnings per share for the nine months ended 30 September 2004 is based on the unaudited profit attributable to shareholders of approximately RMB33,625,000 (2003: RMB30,141,000) and of 467,100,000 (2003: 350,300,000) ordinary shares in issue during the period. Diluted earnings per share amount for the nine months ended 30 September 2003 and 2004 had not been presented as no diluting events existed during the periods.

7. Issued Capital

	30 September 2004 RMB'000	30 September 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
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	—	—	33,625	33,625
As at 30 September 2004	85,190	18,874	97,582	201,646

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the nine months ended 30 September 2004, the Company reported an unaudited turnover of RMB167,927,000 (2003: RMB132,899,000), representing a growth of 26.4% 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 and board-type EIP products as a result of a reduction in selling price. Since the Company wants to maintain some valuable customers, the Company is willing to give a greater discount as an incentive to increase sales orders.

For the nine months ended 30 September 2004, the Company recorded an unaudited net profit of RMB33,625,000, represented a growth of 11.6% as compared with the same period of last year. The gross profit margin was 39.6% as compared to the 46.1% 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 and increase in the cost of raw materials. It is a marketing strategy to adjust selling price in order to increase sales and the Company will benefit from it with the increase in net profits. The growth of net profit was mainly due to increase in turnover, other revenue, control of selling and distribution expenses and decrease of finance costs.

Other revenue for the period was approximately RMB8 million, an increase of approximately 78% over the same period in the last year. The increase in other revenue was mainly due to interest receipts from deposits, value-added tax concession and government subsidies received during the period. Other operating expenses for the period was approximately RMB14.2 million, an increase of approximately 84% over the same period in the last year. The increase in other operating expenses was mainly due to increase of research and development expenses on software development during the period.

Liquidity, Financial Resources and Gearing ratio

As at 30 September 2004, the Company had shareholders' funds/net assets of approximately RMB285.3 million. It mainly comprised bank balances which amounted to approximately RMB169.9 million, inventories of approximately RMB40.8 million and trade receivables amounted to approximately RMB37.5 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 RMB0.53.

As at 30 September 2004, the gearing ratio of the Company is about 12.9% (2003: 36%). It is defined as the Company's total liabilities over the total assets. The improvement in the gearing ratio is due to the proceeds received from the placement of shares of the Company in the Listing.

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 tele-communication, industrial, military, electricity generation, video frequency control, transportation, Internet, medical control, 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). As at 30 September 2004, the research of 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 nine months ended 30 September 2004, the Company has three sub-items (Hero-I Reduced Instruction Set Computing ("RISC") 精簡指令集計算 nuclear board, Hero-I RISC expand board and 3.5" RISC single board computer) already completed. The development of the above three sub-items had completed and entered the middle testing stage.

The Company's products: (i) Embedded PCI Industrial Computer Manufacturers Groups (PICMG) Standard Central Processing Unit (CPU) Card series (嵌入式全長 PICMG 標準 CPU 卡系列) had received the Guangdong Province Science & Technology Third Class Prize (廣東省科技進步三等獎) in May 2004; (ii) EVOX ETAX Series Fiscal Electronic Cash Register Software V1.0 (研祥 ETAX 稅控收款機軟件 v1.0) had obtained the software products certificate issued by the Shenzhen Science and Technology Information Bureau (深圳市科技信息局) in August 2004 and (iii) EVOX PS7271/AT Power Supply obtained the China Compulsory Certification issued by the China Quality Certification Centre (中國質量認證中心) in August 2004.

Product Categories

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

	Turnover			
	Nine months ended 30 September			
	2004 (unaudited)		2003 (unaudited)	
	RMB'000	%	RMB'000	%
Board-type EIP	101,508	60.4%	82,198	61.9%
Chassis-type EIP	60,874	36.3%	46,422	34.9%
Remote data modules	5,545	3.3%	4,279	3.2%
	167,927	100%	132,899	100%

Sales and Marketing

The Company currently has an established network of five branches, six representative offices and around 15 (2003: 50) 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 industry magazines and publications, printed materials and through the internet. During the period, the company made use of real application results in specific industry to promote its products. The Company has also participated in a series of trade fairs and product exhibitions in different cities and provinces such as the High Technology Fair in Shenzhen (深圳高交會).

The Company has jointly organized with INTEL and China Industrial Control Association (中國工控行業協會) on Embedded Technology Application Seminar 2004 (2004年嵌入式技術應用峰會). In the Beijing Embedded System Higher Education Seminar (北京嵌入式系統高校研討會), the Company has demonstrated the use of EIP products in specific industry applications. The Company will continue to focus on the development of higher education market in the PRC. Whilst the use of EVOC's products in the EIP technology laboratories in the high school is important for exploring the market, the Company believes that the development of EIP products in higher education will expand

to other provinces and cities not just Beijing. The Company believes that EIP products will widely be used in education programme while the application in laboratories is the first step. EVOC will be an important strategic alliance with INTEL in developing the higher education market.

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 RMB4-5 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 new regional sales and service office in Hangzhou in the PRC is in progress.

The new research and development center to be built in Nanshan district is in the phase of planning, designing and applying for the relevant approvals in relation to the construction from the relevant PRC authorities. 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.

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

As at 30 September 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
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 (周臣岩), 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 September 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 of the relevant class of shares	Percentage 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%
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 September 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 September 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 September 2004, the Company has not adopted any share option scheme or granted any option.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30 September 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 nine months ended 30 September 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 September 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 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 period ended 30 September 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 nine months ended 30 September 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, Mr. Wen Bing and Mr. Wang Tian Xiang who are the independent non-executive directors of the Company.

By order of the Board
Chen Zhi Lie
Chairman

Shenzhen, PRC, 10 November 2004

As at the date hereof, the executive directors of the Company are Mr. Chen Zhi Lie, Mr. Tso Cheng Shun and Mr. Zhu Jun; the independent non-executive directors of the Company are Mr. Wen Bing, Ms. Zhou Hong, Mr. Dong Lixin and Mr. Wang Tian Xiang.