



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)



Annual Report **2004**

* for identification purpose only

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BOARD OF DIRECTORS

Executive directors

Chen Zhi Lie (*Chairman*)
Tso Cheng Shun
Zhu Jun

Independent non-executive directors

Wen Bing
Zhou Hong
Dong Lixin
Wang Tian Xiang

SUPERVISORS

Wang Bichun
Zhou Cheng Yan
Pu Jing

COMPLIANCE OFFICER

Zhu Jun

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lee Sing Yeung Simon *FCPA, FCCA*

AUTHORIZED REPRESENTATIVES

Chen Zhi Lie
Lee Sing Yeung Simon *FCPA, FCCA*

MEMBERS OF THE AUDIT COMMITTEE

Zhou Hong
Wen Bing
Wang Tian Xiang

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Flat 10B1
Tianxiang Building
Tianan Cyber Park
Chegongmiao
Shenzhen
PRC

LIAISON OFFICE IN HONG KONG

Unit No. 1014
10th Floor, Star House
3 Salisbury Road
Tsimshatsui
Kowloon
Hong Kong

H SHARE REGISTRAR AND TRANSFER OFFICE

Abacus Share Registrars Limited
G/F, Bank of East Asia
Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road
Central
Hong Kong

SPONSOR

Oriental Patron Asia Limited
27/F, Two Exchange Square
8 Connaught Place, Central
Hong Kong

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Shenzhen Branch
F4-8, 1st Floor
Tianji Building
Tian An Industrial Area
Shenzhen
PRC

LEGAL ADVISER TO THE COMPANY

Commerce & Finance Law Offices
1405, Tower B, Shen Fang Plaza,
3005 Ren Min Nan Road,
Shenzhen 518001
PRC

COMPANY HOMEPAGE/WEBSITE

<http://www.evoc.com>

GEM STOCK CODE

8285

Shenzhen EVOC Intelligent Technology Company Limited (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 PRC's Company Law. The Company's H shares were listed on the GEM of the Stock Exchange of Hong Kong on 10 October 2003 (the "Listing"). The Company is principally engaged in the research, development, manufacture and distribution of embedded intelligent platform ("EIP") products. As at 31 December 2004, the registered capital of the Company was approximately RMB46.7 million and the total assets of the Company was approximately RMB296.6 million.

The Company is one of the leading domestic manufacturers of EIP products in the PRC. EIP is a computer system allowing users to adapt hardware and software applications to perform a dedicated function or a range of dedicated functions such as data processing, generating, interpreting and executing control signals, etc. and is embedded into a product, device or a larger system. EIP products manufactured and distributed by the Company are widely applied in, among other, telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance industries. The Company offers over 200 EIP products, which can be broadly classified by their distinctive functions and features into three categories, chassis-type EIP products, board-type EIP products and remote data modules.

The Company has established an extensive distribution network through its five branches, six offices, eight representative offices and about 13 sales agents spread out across 27 provinces and autonomous regions in the PRC. The Company currently has an active customer base consisting of over 3,000 customers located in the PRC. Customers of the Company include authorized distribution agents, system integrators, construction and building surveillance agents, software developers and IT manufacturers in the PRC.





Chen Zhi Lie
Chairman

To Our Shareholders,

The year 2004 sees the first full financial year of Shenzhen EVOC Intelligent Technology Company Limited (the "Company" or "EVOC") since its listing. In this year, the Company recorded a turnover of approximately RMB234,061,000 and the net profit from ordinary activities attributable to shareholders of approximately RMB43,504,000. In 2004, both profit margin and net profit of the Company recorded a decline as affected by such factors as lower sales price of our products, increasing costs of research and development ("R&D") and structural adjustments, in terms of software and hardware, of our products. However, the Company increased its investment in R&D programs as well as the expansion of sales channels. All these contribute to a stronger foundation for future growth of our performance. At the end of 2004, the construction of the Company's R&D building (EVOC Science & Technology Building) in Shenzhen Hi-tech Industrial Park of Shenzhen commenced, which is expected to be completed in 2006. It will play a key role in the rationalization of the management of the Company, and enhance our research and development capacity, as well as our corporate image.

FINANCIAL PERFORMANCE

The year 2004 sees the first full financial year of the Company since its listing on the GEM. The turnover of the Company increased, but the profit margin and net profit declined. Turnover increased 15.5% over 2003 to RMB234,061,000, but the net profit from ordinary activities attributable to shareholders declined 15.7% to RMB43,504,000. Basic earnings per share was RMB0.093.

The board of directors proposed to declare a final dividend of RMB0.025 per ordinary share for the year ended 31 December 2004.

BUSINESS REVIEW

As a successful EIP products manufacturer for the past 12 years, the Company has worked unswervingly to help upgrade and transform Chinese traditional industries, enabling them to benefit from the rapid developments in information technology.

In 2004, the Company continued its performance of the agreement with INTEL to cooperate with INTEL on the development of embedded products as a member of ICA ("the Intel Communication Alliance"). In addition, the Company also entered into another agreement with INTEL, namely RSND (non-disclosure agreement for restricted secret information). This closer cooperation with an upstream leading chip manufacturer raises the value of the Company's products and sharpens its competitive edge in the market. In 2004, the Company's investment in R&D amounted to RMB21,480,000, an increase of RMB10,860,000 from the amount allocated in the original budget.

Despite a 16% decline in the Company's net profit in 2004 over 2003, with regard to industry distribution, the Company achieved a success in entering into the markets in medical control sectors and the comprehensive application of the gas station projects have further deepened and broadened from its previous business pursuits.

1. Research & Development

The Company has been attaching great importance to research and development. Investment in R&D in 2004 increased by about 123% and represented 9% of turnover. During 2004, the Company developed 7 board-type products for different applications including multi-media, data control, digital video recording and gambling etc. Among these products, five of them have already been introduced to the market.

Other governmental accreditations obtained in 2004 include:

1. Shenzhen Municipal Science & Technology Second Prize (e-CON Embedded Real-time Operating System);
2. Shenzhen Municipal Important Industrial and Commercial Development Projects of 2004 (Awarded by Shenzhen Bureau of Trade and Industry);
3. Shenzhen Municipal Important Software Enterprise (Awarded by Bureau of Science, Technology & Information);
4. Shenzhen Municipal Important New Products with Financial Subsidy (Awarded jointly by Bureau of Trade and Industry and other four Bureaus);
5. Key New and High Technology Enterprise in State Torch Project of 2004;
6. A Project in the State Torch Project of 2004;
7. Science and Technology Trade Development Program of 2004;
8. Guangdong Province Science & Technology Third Prize in Embedded PCI Industrial Computer Manufacturers Groups (PICMG) Standard Central Processing Unit (CPU) Card; and
9. "China Top 10 Strong H Share Companies" Awarded by Institute of Industrial Economics of CASS.

2. Products & Services

Currently, the Company owns 200 product types under three major categories and a number of industry-specific solutions, which boost the Company's competitiveness and enables it to achieve exceptional results in transforming traditional industries into digitalized and information-oriented organizations. In 2004, the Company is on the way to gain quality certification and security test certification for its national defense technology products.

In 2004, the Company was recognised as one of Top 50 Shenzhen Private Enterprises.

In 2004, the Company was awarded "The Remarkable Growth Award" of IPOWER500 of 2004 (National Information Evaluation Center).

In 2004, "EVOC" trademark was recognized as one of the leading brandnames in Shenzhen (Shenzhen Federation of Industrial Economics).

In 2004, the Company was named as an enterprise in the national defense science & technology industry of Guangdong Province.

3. Sales and Marketing

The Company has made significant efforts in the marketing and promotion of its own brandname "EVOC". In 2004, "EVOC" was recognized as the most influential popular brand in Shenzhen and a leading brandname in Guangdong Province. During the year, the Company's spending in advertising accounted for 3% of turnover.

As a domestic leader in the EIP industry, expansion of the sales services network and investment in the market are of prime importance to the Company. In 2004, the Company increased its investment in product research and development and in building up its product services network. Apart from expanding its existing five branches and five offices, the Company also set up new representative offices in Shenyang, Zhengzhou, Dongguan, Suzhou, Wenzhou, Ningbo, Kunming, Guiyang and Lanzhou. Industry coverage of its products was also expanded. In 2004, the Company has increased its investment in its branches, offices and representative offices to upgrade its distribution network and strengthen the customer services.

4. Staff and Training

As at 31 December 2004, the Company was employing 836 staff. In 2004, apart from training for new recruits, the Company has also given the staff all-rounded professional training according to their job responsibility under the policy of "inviting experts in and sending staff out for training", with the time spent for this purpose accumulatively amounting to 476 hours, to improve their professionalism and skills and enhance their efficiency. This also helped to promote a culture of learning across the Company.

At the end of 2004, the Company commenced the construction work of its EVOC Science and Technology Building in Shenzhen Hi-tech Industrial Park, and the foundation stone laying ceremony was held on 30 December 2004. At present, the early preparation and application for approvals of the whole project are already underway. All this will lay a solid foundation for the growth of the Company.

PROSPECTS

With the rising level of information technology in the PRC, the ratio of domestically produced information products is on an uptrend.

The technical advancement in, and industrial development and upgrade of products of domestic companies have substantially driven the development of industry automatization and informatization. The unbalance of development in different regions results in the multi-aspects of the development of domestic EIP industry, diversification of its products, and the extensity of its market.

Despite of over a decade of development, the domestic EIP market is still teemed with business opportunities. The EIP industry is an industry with rapid development. The directors view 2005 as an important year for the Company. During the year, the Company will boost its overall competitiveness in research and development, sales, product quality and services. The Company and all staff will, based on the Net Profit ("NP") Project, continue to focus on cost saving for higher profit. The Board expects that the Company will bring better results to its shareholders in 2005.

1. Research & Development

Industrial control automation technology is heading towards the development of intelligent-based, networking and integration. Development trends are: industrial Personal Computer (PC)-based on low-cost industrial control automation will become the mainstream for development; Programmable Logic Controllers (PLC) will move towards micro-scales, networking, personal computerization, and openness; Distributed Control Systems (DCS) will develop into small-scale systems with an extensive variety, personal computerization, openness, and the integration of testing, control and management. The control system will move from DCS to Field bus Control System (FCS); equipment and meter technology will see increasing digitalization, intelligent-based, networking and micro-scales; data control technology will develop into intelligent-based, openness, networking and informationization; industrial control networks will move into a combination of wire and wireless while control software will develop increasingly towards advance control.

In view of the above technology development trends, the Company will invest heavily in research and development. In the near future, it will launch a series of new products with new technology applications, such as the integration of the Embedded Technology eXtended (ETX) structure main board with the CPU, Peripheral Component Interconnection (PCI) bus, Industry Standard Architecture (ISA) bus and standard PC/IO functions. The development of new technology and products lays concrete foundations for the Company to further develop its services in the informatization of the manufacturing industry.

2. Products & Services

"Prompt responses in service delivery and customer first" is the Company's customer service pledge and its nationwide services network is a guarantee of this fast and timely service delivery.

The Company upholds its principles of "service begins in the research, development and design and runs through all aspects of operation" and "Meeting customers' needs is our starting point and their satisfaction is our ending point". In 2005, the Company will move further towards direct sales, supplemented by "EVOC" embedded intelligent platform alliance members. To improve its services, the Company will also refine its after-sales system and enforce stringent quality controls in addition to better workflow management, maintaining a stable and reliable product quality, and introducing technology services hotlines and a network platform.

3. Marketing & Promotions

The Company will stick to its marketing strategy which is based on direct sales and supplemented by sales agents. The company is also setting up sales points at suitable sites across the country. As at 31 December 2004, the Company had already established five branches, six offices and eight representative offices, with a distribution network of 13 sales agents spread out across 27 provinces and autonomous regions.

In 2005, the Company will continue to enhance awareness of its brandname and boost the market share of its products. In addition to outdoor advertisements, the Company will place advertisements in professional magazines and the websites of a variety of industries. It will also organize and participate in large-scale professional exhibitions both locally and overseas and hold professional and academic seminars to comprehensively promote the application of embedded technology in China while at the same time promoting its products.

4. Management

The Company has successfully implemented its Enterprise Resource Planning system ("ERP") for over three years. The system has made a tremendous contribution in upgrading management functions for the Company. In 2005, the Company will fine-tune the system's functions to fit its specific needs. The Company will target 2005 as a year of NP, setting up the target to raise net profit across the Company, and to improve quality control through concrete and effective workflow management.

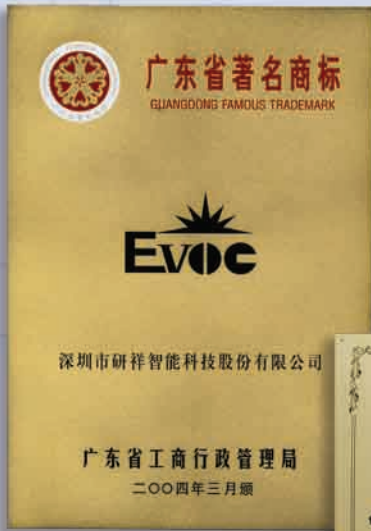
Based on its development needs, the Company will adjust and rationalize its management structure, strengthen the appraisal exercise for various departments and enhance its management efficiencies in 2005. The aim is to move in line with international standards in corporate management to offer its shareholders first class returns. Moreover, the Company will invite Mr Sun Wei as our new general manager.

APPRECIATION

On behalf of the board of directors, I would like to offer our sincere thanks to our shareholders for their unfailing support to the Company's development, and to our staff for their dedication and hard work throughout the year.

Chen Zhi Lie
Chairman

Shenzhen, the PRC, 23 March 2005



Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the company recorded a turnover of approximately RMB234.1 million, representing an increase of approximately 16% over that of the previous year. Profit attributable to shareholders for the year was RMB43.5 million, representing a decrease of approximately 16% over that of the previous year, while basic earnings per share was RMB0.093.

TURNOVER BY PRODUCT CATEGORY

Sales of Products	2004 RMB'000	2003 RMB'000	Change Percentage
Board-type EIPs	119,619	121,803	-2%
Chassis-type EIPs	107,209	74,338	+44%
Remote data modules	7,233	6,487	+11%
Total	234,061	202,628	

The Company recorded growth during the year which was mainly due to the significant rise in market demand for the Company's chassis type products.

TURNOVER BY GEOGRAPHICAL LOCATION

Regions in China	2004 RMB'000	2003 RMB'000	Change Percentage
North and Northeast China	67,323	51,296	+31%
East China	35,492	29,220	+21%
South China	110,795	99,286	+12%
Southwest China	11,802	12,282	-4%
Northwest China	8,649	10,544	-18%
Total	234,061	202,628	

PROFIT MARGIN

The profit margin for the year was approximately 38%, representing an approximate 8% decrease as compared to the previous year. The decrease in gross profit margin was mainly due to the decrease in selling price of our products and increase in the cost of raw materials. During the year, the Company has increased its sales to some valuable customers by adjusting the sales discount, the Company believes that the cooperation with large customers will benefit the Company in the long run.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2004, the Company's had shareholders funds/net assets of approximately RMB258 million. It mainly comprised bank balances of approximately RMB206 million, inventories of approximately RMB28 million and trade and bills receivables of approximately RMB29 million. Current liabilities of the Company mainly comprised trade and other payables of approximately RMB36 million and other loan of approximately RMB2 million. The ratio of current assets to current liabilities is 6.94 times. Net assets value per share of the Company is approximately RMB0.55.

The gearing ratio is calculated by dividing total liabilities by total assets, and is approximately 13% (2003: 20%). The improvement in the gearing ratio is due to the repayment of bank loan in April 2004.

EXCHANGE RATE EXPOSURE

All of the Company's assets, liabilities and transaction are denominated either in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of the Hong Kong dollar, US dollar and Renminbi were relatively stable during the year, so the Directors do not consider that the Company was exposed to any material foreign currency exchange risk. Therefore, no hedging or other alternatives have been implemented.

CHARGES ON ASSETS

There was no charge on the Company's assets as at 31 December 2004 for the banking facilities granted to the Company.

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 RMB0.10 each. On 8 October 2003, 116,800,000 ordinary shares of RMB0.10 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 Placing as a source of funding. The Company keeps most of its cash in Renminbi in bank accounts as working capital of the Company.

SIGNIFICANT INVESTMENT

The Company has not held any significant investment for the year ended 31 December 2004.

FUTURE PLANS FOR MATERIAL INVESTMENT OR CAPITAL ASSETS

Save as disclosed in the section Statement of business objectives of the prospectus issued by the Company on 30 September 2003, the Directors do not have any future plans for material investment or capital assets, except at the end of 2004, the Company commenced the construction work of its EVOC Science and Technology Building in Shenzhen Hi-tech Industrial Park.

SEGMENT INFORMATION

The Company operates in one business segment, which is the sale of EIP products and therefore, no further business segment analysis is presented.

No geographical segment analysis is presented as the Company's operations were substantially carried out in the PRC during the year.

CONTINGENT LIABILITIES

As at 31 December 2004, the Company has endorsed bills of approximately RMB2.2 million not yet been settled.

Management Discussion and Analysis

HUMAN RESOURCES

A breakdown of the number of Company employees by function as at 31 December 2003 and 2004 is set out below:

By function	2004	2003
Sales and marketing	303	366
Purchasing	17	18
R&D	84	87
Management	15	18
Accounting and Finance	35	38
Quality control	71	75
Production	295	280
Human resources and administration	16	20
Total (Staff)	836	902

As at 31 December 2004, the Company had 836 (2003 : 902) full time employees, representing a decrease of 66 employees or 7%. The decrease in headcount was mainly due to re-assessment and re-allocation of staff within the Company with an aim to enhance the overall efficiency.

The Company provides on going training programs for employees to keep them abreast of the latest market trends and new EIP technologies as well as to enhance their knowledge of national quality standards. The Company also provides different training programs to its senior management to ensure the highest management skills and techniques.

The Company remunerates its employees based on performance, experience and prevailing industry practices. The Company also provides Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in the PRC.

MATERIAL ACQUISITIONS

The Company had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2004.

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 year ended 31 December 2004:

Business Objectives

1. Research and Development

- New Technologies
- Continue to develop second generation of EIP products
- Continue to refine existing EIP products for specific industry applications
- Identify and evaluate potential opportunities to establish new strategic alliance with leading IT companies to develop new EIP technologies and products
- Continue development of ERCOS products

- Expansion of R&D department
- Renew R&D facilities for network testings and functions analysis
- Recruitment of 20 staff
- Acquiring new machineries
- Enhancement of production facilities for board-type EIP products

2. Launch and promotion of new products

- New products
- Launch compact PCI based communication EIP products
- Launch second generation of EIP products
- Launch new generation of EIP products with RISC solutions
- Launch new EIP products for specific industrial applications

Actual Business Progress during the Period

Two types of new EIP products with lower power and enhanced function were completed and enter into the market.

New products launched, mainly applied in data control, gambling machines, data processing and medical control etc.

Entered another agreement with INTEL, namely RSNDA (non-disclosure agreement for restricted secret information).

Completed the second stage and entered into the third stage.

Purchase large scale 3 in 1 testing machine (三綜合試驗機) which enabling testing and analysis of EIP products more accurate and reliable.

Recruited 7 new staffs, continued to recruit suitable staff.

Postponed to 2005 because of new science and technology building is in progress.

Already launched.

Already launched.

Already launched.

Embedded PCI Industrial Computer Manufacturers Groups (PICMG) EIP platform is now sampling produced; computer used in HIM products (HIM 產品 平板電腦) has already launched and EIP products with mini-size and highly compatible (小結構 高端 EIP 產品) is under sample production.

Business Objectives

Actual Business Progress during the Period

3. Brand building and marketing

— Trade fairs, training courses and seminars

- Participate in national trade fairs and product exhibitions in relation to embedded systems and applications for various industries such as automation, tele-communication, finance, electricity and transportation

Participated in sixth China Highway Fair (第六屆中國高速公路展), fourth Chinese International Defense Electrical Fair (第四屆中國國際國防電子展), eighth International Traffic's New Technology Application Fair (第八屆國際交通新技術應用大會), Chinese Development Trend of Safety Information Seminar (中國自動化儀錶展), Chinese Development Trend of Safety Information Seminar (中國信息安全趨勢與戰略研討會) and Tianjin Automatic Meter Fair (天津自動化儀錶展) etc.

- Continue to monitor existing sales strategy conducted by authorized distribution agents

Distribution agents will be retained on those provinces without our branches or offices.

- Seek suitable activities and seminars for participation

Baituo 100 Seminar (北拓100研討會) has held in research center, private enterprise and education institutions in Beijing, Shijiazhuang, Baoding, Henan, Shenyang etc.

— Promotions and advertising

- Conduct promotional and advertising campaigns on public facilities through professional mass media in major cities of the PRC

Placed advertisements in 22 local professional mass media and internet.

- Organize joint marketing campaigns with strategic sales and marketing partners

Jointly organized with INTEL and 中聯盾公司 on Embedded Technology Application Seminar 2004 "2004年嵌入式應用研討會" in Beijing, Shanghai and 13 other cities.

- Post advertisements on local and international IT related publications and advertise through suitable organizations on the internet

Placed advertisements in more than 20 local professional mass media.

- Post outdoor advertisements in major cities of the PRC

Increase outdoor advertisements on highway and airport in Shenyang, Wuhan, Kunshan, Fuzhou and Jinan.

Comparison of Business Objectives with Actual Business Progress

Business Objectives

Actual Business Progress during the Period

4. Business development

— Sales channels and distribution network

- Expand the existing distribution network by engaging new authorised distribution agents
- Set up new regional sales and the service office in provinces in the PRC

Total number of authorized distribution agents were 13.

Set up new branches in Shenyang, Zhengzhou, Dongguan, Suzhou, Wenzhou, Ningbo, Kunming, Guiyang and Lanzhou.

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 31 December 2004 (the "Period") are as follows:

	Proposed fundings required during the Period HK\$'000	Actual fundings spent during the Period HK\$'000
For the expansion of the R&D department (<i>Note i</i>)	10,800	20,396
For capital expenditure to acquire machinery for new EIP and ERCOS technology related products (<i>Note i</i>)	14,500	7,903
For building sales channels and distribution network (<i>Note ii</i>)	10,500	766
For brand building and marketing activities (<i>Note iii</i>)	13,000	10,013
Total:	48,800	39,078

Notes:

- In view of the rapid changes in IT industry, the Company fully expand the R&D department during the year, including renewing and purchasing of new R&D facilities and recruiting additional staffs. The Company is currently developing new products such as multi-media data control, digital video recording and gambling, etc. The Company also expand its research on ERCOS technology and continue to explore opportunities for the development of ERCOS solution in the PRC.
- Since its listing on the GEM of the Stock Exchange on 10 October 2003, the Company's brandname "EVOC" has become well-known to the customers and within the industry, and hence the plan for building sales channels and distribution network has slowed down.
- The company has set up nine new offices in 2004. The total number of branches, offices and representative offices has increased to 19. The Company will continue to monitor the marketing budget with in-depth analysis and consideration of the prospective market in the future.

EXECUTIVE DIRECTORS

Chen Zhi Lie (陳志列), aged 41, the Chairman and an executive director of the Company. He is the founder of the Company and is responsible for the overall strategy and planning for the business of the Company. Mr. Chen graduated with a bachelor degree of engineering in computer application from Liaoning Architectural and Civil Engineering Institute (遼寧建築工程學院) in the PRC in 1984. He also obtained a master degree in computer science and computer engineering from the department of engineering in Northwestern Polytechnical University (西北工業大學) in 1990. He has over 18 years of experience in computer and automation of control systems. In February 2003, Mr. Chen was awarded the prize of Guangdong Province Outstanding Entrepreneur of Domestic-owned Enterprises (廣東省優秀民營企業家) by Guangdong Province Government (廣東省人民政府). Mr. Chen Zhi Lie was accredited as "Manager of Edges in Comprehensive Quality Control" (全面質量管理優秀管理者) by Quality Association of Shenzhen (深圳市質量協會) and as "Excellent Small Medium Enterprise of Shenzhen" (深圳市優秀中小企業家) by Association for Small Medium Enterprises of Shenzhen (深圳市中小企業協會) in 2004.

Tso Cheng Shun (曹成生), aged 76, the Vice Chairman and an executive director. Mr. Tso graduated from Nan Tong Institute (南通學院) in the PRC and obtained a certificate in engineering in textile. He is responsible for corporate planning of the Company. Mr. Tso has been serving the Company since 1995. He is responsible for developing business strategy, preparing annual financial budget and monitoring financial status of the Company.

Zhu Jun (朱軍), aged 43, an executive director, the compliance officer, the chief engineer and the head of R&D department of the Company. He joined the Company in October 1995 and is responsible for monitoring the R&D center of the Company. Mr. Zhu obtained the designation of Senior Programmer from China Computer Application Software Practitioner Examination Committee (中國計算機應用軟件人員水平考試委員會) in 1990. He has extensive research and development experience in computer engineering and integration of control systems. He is responsible for managing overall R&D strategy and operations of the Company. In 2000, Mr. Zhu was awarded Shenzhen Municipal Science and Technological Advancement First Class Prize (深圳市科技進步一等獎) and Guangdong Province Technological Progress Second Runner-up Prize (廣東省科技進步三等獎).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wen Bing (聞冰), aged 43, an independent non-executive director. Mr. Wen obtained a bachelor degree in computer studies from Liaoning Architectural and Civil Engineering Institute (遼寧建築工程學院) in the PRC in 1984. He has over 19 years of experience in computer engineering and had held various senior positions in state-owned enterprises as well as international companies. He is currently an executive director and the general manager of E-Techsoft Co., Ltd. (深圳市欣軼天科技有限公司) as well as the general manager and chief technical officer of Televoice China (Shenzhen) Limited (聲訊亞洲中國公司). Mr. Wen was appointed as an independent non-executive director in December 2000.

Zhou Hong (周紅), aged 39, an independent non-executive director. Ms. Zhou graduated from Tsinghua University in the PRC with a bachelor degree in engineering and a master degree in engineering. She also obtained a master degree in business administration in finance from Massey University in New Zealand in 1999. She is currently the general manager of the business development department of Shenzhen Ji Yu Investment Group Limited (深圳基鈺投資(集團)有限公司). Ms. Zhou was appointed as an independent non-executive Director in September 2001.

Dong Lixin (董立新), aged 45, an independent non-executive director. Mr. Dong graduated from Tsinghua University (清華大學) in the PRC with a bachelor degree in automation in 1984 and he currently holds a managerial position in the engineering department in Shenzhen World Miniature Co. Ltd. in the PRC. Mr. Dong was appointed as an independent non-executive director in September 2002.

Wang Tian Xiang (王天祥), aged 36, an independent non-executive director. Mr. Wang was graduated with Bachelor Degree in Economics at Hebei Geological College (河北地質學院) and is an accountant in the PRC. He has over 15 years of experience in accounting and financial management in the PRC and held various senior positions in state-owned enterprise as well as a company listed in Hong Kong. He is currently the financial manager of Winson Group (新永勝集團) with headquarters in Shenzhen. Mr. Wang was appointed as an independent non-executive director in September 2004.

SUPERVISORS

Wang Bichun (王必春), aged 41, the chairman of the supervisory committee of the Company. Mr. Wang is a certificate holder in accounting graduated from Anhui University of Finance and Economics (安徽財貿學院) in the PRC in 1990. He has over eight years of experience in accounting and auditing. He was appointed by the Company as a Supervisor in September 2002.

Zhou Cheng Yan (周臣岩), aged 32, a member of the supervisory committee of the Company. Ms. Zhou graduated from Jilin Province Economics and Management College (吉林省經濟管理學院) in the PRC with a certificate in Finance and Accounting in 1995. Ms. Zhou is a shareholder of Shenzhen Kelijian and was appointed by the Company as a Supervisor in December 2000.

Pu Jing (濮靜), aged 39, a member of the supervisory committee of the Company. Ms. Pu graduated from Wuhan Iron and Steel University (武漢鋼鐵學院) in the PRC with a bachelor degree in engineering in electric automation in 1988. She has over 15 years of experience in industrial computer testing. Ms. Pu is a shareholder of Shenzhen Yanxiang Wangke and Shenzhen Haoxuntong and was appointed by the Company as a Supervisor in December 2000.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lee Sing Yeung Simon (李聲揚), aged 36, is the qualified accountant and the company secretary of the Company. He is a fellow member of The Association of Chartered Certified Accountants and of The Hong Kong Institute of Certified Public Accountants. He has over 13 years of experience in accounting and financial management in Hong Kong and the PRC. Prior to joining the Company in August 2004, he served as a qualified accountant in a company listed on the main board of the Stock Exchange.

SENIOR MANAGEMENT

Liang Xu (梁煦), aged 47, the general manager of the Company. He obtained a bachelor degree in physics from The University of National Defense Technology (國防科學技術大學) in the PRC in 1981. He also obtained a master degree of business administration from Nankai University (南開大學) in the PRC in 1988. He has over 14 years of experience in administration and operation management. Prior to joining the Company in May 2001, Mr. Liang had held a number of managerial positions in various industries in the PRC. Mr. Liang has redesignated from the office of general manager and become the chief economist on 18 March 2005.

Directors, Supervisors and Senior Management's Profile

Sun Wei (孫偉), aged 42, is the manager of the human resources and administration department of the Company. He obtained a bachelor degree in engineering with a major in engine technology from Da Lian Tie Dao University (大連鐵道大學) in the PRC in 1983. He has extensive experience in engine design, investment and human resources management. He joined the Company in March 1999. Mr. Sun has redesignated to general manager on 18 March 2005.

Wang Zhen Zun (王振俊), aged 40, the assistant general manager of the Company. He is responsible for the overall sales functions of the Company. Mr. Wang obtained a bachelor degree in engineering with a major in automation of control from the automated control faculty of Beijing Industrial College (中國北京工業學院) in the PRC in 1986. Mr. Wang possesses strong technical expertise in automation technology and has over 10 years of experience in the sales and marketing of computer-based industrial automation products. Mr. Wang joined the Company in October 1995.

Fan Xiao Ning (樊小寧), aged 34, the assistant general manager of the Company. He is responsible for the overall marketing functions of the Company. Mr. Fan is a certificate holder in Chinese language from Nan Cheng University (南昌大學). He has over 11 years of experience in strategic marketing planning. Prior to joining the Company in July 1999, he held a number of managerial positions in various industrial enterprises in the PRC.

Chen Xiang Yang (陳向陽), aged 38, is the head of the production department of the Company. He obtained a bachelor degree in wireless electronics technology from Chongqing University (重慶大學) in the PRC in 1988. He has over 11 years of experience in the quality control of electronic products. He joined the Company in July 1999.

Liu Yi (劉宜), aged 39, the assistant company secretary of the Company. She graduated from Anhui University (安徽大學) in the PRC with a bachelor degree in economics in 1985 and a master degree in economics in 1991. Ms. Liu joined the Company in October 2001. Ms. Liu has a thorough understanding of the operations of the Company and has been closely involved in the proposed H Share issue and listing process.

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2004.

COMPANY REORGANIZATION

The Company was established in the PRC on 18 December 2000 as a joint stock limited company under the Company law of the PRC. The Company's H Shares were listed on the GEM of the Stock Exchange on 10 October 2003.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the research, development, manufacture and distribution of EIP products. There were no significant changes in the nature of the Company's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Company for the year ended 31 December 2004 and the state of affairs of the Company at that date are set out in the financial statements on pages 30 to 50.

The Directors recommend the payment of a final dividend of RMB0.025 per ordinary share in respect of the year, to shareholders on the register of members on 17 May 2005. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

USE OF PROCEEDS FROM THE PLACING OF THE COMPANY

Details of the use of proceeds from the placing of the Company are set out on page 17 of this annual report.

FIXED ASSETS

Details of movements in the fixed assets of the Company during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

There were no movements in either the Company's authorized or issued share capital during the year.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 22 to the financial statements and in the statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2004, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to RMB100,935,000, of which RMB11,678,000 has been proposed as a final dividend for the year.

MAJOR CUSTOMERS AND SUPPLIERS

29% of the Company's turnover was attributable to the Company's five largest customers and sales to the Company's largest customer accounted for 16% of the Company's turnover for the year. 34% of the Company's total purchases were attributable to the Company's five largest suppliers and purchases from the Company's largest supplier accounted for 17% of the Company's total purchases.

According to the best knowledge of the directors, neither the directors, their associates (as defined under the GEM Listing Rules), nor any shareholders, who owned more than 5% of the Company's issued share capital, had any beneficial interest in any of the Company's five largest customers and five largest suppliers during the year.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the year were:

Executive directors

Chen Zhi Lie (Chairman)
Tso Cheng Shun
Zhu Jun

Independent non-executive directors

Wen Bing
Qi Yu Kun (resigned on 30 September 2004)
Zhou Hong
Dong Lixin
Wang Tian Xiang (appointed on 30 September 2004)

Supervisors

Wang Bichun
Zhou Cheng Yan
Pu Jing

According to article 10.02 of the Company's articles of association, Wang Tian Xiang who has been appointed as an independent non-executive director on 30 September 2004 shall hold office until the forthcoming annual general meeting and being eligible, offer himself for re-election and the term of other directors and supervisors are appointed for a period of 3 years.

The Company has received written confirmations from all independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules and therefore considers all independent non-executive directors to be independent.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors, supervisors and the senior management of the Company are set out under the section "Directors, Supervisors and Senior Management's Profile" of the Annual Report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service agreement with the Company with effect from the date of appointment of the respective director and supervisor, for a term of 3 years except Wang Tian Xiang, an independent non-executive director, who has entered into a service contract with the Company for two years commencing from 30 September 2004.

Apart from the foregoing, no director of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CONTROLLING SHAREHOLDERS INTERESTS IN CONTRACTS

No contracts of significance in relation to the Company's business to which the Company, its holding company was a party and in which a director or controlling shareholder of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 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 Shares	Class of 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)	Domestic Shares	90.90%	68.17%
Zhou Hong (周紅)	Beneficial owner	20,000	H Shares	0.02%	0.004%
Supervisor					
Zhou Cheng Yan (周臣岩)	Interest of a controlled corporation	1,751,500 (Note 2)	Domestic Shares	0.50%	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 Ms. 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 (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	Beneficial owner	70%
	Wangke Industry Co., Ltd.	Family	4.5%
Wang Rong (王蓉)	Shenzhen Yanxiang	Beneficial owner	4.5%
	Wangke Industry Co., Ltd.	Family	70%

Note: Ms. 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 Ms. Wang Rong (王蓉) and Ms. 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 December 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 Divisions 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	90.90%	68.17%
Chen Zhi Lie (陳志列) (Note)	Interest of a controlled corporation	318,422,700	Domestic Shares	90.90%	68.17%
AIG Global Investment Corporation (Asia) Ltd	Investment manager	13,948,000	H Shares	11.94%	2.99%
American International Group, Inc	Investment manager	11,556,000	H Shares	9.89%	2.47%
Commerzbank Asset Management Asia Ltd.	Investment manager	10,500,000	H Shares	8.98%	2.25%
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%
Pheim Asset Management (Asia) Pte Ltd	Investment manager	6,060,000	H Shares	5.19%	1.30%

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 December 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 December 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 year, 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 December 2004, the Company has not adopted any share option scheme or granted any option.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 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 year ended 31 December 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 31 December 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 year.

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 year ended 31 December 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 5.33 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's 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 audit committee comprises Ms. Zhou Hong, Mr. Wen Bing and Mr. Wang Tian Xiang, who are the independent non-executive directors of the Company. In the course of the supervision of the financial reporting process and internal control system of the Company, three meetings were held during the year ended 31 December 2004 to review the Company's quarterly results. The Company's audited results for the year ended 31 December 2004 have been reviewed by the committee. The committee is of the opinion that the preparation of such results complied with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

By order of the Board

Shenzhen EVOC Intelligent Technology Company Limited

Chen Zhi Lie

Chairman

Shenzhen, the PRC, 23 March 2005

To: All Shareholders

The Supervisory Committee of Shenzhen EVOC Intelligent Technology Company Limited (the "Supervisory Committee"), in accordance with the Company Law of the PRC, requirements of the relevant laws and regulations of Hong Kong and the Articles of Association of the Company during the year ended 31 December 2004 exercised conscientiously its authority, safeguarded the interests of the shareholders and the Company, followed the principle of honesty and trustworthiness and worked cautiously and diligently.

During the year, Supervisory Committee had reviewed cautiously the use of proceeds of the issue of shares in accordance with the Prospectus of the Company. It provided reasonable suggestions and opinions to the Board of Directors in respect of the operation and development plans of the Company. It also strictly and effectively monitored and supervised the Company's management in making significant policies and decisions to ensure that they are in compliance with the laws and regulations of the PRC and the Articles of Association of the Company, and in the interests of its shareholders.

We have reviewed and agreed to the report of the Directors and audited financial statements for the presentation at the forthcoming annual general meeting. We are of the opinion that the Directors, the general manager and other senior management of the Company were able to strictly observe their fiduciary duty, to act diligently and to exercise their authority faithfully in the best interests of the Company. Up till now, none of the Directors, general manager and senior management staff had been found abusing their authority, damaging the interests of the Company and infringing upon the interests of its shareholders and employees. And none of them were found to be in breach of any laws and regulations or the Articles of Association of the Company.

The Supervisory Committee is satisfied with the achievement and cost-effectiveness of the Company in year 2004 and has great confidence in the future of the Company.

By order of the Supervisory Committee

Wang Bichun

Chairman

Shenzhen, the PRC, 23 March 2005

Financial Highlights

COMPARISON OF KEY FINANCIAL FIGURES

Financial year		Year ended 31 December		
		2004	2003	2002
Turnover	RMB'000	234,061	202,628	152,462
Gross Profit	RMB'000	88,822	92,383	64,978
Gross Margin	%	37.95	45.60	42.62
Net Profit	RMB'000	43,504	51,589	39,260
Net Margin	%	18.59	25.46	25.75
Basic Earnings per Share (Note)	RMB	0.093	0.137	0.112
Cash Generated from Operations	RMB'000	49,683	68,950	25,959
Trade Receivables Turnover	Days	34	24	27

FINANCIAL POSITION

Financial year		Year ended 31 December		
		2004	2003	2002
Total Assets	RMB'000	296,568	287,717	176,532
Total Liabilities	RMB'000	38,333	58,973	96,247
Total Cash and Cash Equivalents	RMB'000	206,062	198,782	81,284
Shareholders' Funds	RMB'000	258,235	228,744	80,285
Earning per Share — Basic (Note)	RMB	0.093	0.137	0.112
Net Assets per Share	RMB	0.553	0.490	0.229
Dividend per Share	RMB	0.025	0.030	0.086

Note: The calculation of basic earnings per share for the year ended 31 December 2004 is based on the net profit attributable to shareholders for the year of RMB43,504,000 (2003: RMB51,589,000) and the 467,100,000 (2003: weighted average number of 377,500,000) ordinary shares in issue during the year.

Diluted earnings per share amount for the two years ended 31 December 2003 and 2004 have not been disclosed as no diluting events existed during these years.



To the members
SHENZHEN EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED
(Incorporated in the People's Republic of China with limited liability)

We have audited the financial statements on pages 30 to 50 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company as at 31 December 2004 and of the profit and cash flows of the Company for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong
23 March 2005

Profit and Loss Account

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
TURNOVER	5	234,061	202,628
Cost of sales		(145,239)	(110,245)
Gross profit		88,822	92,383
Other revenue	5	14,818	12,883
Selling and distribution costs		(23,377)	(26,749)
Administrative expenses		(10,368)	(10,896)
Other operating expenses		(22,221)	(9,719)
PROFIT FROM OPERATING ACTIVITIES	6	47,674	57,902
Finance costs	7	(668)	(2,502)
PROFIT BEFORE TAX		47,006	55,400
Tax	10	(3,502)	(3,811)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		43,504	51,589
DIVIDEND			
Proposed final	11	11,678	14,013
EARNINGS PER SHARE			
Basic	12	RMB0.093	RMB0.137

Balance Sheet

31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
NON-CURRENT ASSETS			
Fixed assets	13	30,654	32,513
CURRENT ASSETS			
Inventories	14	28,347	35,238
Trade receivables	15	26,889	13,589
Bills receivable		2,181	5,800
Prepayments, deposits and other receivables	16	2,435	1,795
Cash and cash equivalents	17	206,062	198,782
		265,914	255,204
CURRENT LIABILITIES			
Trade payables	18	17,833	12,641
Tax payable		3,180	2,544
Other payables and accruals	19	15,320	13,788
Bank and other loans	20	2,000	30,000
		38,333	58,973
NET CURRENT ASSETS		227,581	196,231
		258,235	228,744
CAPITAL AND RESERVES			
Issued capital	21	46,710	46,710
Reserves	22	199,847	168,021
Proposed final dividend	11	11,678	14,013
		258,235	228,744

Chen Zhi Lie

Chairman

Tso Cheng Shun

Director

Statement of Changes in Equity

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
Total equity at 1 January		228,744	80,285
Net profit for the year attributable to shareholders	22	43,504	51,589
Dividend paid	11, 22	(14,013)	—
Issue of new shares		—	11,680
Premium on issue of new shares	22	—	100,331
Share issue expenses	22	—	(15,141)
Total equity at 31 December		258,235	228,744

Cash Flow Statement

Year ended 31 December 2004

	Notes	2004 RMB'000	2003 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		47,006	55,400
Adjustments for:			
Finance costs	7	668	2,502
Interest income	5	(2,439)	(388)
Depreciation	6	4,658	4,738
(Gain)/loss on disposal of fixed assets	6	30	(40)
Operating profit before working capital changes		49,923	62,212
Decrease in inventories		6,891	982
Increase in trade and bills receivables		(9,681)	(7,574)
(Increase)/decrease in prepayments, deposits and other receivables		(640)	18,917
Increase/(decrease) in trade payables		5,192	(6,328)
Increase in other payables and accruals		1,532	7,675
Cash generated from operations		53,217	75,884
Interest paid		(668)	(2,502)
PRC income tax paid		(2,866)	(4,432)
Net cash inflow from operating activities		49,683	68,950
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		2,439	388
Purchases of fixed assets	13	(3,359)	(11,327)
Increase in time deposits with original maturity of more than three months when acquired		—	(40,000)
Proceeds from disposal of fixed assets		530	617
Net cash outflow from investing activities		(390)	(50,322)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	22	—	112,011
Share issue expenses	22	—	(15,141)
Dividend paid		(14,013)	—
New other loan		2,000	—
New bank loans		—	43,000
Repayment of bank loans		(30,000)	(81,000)
Net cash inflow/(outflow) from financing activities		(42,013)	58,870
NET INCREASE IN CASH AND CASH EQUIVALENTS — page 34		7,280	77,498

Cash Flow Statement

Year ended 31 December 2004

	<i>Notes</i>	2004 RMB'000	2003 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS — page 33		7,280	77,498
Cash and cash equivalents at beginning of year		158,782	81,284
CASH AND CASH EQUIVALENTS AT END OF YEAR		166,062	158,782
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	206,062	198,782
Less: Time deposits with original maturity of more than three months when acquired	17	40,000	40,000
		166,062	158,782

1. CORPORATE INFORMATION

The registered office of Shenzhen EVOC Intelligent Technology Company Limited (the "Company") is located at Flat 10 B1, Tianxiang Building, Tianan Cyber Park, Chegongmiao, Shenzhen, the People's Republic of China (the "PRC").

During the year, the Company was principally engaged in the research, development, manufacture and distribution of Embedded Intelligence Platform ("EIP") products in the PRC.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Company has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life after taking into account its estimated residual value. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	4.5%
Leasehold improvements	20%
Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Motor vehicles	18%

Improvements to leasehold buildings are depreciated over the shorter of the lease terms and the rate of 20% per annum.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

Research and development costs

All research expenditure is charged to the profit and loss account as incurred.

Development expenditure incurred on projects to develop new products is capitalised and deferred only when the products are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Company's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Renminbi ("RMB") is not freely convertible into foreign currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised, except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Government subsidies

Subsidies from the PRC government are recognised at their fair value when they are received, or when there is reasonable assurance that they will be received and all attached conditions have been complied with. When a subsidy relates to an expense item, it is recognised as income over the periods necessary to match the subsidy, on a systematic basis, with the costs which it is intended to compensate. Where a subsidy relates to an asset, the fair value of the subsidy is deducted in arriving at the carrying amount of the related asset, or, as appropriate, is initially recorded as deferred income in the balance sheet, and thereafter recognised as income over the useful life of the relevant asset.

Retirement benefits

The Company participates in a central pension scheme (the "CPS"), operated by the PRC government, for all of its employees. The Company is required to contribute a certain percentage of its covered payroll to the CPS to fund the benefits. The only obligation of the Company with respect to the CPS is to pay the ongoing required contributions under the CPS. The contributions under the CPS are charged to the profit and loss account as they become payable in accordance with the rules of the CPS.

The Company also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Retirement Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the Retirement Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with rules of the Retirement Scheme. The assets of the Retirement Scheme are held separately from those of the Company in an independently administered fund. The Company's employer contributions vest fully with the employees when contributed into the Retirement Scheme except for the Company's employer voluntary contributions, which are refunded to the Company when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Retirement Scheme.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) from tax concessions, when the relevant tax refund has been received from the finance bureau;
- (c) from government subsidies, when they are received or when there is reasonable assurance that they will be received and on the basis set out under the accounting policy headed "Government subsidies" above; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currencies

The Company's financial records are maintained and the financial statements are stated in RMB. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates as quoted by the People's Bank of China. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the applicable exchange rates ruling at that date, as quoted by the People's Bank of China. Exchange differences are dealt with in the profit and loss account.

4. SEGMENT INFORMATION

The Company operates in one business segment, which is the research, development, manufacture and distribution of EIP products and therefore, no further business segment analysis is presented.

No geographical segment analysis is presented as the Company's operations were substantially carried out in the PRC during the year.

5. TURNOVER AND REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

	2004 RMB'000	2003 RMB'000
Turnover		
Sale of EIP products	234,061	202,628
Other revenue		
Value-added tax ("VAT") concession*	8,157	7,815
Government subsidies**	2,751	3,964
Interest income	2,439	388
Others	1,471	716
	14,818	12,883
	248,879	215,511

* Being a software enterprise approved by the Shenzhen Information Construction Office (深圳信息化辦公室) in February 2001, the Company is entitled to enjoy a VAT refund in respect of its products that are certified as software products according to the relevant document, "Notice of certain policies to encourage the Software Industry" 《關於鼓勵軟件產業發展的若干政策》, issued by the State Council. According to the relevant policy on VAT refund, VAT payments exceeding 3% of sales of certified software products can be refunded from the Tax Bureau and the VAT refund is exempt from corporate income tax. The Company applied for VAT refund in 2003 and the period from January to October 2004 and received the VAT refund of RMB7,640,000 in 2004 (2003: RMB7,815,000). In addition, the Company received a VAT refund of RMB517,000 (2003: Nil) from the Shenzhen Finance Bureau for the development of high technology products by the Company.

** Government subsidies mainly include the corporate income tax ("CIT") refund of RMB1,540,000 (2003: RMB1,307,000) from the Shenzhen Finance Bureau for high technology products developed by the Company; and the monetary subsidies of RMB1,052,000 (2003: RMB2,500,000) from the Shenzhen Economic and Trade Bureau (深圳市經濟貿易局) and the Technology Division of the Management Center of Innovation Fund for Technology Based Firms (科技部科技型中小企業技術創新基金管理中心) for the development of specified software products by the Company in 2004.

6. PROFIT FROM OPERATING ACTIVITIES

The Company's profit from operating activities is arrived at after charging/(crediting):

	Note	2004 RMB'000	2003 RMB'000
Cost of inventories sold		145,239	110,245
Depreciation	13	4,658	4,738
Research and development costs		21,479	9,644
Minimum lease payments under operating leases in respect of land and buildings		5,726	5,670
Auditors' remuneration		520	450
Staff costs (excluding remuneration of directors (<i>note 8</i>)): <ul style="list-style-type: none"> Wages and salaries Pension scheme contributions 		14,744	15,427
		1,968	1,021
Provision for doubtful debts		1,506	—
Provision for slow-moving inventories		3,008	1,028
(Gain)/loss on disposal of fixed assets		30	(40)

7. FINANCE COSTS

	2004 RMB'000	2003 RMB'000
Interest on bank loans	668	2,502

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the GEM Listing Rules and Section 161 of the Companies Ordinance, is as follows:

	2004 RMB'000	2003 RMB'000
Fees	48	12
Other emoluments: <ul style="list-style-type: none"> Salaries, allowances and benefits in kind Pension scheme contributions 	174	159
	8	4
	182	163
	230	175

8. DIRECTORS' REMUNERATION (Continued)**(a) Independent non-executive directors**

The fees paid to independent non-executive directors were as follows:

	2004 RMB'000	2003 RMB'000
Director D	12	3
Director E	12	3
Director F	12	3
Director G	9	3
Director H	3	—
	48	12

There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total emoluments RMB'000
2004				
Director A	—	77	3	80
Director B	—	77	5	82
Director C	—	20	—	20
	—	174	8	182
2003				
Director A	—	77	2	79
Director B	—	74	2	76
Director C	—	20	—	20
	—	171	4	175

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2003: one) director, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining four (2003: four) non-director, highest paid employees for the year are as follows:

	2004	2003
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	530	684
Pension scheme contributions	26	20
	556	704

The remuneration of each of the non-director, highest paid employees fell within the range from nil to HK\$1,000,000 (RMB1,062,000 equivalent).

During the year, the four non-director, highest paid employees of the Company received emoluments of approximately RMB283,000 (2003: RMB438,00), RMB105,000 (2003: RMB102,000), RMB83,000 (2003: RMB82,000) and RMB85,000 (2003: RMB82,000)

The four non-director, highest paid employees of the Company are the same individuals for 2003 and 2004.

10. TAX

The Company is located in the Shenzhen Special Economic Zone and is therefore 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 was entitled to a 50% tax exemption for the next three years.

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.

As a new and high technology enterprise, the Company had applied to the Shenzhen Administration of Taxation in 2004 for a 50% exemption from income tax and obtained the approval in 2004 for a 50% exemption from income tax for three more years until the year ending 31 December 2006. Accordingly, the Company was entitled to a 50% exemption from corporate income tax for the year ended 31 December 2004.

The branches of the Company are located in various cities within the PRC and are subject to a corporate income tax rate of 33% on their assessable profits during the year.

	2004	2003
	RMB'000	RMB'000
PRC income tax — current year's provision	3,502	3,811
Total tax charge for the year	3,502	3,811

Notes to Financial Statements

31 December 2004

10. TAX (Continued)

A reconciliation of the income tax expense applicable to profit before income tax at the statutory income tax rates to the income tax expense at the Company's effective income tax rates for the year is as follows:

	2004 RMB'000	2003 RMB'000
Profit before tax	47,006	55,400
Tax at the applicable tax rate	3,525	4,155
Unrecognised tax losses of the branches	338	412
Inventory provision not allowable for income tax purposes	226	77
Provision for doubtful debts not allowable for income tax purposes	113	—
Government subsidies	(818)	(883)
Others	118	50
Income tax charge at the Company's effective tax rate	3,502	3,811
The Company's effective tax rate	7.5%	6.9%

There was no significant unprovided deferred tax in respect of the year (2003: Nil).

11. DIVIDEND

	2004 RMB'000	2003 RMB'000
Proposed final — RMB0.025 (2003: RMB0.030) per ordinary share	11,678	14,013

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of RMB43,504,000 (2003: RMB51,589,000) and the 467,100,000 (2003: weighted average of 377,500,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the two years ended 31 December 2003 and 2004 have not been disclosed as no diluting events existed during these years.

13. FIXED ASSETS

	Land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	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
Reclassification	—	(2,000)	—	2,000	—	—	—
Additions	—	73	33	1,590	—	1,663	3,359
Disposals	—	—	(5)	(1,007)	—	—	(1,012)
At 31 December 2004	12,023	1,877	13,897	14,692	956	1,663	45,108
Accumulated depreciation:							
At 1 January 2004	527	1,508	3,413	4,454	346	—	10,248
Reclassification	—	(400)	—	400	—	—	—
Provided during the year	385	505	1,247	2,358	163	—	4,658
Disposals	—	—	(2)	(450)	—	—	(452)
At 31 December 2004	912	1,613	4,658	6,762	509	—	14,454
Net book value:							
At 31 December 2004	11,111	264	9,239	7,930	447	1,663	30,654
At 31 December 2003	11,496	2,296	10,456	7,655	610	—	32,513

The Company's land and buildings are situated in the PRC. The land is held under a medium term lease, which has a term of 50 years commencing from 27 November 2003.

14. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials	8,648	8,822
Work in progress	1,649	1,594
Finished goods	18,050	24,822
	28,347	35,238

As at 31 December 2004, no inventories were stated at net realisable value (2003: Nil).

15. TRADE RECEIVABLES

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.

Notes to Financial Statements

31 December 2004

15. TRADE RECEIVABLES (Continued)

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

	2004 RMB'000	2003 RMB'000
0 to 90 days	23,035	12,047
91 to 180 days	4,317	1,171
181 to 365 days	108	721
Over 1 year	1,519	234
	28,979	14,173
Provision for doubtful debts	(2,090)	(584)
	26,889	13,589

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2004 RMB'000	2003 RMB'000
Prepayments	144	308
Deposits and other receivables	2,291	1,487
	2,435	1,795

17. CASH AND CASH EQUIVALENTS

	2004 RMB'000	2003 RMB'000
Cash and bank balances	66,062	83,782
Time deposits	140,000	115,000
	206,062	198,782

18. TRADE PAYABLES

An aged analysis of trade payables, based on the invoice date, is as follows:

	2004 RMB'000	2003 RMB'000
0 to 90 days	16,336	10,767
91 to 180 days	538	798
181 to 365 days	57	32
Over 1 year	902	1,044
	17,833	12,641

19. OTHER PAYABLES AND ACCRUALS

	2004 RMB'000	2003 RMB'000
Other payables	13,650	11,329
Accruals	1,670	2,459
	15,320	13,788

20. BANK AND OTHER LOANS

	2004 RMB'000	2003 RMB'000
Bank loans	—	30,000
Other loan	2,000	—
	2,000	30,000

(a) Bank loans as at 31 December 2003 bore interest at a fixed rate of 5.31% per annum and were guaranteed by Shenzhen Yanxiang Wanke Industrial Co., Ltd., a shareholder of the Company and was repaid during the year.

(b) Other loan represents a loan from the Shenzhen Municipal Government which is unsecured, interest-free and is repayable in July 2005.

21. SHARE CAPITAL

	2004 RMB'000	2003 RMB'000
Authorised, issued and fully paid: 467,100,000 (2003: 467,100,000) ordinary shares of RMB0.10 each	46,710	46,710

During the year ended 31 December 2003, the movements in share capital were as follows:

(a) Pursuant to a written resolution of the shareholders of the Company passed on 23 September 2003, the authorised 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 RMB0.10 each.

(b) On 8 October 2003, 116,800,000 ordinary shares of RMB0.10 each were issued to the public by way of a placement at HK\$0.90 (equivalent to approximately RMB0.959) each for a total cash consideration, before the related issue expenses, of HK\$105,120,000 (equivalent to approximately RMB112,011,000).

21. SHARE CAPITAL (Continued)

A summary of the transactions during the year ended 31 December 2003 with reference to the above movements in the Company's issued share capital is as follows:

	Number of shares in issue	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2003	350,300,000	35,030	—	35,030
Shares issued on the placing (b)	116,800,000	11,680	100,331	112,011
Share issue expenses	—	—	(15,141)	(15,141)
At 31 December 2003	467,100,000	46,710	85,190	131,900

22. RESERVES

	Share premium account RMB'000	Statutory funds* RMB'000	Retained earnings RMB'000	Total RMB'000
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)	—
Proposed final 2003 dividend	—	—	(14,013)	(14,013)
At 31 December 2003 and 1 January 2004	85,190	18,874	63,957	168,021
Net profit for the year	—	—	43,504	43,504
Transfer from/(to) reserves	—	6,526	(6,526)	—
Proposed final 2004 dividend	—	—	(11,678)	(11,678)
At 31 December 2004	85,190	25,400	89,257	199,847

* The Company is required by the laws and regulations of the PRC and its articles of association to provide for certain statutory funds, namely, the statutory surplus reserve fund and the statutory public welfare fund (collectively referred to as the "statutory funds").

Statutory surplus reserve fund

The Company is required to appropriate, at the discretion of its board of directors, at least 10% of its profit after tax, to the statutory surplus reserve fund until such reserve reaches 50% of the Company's issued share capital. Any further appropriation is optional. The statutory surplus reserve fund may be utilised to offset prior years' losses or may be capitalised into share capital, provided that the remaining balance is not less than 25% of the issued share capital after such capitalisation.

22. RESERVES (Continued)**Statutory public welfare fund**

The Company is required to appropriate, at the discretion of its board of directors, at least 5% to 10% of its profit after tax to the statutory public welfare fund. The statutory public welfare fund may only be used for the collective welfare of the employees.

In accordance with the rules and regulations of the PRC, for the purpose of transfers to the statutory reserves, the Company's profit after tax is determined based on the lower of the amounts reported in accordance with the PRC accounting standards and the PRC rules and regulations, and those reported in accordance with accounting principles generally accepted in Hong Kong.

23. CONTINGENT LIABILITIES

	2004 RMB'000	2003 RMB'000
Endorsed bills	2,246	1,716

24. OPERATING LEASE ARRANGEMENTS

The Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

As at the balance sheet date, the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2004 RMB'000	2003 RMB'000
Within one year	3,471	4,727
In the second to fifth years, inclusive	3,719	2,972
	7,190	7,699

25. COMMITMENTS

In addition to the operating lease commitments detailed in note 24 above, the Company had the following capital commitments at the balance sheet date:

	2004 RMB'000	2003 RMB'000
Contracted, but not provided for:		
Buildings	5,146	—

26. RELATED PARTY TRANSACTIONS

The office premises currently used by the Company, which are located at the 7th Floor, No. 5.8 Tianji Building, Tianan Cyber Park, Chegongmiao, Shenzhen, the PRC, with an area of 575 square metres, are provided by the Chairman, Mr. Chen Zhi Lie, at zero charge.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2005.