



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)



Third Quarterly Report 2005

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

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

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

Financial Highlights

The turnover of the Company for the nine months ended 30 September 2005 was approximately RMB161 million (2004: RMB168 million), representing a slight decrease of approximately 4% as compared to the same period of last year.

The net profit attributable to shareholders for the nine months ended 30 September 2005 amounted to approximately RMB30.2 million (2004: RMB33.6 million), representing a decline of approximately 10% as compared to the same period of last year.

Earnings per share of the Company were approximately RMB0.065 (2004: RMB0.072) for the nine months ended 30 September 2005.

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2005 (2004: Nil).

UNAUDITED RESULTS

The board of directors (the “Directors”) of Shenzhen EVOC Intelligent Technology Company Limited (the “Company”) is pleased to present the unaudited results of the Company, for the nine months and three months ended 30 September 2005, together with the comparative unaudited results of the Company for the corresponding period in 2004, as follows:

PROFIT AND LOSS ACCOUNT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Turnover	3	60,513	70,031	161,351	167,927
Cost of sales		(35,306)	(42,537)	(98,269)	(101,349)
Gross profit		25,207	27,494	63,082	66,578
Other revenue		1,521	2,470	5,812	8,004
Selling and distribution costs		(5,140)	(6,807)	(15,892)	(17,941)
Administrative expenses		(2,160)	(2,066)	(7,251)	(5,470)
Other operating expenses		(4,648)	(8,742)	(12,676)	(14,227)
Profit from operating activities		14,780	12,349	33,075	36,944
Finance costs		(66)	(32)	(193)	(587)
Profit before tax		14,714	12,317	32,882	36,357
Tax	4	(1,235)	(860)	(2,652)	(2,732)
Profit attributable to shareholders		13,479	11,457	30,230	33,625
Dividend	5	—	—	—	—
Earnings per share — Basic	6	RMB0.029	RMB0.025	RMB0.065	RMB0.072

Notes:

1. Corporate information

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

2. Basis of preparation

The unaudited quarterly results of the Company has 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 and the GEM Listing Rules. They have been prepared under the historical cost convention.

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 unaudited results for the period ended 30 September 2005.

3. Turnover

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

4. 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 for three more years until the year ending 31 December 2006.

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 period.

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

5. Dividends

The Directors do not recommend the payment of dividend for the nine months ended 30 September 2005 (2004: Nil).

6. Earnings per share

The calculation of basic earnings per share for the nine months ended 30 September 2005 is based on the unaudited profit attributable to shareholders of approximately RMB30,230,000 (2004: RMB33,625,000) and the 467,100,000 (2004: 467,100,000) ordinary shares in issue during the period.

Diluted earnings per share amount for the nine months ended 30 September 2004 and 2005 have not been disclosed as no diluting events existed during these period.

7. Share Capital

	30 September 2005 RMB'000	30 September 2004 RMB'000
Authorized, issued and fully paid: 467,100,000 (2004: 467,100,000) ordinary shares of RMB0.10 each	46,710	46,710

8. Reserves

	Share premium account RMB'000	Statutory funds RMB'000	Retained earnings RMB'000	Total RMB'000
At 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
Net profit for the period	—	—	30,230	30,230
At 30 September 2005	85,190	25,400	119,487	230,077

MANAGEMENT DISCUSSION AND ANALYSIS**Financial Review**

For the nine months ended 30 September 2005, the Company reported an unaudited turnover of RMB161,351,000 (2004: RMB167,927,000), representing a slight decrease of 4% as compared with the same period of last year. During the period, the turnover of chassis-type EIP products increase by 11.1% while the turnover of board-type EIP products and remote data modules decrease by 12.6% and 9.7% respectively. The decrease in turnover resulted from the change in product mix in cope with the market needs.

For the nine months ended 30 September 2005, the Company recorded an unaudited net profit of RMB30,230,000 (2004: RMB33,625,000), represented a decline of 10% as compared with the same period of last year. The gross profit margin was 39% as compared to 40% of the same period of last year. The gross profit margin was relatively stable when comparing with last year. The decrease of net profit was mainly due to the decrease in the turnover of board-type EIP products which generate a higher profit margin generally.

Liquidity, Financial Resources and Gearing ratio

As at 30 September 2005, the Company had shareholders' funds/net assets of approximately RMB277 million. It mainly comprised bank balances which amounted to approximately RMB198 million, inventories of approximately RMB37 million and trade and bills receivables amounted to approximately RMB37 million. The Company did not have any long-term liabilities. Current liabilities of the Company mainly comprised bills payable and trade and other payables of approximately RMB51 million. Net assets value per share of the Company is approximately RMB0.59.

As at 30 September 2005, the gearing ratio of the Company is about 15.6% (2004: 12.9%). It is defined as the Company's total liabilities over the total assets.

Business Review

During the period under review, the Company had continued focusing on research and development of (i) second generation of EIP products; (ii) existing EIP products for specific industry applications and (iii) large scale IC products for use in EIP setting and continued to engage in the research, development, manufacture and distribution of EIP products in the PRC. The Company offers over 230 EIP products, which can be broadly classified by distinctive function and features into three categories, namely, chassis-type EIP products, board-type EIP products and remote data modules. EIP products manufactured and distributed by the Company are widely applied in areas of telecommunication, industrial, military, video frequency control, transportation, Internet, commerce and finance, etc.

The Company has obtained a wide exposure among customers and specialists within EIP industry during the period. In September 2005, the Company has received the award of "Contribution in IT industry of China during the past 20 years" (中國信息產業20年中國貢獻獎) and "China's 100 biggest enterprise in information technology of 2005" (2005年度中國信息化百強企業) from "2005 IT Improvement Meeting" (2005信息化推進大會). The Company demonstrates its achievement in advance EIP technology, best application models and the contribution in the modernization of EIP industry in China.

Product Categories

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

	Turnover			
	Nine months ended 30 September			
	2005 (unaudited)		2004 (unaudited)	
	RMB'000	%	RMB'000	%
Board-type EIP	88,687	55.0	101,508	60.4%
Chassis-type EIP	67,655	41.9	60,874	36.3%
Remote data modules	5,009	3.1	5,545	3.3%
	161,351	100	167,927	100

Sales and Marketing

During the period under review, the Company continues to fine-tune its marketing strategy according to its strategic planning. The Company will boost its overall competitiveness in market positioning, corporate and brand image, sales network, customer services, research and development, production, quality control and operational efficiency. The Company believes those strategy will provide a solid foundation for the long-term development and maintain its dominant position in a highly competitive environment.

In line with the sales and marketing activities started in the past, the Company has launched a series of large scale marketing promotion and advertising campaign including "EIP Technology Exchange Fair 2005" (二零零五年 EIP 技術交流會), "First Non-classical Management Forum in China" (中國首屆非經典管理高峰論壇) and "EIP Technology training courses" (EIP 技術培訓班). The "Non-classical Management Forum" was already completed and the aim to bring a new non-classical management idea to local enterprise and stimulate their reform in management and innovation was widely recognized by the participants.

The Company will continue to participate in major exhibitions, organize seminars and forums, conduct advertising through local mass media and internet to promote its products.

PROSPECTS

With the rapid development in the information technology industry in China, the application of products with EIP technology was expanded. Beside the traditional industry, EIP was widely applied in new areas such as communication, networking, finance, intelligent home electrical appliance, medical control, transportation, commerce and public utilities. EIP technology will provide a platform to consolidate networking facilities, intelligent platform and information exchange abilities among different devices and has a lot of potential for further growth.

The market of EIP products in China are on an up-trend with rapid growth in recent years especially in telecommunication and related industry. The demand for EIP products was also beneficial from the rapid economic growth in China. The Company believes that the popularity of “EVOC” products within EIP industry will bring a strong competitive advantage and the profitability and market share of the Company will growth rapidly in the future.

During the period under review, the market of EIP industry was still developing with steady growth but there are also unexpected factors which affecting the economic environment of both China and the rest of the world. The Company will continue to invest heavily in research and development and launch a series of new products with new technology inside. The Company will implement stringent control over its business activities especially in costing, inventory, accounts receivable and usage of funds. By strengthening the core business activities, the Company will endeavor to maintain sound financial and liquidity position.

The Company will work hard in brand building and promoting corporate image. The construction of “EVOC Technology Building” (研祥科技大廈) and “China Industry Control Museum” (中國工控博物館) was on schedule. All the infrastructure will lay a solid foundation to the Company by increasing its overall efficiency, strengthening research and development capabilities, improving corporate goodwill and enhancing social influence.

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

As at 30 September 2005, 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%	0.37%

Notes:

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

(b) Long position — interests in associated corporations

Director	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列)	Shenzhen Yanxiang Wangke Industry Co., Ltd.	Beneficial owner Family	70% 4.5%
Wang Rong (王蓉)	Shenzhen Yanxiang Wangke Industry Co., Ltd.	Beneficial owner Family	4.5% 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 30 September 2005, 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%
Shenzhen Haoxuntong Industry Co., Ltd.	Registered and beneficial owner of the Domestic Shares	17,515,000	Domestic Shares	5.00%	3.75%
AIG Global Investment Corporation (Asia) Ltd	Investment manager	13,948,000	H Shares	11.94%	2.99%
Commerzbank Asset Management Asia Ltd.	Investment manager	10,500,000	H Shares	8.98%	2.25%

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

Save as disclosed above:

- (i) None of the directors, supervisors or chief executives has any interest or short position in the shares, underlying shares or debentures of the Company or any associated corporation (if any) (within the meaning of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; (including interest which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required pursuant to rules 5.46 of the GEM Listing Rules relating to securities transactions by the Directors to be notified to the Company and the Stock Exchange as at 30 September 2005; and
- (ii) So far as is known to any director or supervisor, there is no person other than a Director or supervisor or chief executive who, as at 30 September 2005, have any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other substantial shareholders whose interest or short position were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

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

SHARE OPTION SCHEME

Up to 30 September 2005, the Company has not adopted any share option scheme or granted any option.

COMPETING INTERESTS

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

SPONSORS' INTERESTS

As at 30 September 2005, neither Oriental Patron Asia Limited ("Oriental Patron") nor its directors, employees or associates (as referred to in Note 3 of Rule 6.35 of the GEM Listing Rules) had any interest in the securities of the Company or right to subscribe for or to nominate persons to subscribe for securities of the Company.

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CONNECTED TRANSACTIONS

There were no other transactions which need to be disclosed as connected transactions in accordance with the requirements of the GEM Listing Rules.

COMMITMENTS

As at 30 September 2005, the Company had a contracted but not provided for commitments amounting to approximately RMB49,187,000 (31 December 2004: RMB5,146,000) in respect of construction of EVOC Technology Building.

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the nine months ended 30 September 2005, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the directors, the directors of the Company had complied with the required standard of dealings and the code of conduct for directors' securities transactions during the nine months ended 30 September 2005.

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 audit, and (ii) to review and provide supervision over the financial reporting process, the effectiveness of the external audit and of internal controls and risk evaluation. The Company's unaudited third quarter results for the nine months ended 30 September 2005 has been reviewed by the audit committee. The committee was of the opinion that such results complied with the applicable accounting standard and legal requirements and adequate disclosures have been made. 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.

By order of the Board

Shenzhen EVOC Intelligent Technology Company Limited*

Chen Zhi Lie

Chairman

Shenzhen, PRC, 10 November 2005

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

* *For identification only*