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)

Stock Code: 8285

EVOC Technology Building

2005

Annual Report

* for identification purpose only

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

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This report, for which the directors of Shenzhen EVOC Intelligent Technology Company Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the 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.

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Corporate Information

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 *(Chairperson)*
Wen Bing
Wang Tian Xiang

MEMBERS OF THE REMUNERATION AND REVIEW COMMITTEE

Wen Bing *(Chairman)*
Zhou Hong
Zhu Jun

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
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18/F
Two International Finance Centre
8 Finance Street
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
21E Shenzhen Te Qu Bao Ye Building
6008 Shennan Road
Shenzhen 518034
PRC

COMPANY HOMEPAGE/WEBSITE

http://www.evoc.com

GEM STOCK CODE

8285

Corporate Background

Shenzhen EVOC Intelligent Technology Company Limited 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 and its subsidiary (the "Group") are principally engaged in the research, development, manufacture and distribution of embedded intelligent platform ("EIP") products. As at 31 December 2005, the registered capital of the company amounted to approximately RMB46.7 million with the Group's total assets to approximately RMB344 million.

The Group 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 Group are widely applied in, among other, telecommunication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance industries. The Group offers over 280 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 Group has established an extensive distribution network through its 5 branches, 6 offices, 10 representative offices and about 14 sales agents spread out across 27 provinces and autonomous regions in the PRC. The Group currently has an active customer base consisting of over 3,200 customers located in the PRC. Customers of the Group include authorized distribution agents, system integrators, construction and building surveillance agents, software developers and IT manufacturers in the PRC.


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Ceremony


英特尔-研祥智能嵌入式应用解决方案
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Chairman's Statement

To Our Shareholders,

On behalf of the board of directors, I am pleased to present the annual report of Shenzhen EVOC Intelligent Technology Company Limited ("EVOC" or the "Company") together with its subsidiary (the "Group") for the year of 2005 to our shareholders. In 2005, both profit margin and net profit of the Group recorded an increase compared with those in 2004 as we timely adjusted our marketing strategy and products structure. With the gradual enhancement of our research and development capacity and our improving marketing network, the Group is strengthening its dominant position in the highly competitive domestic EIP market.

FINANCIAL PERFORMANCE

In the year of 2005, the revenue of the Group amounted to approximately RMB233.4 million, a slight decrease as compared with last year, while profit margin increased to 39% and profit before tax increased to approximately RMB48.5 million respectively. The profit attributable to equity holders of the parent was approximately RMB45.1 million, and basic earnings per share was approximately RMB0.097.

BUSINESS REVIEW

The Group continued to engage in the research, development, manufacture and distribution of EIP products in the PRC. The Group has worked unswervingly to upgrade and transform Chinese traditional industries, enabling them to benefit from the rapid developments of information technology. With regard to industry distribution, the Group has further expanded into the emerging industries while strengthening its position in the mature markets.

As the sole member of ICA ("the Intel Communication Alliance") among the domestic manufacturers of EIP in the PRC and in addition to the performance of its obligation under the RSNDA entered into with INTEL, the Company entered into a partnership and technology license agreement with Performance Technologies in 2005, pursuant to which a comprehensive cooperation in such areas as production, technology and marketing between both parties was established. In addition, in order to strengthen our strategic cooperation, the Company also entered into a memorandum of understanding with INTEL, whereby the Company and INTEL will cooperate to develop embedded solutions (boards and systems) incorporating INTEL's platform technologies and to promote INTEL platform solutions as incorporated in EVOC embedded products and solutions in the targeted market segments in the PRC and Asia. This wider and closer cooperation with upstream chip manufacturers will definitely enhance the quality of the Group's products and its core competence.

1. **Research & Development**

   In 2005, the Group continued to increase its investment in research and development, especially in new products for new application of EIP, so as to enhance its competitive edge in the market and its sustainable development capability. Investment in R&D in 2005 increased by approximately RMB1.7 million representing an increase of 7.9%.

   The accreditations obtained in 2005 include:

   (1) Shenzhen Municipal Science & Technology Progress Second Prize (Embedded COMPACTPCI Platform).

   (2) Development Fund for Electronic and Information Industry (Awarded by Ministry of Information Industry).

   (3) Shenzhen Municipal Important Industrial and Commercial Development Projects (Awarded by Shenzhen Bureau of Trade and Industry).

2. **Products & Services**

   The Group offers over 280 EIP product types under three major categories and a number of industry-specific solutions. The EIP products manufactured and distributed by the Group are widely used in those traditional industries transformed through digitalization and informatization, and in those new industries emerging from the development of global informatization. In 2005, the Group increased its investment for the expansion into markets of specialized industries and made a significant achievement.

   In 2005, the Group's achievements in the EIP industry won the praise from the customers and specialists in the industry. Awards and accreditations obtained include:

   (1) "The Remarkable Growth Award" of IPOWER500 (awarded by CECA National Information Evaluation Center).

   (2) "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) (awarded by China Information World).

   (3) Named in the "100 largest enterprises in China in the development of Informatization" (信息化影響中國 • 企業競爭力百強) (by China Electronic Informatization Progress Union and China Computer's User Association).

   (4) Named in the "China's top 50 manufacturing enterprises of communication products with comprehensive strength in communication industry in 2004"(2004中國通信業通信製造企業綜合實力50強).

   (5) Named in "Shenzhen's 100 biggest software enterprises of 2004" (by Shenzhen Software Industry Association).

Chairman's Statement

(6) Recognized as "China's 100 enterprises with substantial growth in safety and security industry" (中國安防百家最具成長性企業) (by China Public Security Publisher and China Public Security Website).

(7) Obtained ISO14001 certificate in Environmental Management Systems.

(8) Named as "An Enterprise for the Provision of Direct Services" by Shenzhen Municipal Government (by Shenzhen Municipal Government).

(9) "One of Leading Brandnames in Shenzhen" for the "EVOC" trademark (awarded by Shenzhen Famous Brandnames Committee).

(10) "Certificate for China Compulsory Products Certification" for its industrial computer (中國國家強制性產品認證證書) (awarded by China Quality Certification Center).

3. Marketing and branding

In 2005, the Group set up new representative offices in Harbin and Dalian, and at the same time, the Group fine-tuned its marketing strategy according to its established strategic plan and concentrated on its valuable customers in specific industries and net profit. The year 2005 was named as the "Year of Valuable Customers" and the "Year of Net Profit". The Group upgraded its overall competitiveness in terms of market shares, brand image, sales network, customer services, research and development, production, trial run, quality control, corporate image and operational efficiency. The Group believes those strategies will lay down a solid foundation for its 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 Group has launched a series of large marketing promotion and advertising campaigns 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 concluded. The unique aim of the Forum and the method of management which promoted attracted the participation of many domestic management academies and experts. The new idea of non-classical management was also widely recognized by many enterprises' managers.

On 29th December 2005, the construction of EVOC Technology Building (研祥科技大廈) invested by the Group topped out successfully. The timely completion of EVOC Technology Building will significantly promote the Group's brandname and its image.

OUTLOOK AND PROSPECTS

With rapid development of global IT industry, network, artificial intelligence and information technology has become part of daily life, and embedded systems are more extensively used in IT industry in various ways.

The Group believes that embedded systems evolve from the rapid development of computer and information technology. It is flexibly used in various industries with customer-made functions, flexible size and multi-task processing, and has vast market potential and room for development. The Group will take advantage of its competitive edge in the areas of research and development, sales, brandname and services, to expand into international market for more financial returns through Hong Kong's strategic position in Asia Pacific region and the international market while expanding its market share on mainland China.

The board considers that continue enhancement of the Group's core competitiveness is significant in the future. The Group intends to identify other business opportunities through the development of upstream and downstream products in its established markets, and lay down solid foundation for its future business activities.

1. Research & Development

   With more application of EIP products, the Group will continue to make substantial investment in research and development and will launch a series of new products with new functions to meet the demand of the market. The research and development of new technologies and market-oriented products enables the Group to further assist other companies in various industries in their informatization, and gaining more market shares and benefiting form favourable government policies.

2. Market and Sales

   The Group will stick to its marketing strategy and sales model which are based on direct sales and supplemented by sales agents. In the future, the Group will provide necessary training and support for sales agents in order to increase their sales volume. The Group will also designate responsible staff members and set up specific departments for the follow-up and analysis of the customers, market and products, especially for those key projects.

3. Brandname and image

   The Group will also increase efforts in brand building and corporate image. In 2006, the Group will participate mainly in typical exhibitions of such fields as electricity power, finance and transportation, and seek breakthrough in major areas. Meanwhile, necessary product promotions, exhibitions and seminars will be arranged in the markets that either are new or have potential. The board believes that the popularity of ''EVOC" products in EIP industry will bring strong competitive advantage to the Group and its profitability and its market shares will grow rapidly in the future.

   In 2006, the construction of "EVOC Technology Building" and "China Industrial Control Museum" (中國工控博物館) will be completed as scheduled. "EVOC Technology Building" will be another milestone of the Group. Upon the completion of its construction, "EVOC Technology Building" will benefit the Group by increasing its overall efficiency, strengthening its research and development capabilities in EIP products, and increasing its corporate image and asset base. The establishment of "China Industries Control Museum" will also benefit the Group by increasing the popularity of EVOC products, social influence and the overall corporate image.

4. **Management**

   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 Group will adjust and rationalize its management structure, strengthen its internal management systems and improve its operational efficiency in accordance with its strategies for development and the actual circumstances. The Group will also strengthen its financial management, implement stringent control over its cost, inventory, credit control and usage of funds to enable the Group to maintain sound financial and liquidity position.

APPRECIATION

On behalf of the board, I would like to offer our sincere thanks to all our board members, management staff, employees, customers and shareholders for their consistent support, their contribution and efforts to the Group, and to the persons from various sectors who constantly support the Group. Looking into the future, the directors and our senior officers will assume more duties and regional expansion mission respectively. We will continue to devote every effort for the growth of the Group to create desirable financial results and bring better returns to our shareholders.

Chen Zhi Lie
Chairman

Shenzhen, the PRC, 21 March 2006

Management Discussion and Analysis

FINANCIAL REVIEW

For the year under review, the group recorded total revenues of approximately RMB233.4 million, representing a slight decrease of approximately 0.3% over that of the previous year. Profit attributable to equity holders of the parent for the year was RMB45.1 million, representing an increase of approximately 4% over that of the previous year, while basic earnings per share were RMB0.097.

TURNOVER BY PRODUCT CATEGORY

Sales of Products	**2005 RMB'000**	2004 RMB'000	Change Percentage
Board-type EIPs	**117,739**	119,619	-1.6%
Chassis-type EIPs	**108,898**	107,209	+1.6%
Remote data modules	**6,808**	7,233	-5.9%
Total	**233,445**	234,061	-0.3%

The turnover of chassis-type EIPs products remained strong while the turnover of board-type EIPs products and remote data modules was stable.

TURNOVER BY GEOGRAPHICAL LOCATION

Regions in China	**2005 RMB'000**	2004 RMB'000	Change Percentage
North and Northeast China	**68,578**	67,323	+1.9%
East China	**43,031**	35,492	+21.2%
South China	**99,739**	110,795	-10.0%
Southwest China	**12,535**	11,802	+6.2%
Northwest China	**9,562**	8,649	+10.6%
Total	**233,445**	234,061	-0.3%

PROFIT MARGIN

The profit margin for the year was approximately 39%, representing an approximate 1% increase as compared to the previous year. The increase in profit margin was mainly due to the timely adjustment in our marketing strategy and product structure. The Group has maintained a good relationship with our valuable customers and has strong bargaining power with our existing and new customers.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2005, the Group had shareholders' funds/net assets of approximately RMB292 million. It mainly comprised bank balances which amounted to approximately RMB201 million, inventories of approximately RMB35 million and trade and bills receivables amounted to approximately RMB36 million. The Group did not have any long-term liabilities. Current liabilities of the Group mainly comprised bills payable and trade and other payables of approximately RMB52 million. Net assets value per share of the Group is approximately RMB0.62.

As at 31 December 2005, the gearing ratio of the Group is about 15% (2004: 13%). It is defined as the Group's total liabilities over the total assets.

EXCHANGE RATE EXPOSURE

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

CHARGES ON ASSETS

During the year under review, no assets of the Group were pledged (2004: Nil).

CAPITAL STRUCTURE

During the year ended 31 December 2005, there is no change in the Company's share capital. 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 Group has not held any significant investment for the year ended 31 December 2005 except for the construction of EVOC Technology Building.

HUMAN RESOURCES

A breakdown of the number of Group employees by function as at 31 December 2004 and 2005 is set out below:

By function	2005	2004
Sales and marketing	300	303
Purchasing	19	17
R&D	87	84
Management	15	15
Accounting and Finance	37	35
Quality control	70	71
Production	283	295
Human resources and administration	17	16
Infrastructure	7	—
Total (Staff)	835	836

The Group 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 Group also provides different training programs to its senior management to ensure the highest management skills and techniques.

The Group remunerates its employees based on performance, experience and prevailing industry practices. The Group 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 Group had no material acquisitions or disposals of subsidiaries and affiliated companies during the year ended 31 December 2005.

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 2005:

Business Objectives	Actual Business Progress during the Period
1. Research and Development	
— New Technologies	
• Complete development on second generation of EIP products	• New generation of PCI-Express products were launched.
• Continue to refine existing EIP products for specific industry applications	• Different types of EIP products for specific industry applications were entered into the market, mainly applied in finance, communication, medical and data control.
• Continue R&D on large scale IC products for use in EIP setting	• Complete functional definitions in large scale IC products for use in EIP setting.
— Expansion of R&D department	
• Renew R&D facilities for design and functions analysis	• Purchase of advance logic analyzer (高檔邏輯分析儀) and oscilloscope (示波器)
• Recruitment of 5 staff	• Recruited 10 staffs, continued to recruit suitable staff.
— Acquiring new machineries	
• Enhancement of surface mount technology production facilities	• New SMT facilities were purchased.
2. Launch and promotion of new products	
— New products	
• Continue to promote cableless EIP platform	• New types of cableless EIP platform were launched.
• Continue to promote RISC solution EIP products with inbuilt ERCOS platform	• Different types of RISC solution EIP products with inbuilt ERCOS platform were launched.

Comparison of Business Objectives with Actual Business Progress

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 technologies advancement for various industries such as automation, tele-communication, finance, electricity and transportation	• Participated in several exhibitions in relation to traditional industries and technological advancement markets. Arrange product promotion campaigns, seminars and professional exhibitions in specific business sectors with great potential. Major exhibitions participated during the year were: 1. First Chinese International Coal Mining Safety and Usage Fair (第一屆中國國際煤礦瓦斯防治與利用大會) 2. Fifth Chinese EIP System Technology Exchange and Exhibition Fair (第五屆全國嵌入式系統學術交流會暨展示會) 3. Third South China International Industry Automation and Meter Fair (第三屆華南國際工業控制自動化及儀器儀錶展)
• Evaluate sales strategy conducted by authorised distribution agents	• Maintain sales strategy conducted by authorized distribution agents. Organize training and support to enhance sales ability of authorized distribution agents. During the year, Third Chinese EIP Technology Forum (第三屆中國嵌入式技術高峰論壇) was held 9 times across different regions in the PRC and EIP Technology Exchange Fair and Seminar (EIP 技術研討、交流會) was held 12 times with the participation of research institute and target customers.
• Focus marketing resources on special events and festivals	• Specific departments were set up and making analysis and follow up on special industries, markets, customers and products with emphasis on important projects.

Comparison of Business Objectives with Actual Business Progress

Business Objectives	Actual Business Progress during the Period
— Promotions and advertising	
• Conduct promotional and advertising campaigns on public facilities through professional mass media in major cities of the PRC	• Meet with customers through professional mass media in major cities of the PRC and exchange information on technology and products.
• Continue to enhance the utilization of the Company's resources on joint marketing campaigns conducted with strategic sales and marketing partners	• Marketing strategy research department was established and conducting research in specific industries and continue to co-operate with major customers and suppliers to organize joint marketing campaigns and promotion to promote our products and technologies to customers. During the year, the Company signed a partnership and technology license agreement with Performance Technologies and a Memorandum of Understanding with INTEL.
• Post advertisements on local and international IT related publications and advertise through suitable organizations on the internet	• Continue to place advertisements in local IT related publications and advertise through suitable organizations on the internet which prove to be successful in the past to promote our products and brand-name.
• Post outdoor advertisements in major cities of the PRC	• Post outdoor advertisements in major cities in PRC such as Beijing, Shanghai and Shenzhen.
4. Business development	
— Sales channels and distribution network	
• Expand the existing distribution network by engaging new authorised distribution agents	• The existing distribution network and the number of authorized distribution agents remain stable and suitable trainings were held to enhance the sales and marketing techniques for the existing agents. New representative offices in Harbin and Dalian was set up.

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. On 26 April 2005, the Company announced that due to the need for the expansion of the R&D department and the construction of EVOC Technology Building, the Board has approved the change of application of proceeds from the Placing. Details of utilization of fundings from the actual net proceeds, change of application of proceeds at 25 April 2005 and the proposed applications set out on page 88 of the Prospectus during the period from 10 October 2003 to 31 December 2005 (the "Period") are as follows:

	Proposed fundings required during the Period HK$'000	Actual fundings spent during the Period HK$'000	Change of application of proceeds from Placing at 25 April 2005 HK$'000	Proceeds remaining unutilized as at 31 December 2005 HK$'000
For the expansion of the R&D department (Note i)	18,000	23,000	23,000	0
For capital expenditure to acquire machinery for new EIP and ERCOS technology related products (Note i)	27,000	9,000	9,000	0
For building sales channels and distribution network (Note i)	18,000	1,000	1,000	0
For brand building and marketing activities (Note ii)	23,000	13,000	13,000	0
For establishment of EVOC Central Research Institute inside EVOC Technology Building (Note iii)	—	36,828	40,000	3,172
Total:	86,000	82,828	86,000	3,172

Notes:

(i) Due to the change of application of proceeds from the placing approved by the Board on 25 April 2005, the actual fundings spent for the period was fully used.

(ii) The Group actively participated in trade fairs and organize training course and seminars in order to enhance the sales and marketing techniques and services to customers and two new representative office in Harbin and Dalian has set up. The Group also promotes its brandname and products through advertisement and sponsoring activities.

(iii) The construction work of EVOC Technology Building was on schedule. The actual fundings spent was in accordance with the original plan and the remaining funds will be used according to the construction schedule.

Directors, Supervisors and Senior Manangement's Profile

EXECUTIVE DIRECTORS

Chen Zhi Lie (陳志列) , aged 42, 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" by Quality Association of Shenzhen and as "Excellent Small Medium Enterprise of Shenzhen" by Association for Small Medium Enterprises of Shenzhen in 2004. In 2005, Mr. Chen is elected as a Member of the Executive Committee of the Fourth Chinese People's Political Consultative Conference of Shenzhen (深圳市第四屆政協常委).

Tso Cheng Shun (曹成生), aged 77, 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 44, an executive director, a member of remuneration and review committee, 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). In 2003, Mr. Zhu was awarded Shenzhen Province Technological Progress First Class Prize.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wen Bing (聞冰), aged 44, an independent non-executive director, a member of audit committee and chairman of remuneration and review committee. 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 20 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 manger 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 40, an independent non-executive director, chairperson of audit committee and a member of remuneration and review committee. 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 46, 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 37, an independent non-executive director and a member of audit committee. 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 16 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 worked in the financial department of China Gas Holding Limited (中國燃氣控股有限公司). Mr. Wang was appointed as an independent non-executive Director in September 2004.

SUPERVISORS

Wang Bichun (王必春), aged 42, 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 9 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 33, 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 40, 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 16 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 37, is the qualified accountant and company secretary of the Company. He is a fellow of both The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He has over 14 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 of Hong Kong Limited.

Directors, Supervisors and Senior Manangement's Profile

SENIOR MANAGEMENT

Sun Wei (孫偉), aged 43, is the general manager and 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.

Liang Xu (梁煦), aged 48, the chief economist 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 15 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.

Wang Zhen Zun (王振俊), aged 41, 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 11 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 35, 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 12 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 39, 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 is in charge of the quality control and production functions of the Company. He has over 12 years of experience in the quality control of electronic products. He joined the Company in July 1999.

Report of the Directors

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activities of the Company comprise the research, development, manufacture and distribution of EIP products. Details of the principal activities of the subsidiary are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 67.

The Directors do not recommend the payment of final dividend for the year.

CONVERSION OF SHARE PREMIUM INTO SHARE CAPITAL

The Directors proposed to convert part of the share premium in the amount of RMB56,052,000 in the reserves of the Company into 560,520,000 ordinary shares of RMB0.10 each in the share capital of the Company and to issue these new shares to its shareholders on the basis of 12 new shares for every 10 existing ordinary shares. The above proposal is subject to the approval of the shareholders at the forthcoming annual general meeting.

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.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

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

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 26 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2005, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to RMB127.8 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 18% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 6% of the Group's revenue for the year. 51% of the Group's total purchases were attributable to the Group's five largest suppliers and purchases from the Group's largest supplier accounted for 32% of the Group'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 Group'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
Zhou Hong
Dong Lixin
Wang Tian Xiang

Supervisors
Wang Bichun
Zhou Cheng Yan
Pu Jing

According to article 10.02 of the Company's articles of association, the term of the directors and supervisors are appointed for a period of 3 years, except Wang Tian Xiang, an independent non-executive director, who has a term of 2 years commencing from 30 September 2004.

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

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

Each of the director of the Company has entered into a service contract 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 a term of 2 years commencing from 30 September 2004.

Apart from the foregoing, no director of the Company has a 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 Group's business to which the Company, its holding company was a party and in which a director or controlling shareholder of the Company has 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 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	70%
		Family	4.5%
Wang Rong (王蓉)	Shenzhen Yanxiang Wangke Industry Co., Ltd.	Beneficial owner	4.5%
		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 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 31 December 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 31 December 2005, 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 2005, 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 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 dealing and the code of conduct for directors' securities transactions during the year ended 31 December 2005.

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 Group or any other conflicts of interest which any such person may have with the Group.

SPONSORS' INTERESTS

As at 31 December 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 year.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transaction for the year are set out in note 30 to the financial statements. Save as disclosed therein, there were no other transactions which need to be disclosed as connected and related party transactions in accordance with the requirements of the GEM Listing Rules.

COMMITMENTS

As at 31 December 2005, the Group had a contracted but not provided for commitments amounting to approximately RMB61,486,000 (2004: RMB5,146,000) in respect of construction of EVOC Technology Building.

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 include:

(1) to provide an important link between the Board and the auditors in matters coming within the scope of the audit; and

(2) to review and provide supervision over the financial reporting process, the effectiveness of the external audit and of internal control and risk evaluation.

The audit committee comprises Ms. Zhou Hong (Chairperson), Mr. Wen Bing and Mr. Wang Tian Xiang, who are the independent non-executive directors of the Company.

Report of the Directors

The Company's unaudited quarterly and interim results and the group's audited results for the year ended 31 December 2005 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, 21 March 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

With effect from 1 January 2005, the Company has complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules except for certain deviation.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has complied with the required standard of dealings as 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 2005.

BOARD OF DIRECTORS

The board of the directors of the Company during the year were:

Executive directors	:	Chen Zhi Lie *(Chairman)* Tso Cheng Shun Zhu Jun
Independent non-executive directors	:	Wen Bing Zhou Hong Dong Lixin Wang Tian Xiang

The board of directors have no financial, business, family or other material/relevant relationships with each other.

During the year, five full board meetings were held and the attendance of each director is set out as follows:

Name of director	Attendance
Chen Zhi Lie (Chairman)	5/5
Tso Cheng Shun	5/5
Zhu Jun	5/5
Wen Bing	5/5
Zhou Hong	5/5
Dong Lixin	5/5
Wang Tian Xiang	5/5

The board is responsible to the shareholders' general meeting and its function is stated in article 10.03 of the Company's articles of association.

The board meets regularly and at least four times a year and notice of at least 14 days is given to all directors. All directors have access to the services of the company secretary and secretary of the board. Minutes of board meetings are kept by the company secretary and secretary of the board and sent to all directors for their comment and records.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Chairman and general manager of the Company are Chen Zhi Lie and Sun Wei respectively. The roles of chairman and general manager are separate and the division of responsibilities between the chairman and general manager have been clearly established and set out in writing.

REMUNERATION OF DIRECTORS

The remuneration and review committee was established in August 2005. The committee comprises Mr. Wen Bing (Chairman), Ms. Zhou Hong who are the independent non-executive directors of the Company and Mr. Zhu Jun, an executive director of the Company.

The role and function of the remuneration and review committee include:

(1) to make recommendations to the board on policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(2) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits and other specific payments, and make recommendations to the board of the remuneration of non-executive directors;

(3) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

(4) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;

(5) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct; and

(6) to ensure that no director or any of his associates is involved deciding his own remuneration.

During the year, a meeting of the remuneration and review committee was held and the attendance is set out as follows:

Name of member	Attendance
Wen Bing (Chairman)	1/1
Zhou Hong	1/1
Zhu Jun	1/1

The remuneration and review committee has considered and reviewed the existing terms of employment contracts of all directors and consider that the existing terms of employment contracts of all directors are fair and reasonable.

The terms of reference of the remuneration and review committee are posted on the Company's website.

NOMINATION OF DIRECTORS

The Company does not establish a nomination committee. All the Company's directors have a term of office for 3 years except Wang Tian Xiang, an independent non-executive director, who has a term of 2 years commencing from 30 September 2004. The Board is empowered under the articles of association to appoint any person as a director to fill a causal vacancy. There was no nomination of directors during the year.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Ernst & Young, is set out as follows:

Services rendered	**Fees paid/payable** RMB'000
Audit services	550,000

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

A statement of director responsibilities for prepare financial statements is set out in "Report of the Auditors" of this report.

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 include:

(1) to provide an important link between the Board and the auditors in matters coming within the scope of the audit; and

(2) to review and provide supervision over the financial reporting process, the effectiveness of the external audit and of internal control and risk evaluation.

The audit committee comprises Ms. Zhou Hong (Chairperson), Mr. Wen Bing and Mr. Wang Tian Xiang, who are the independent non-executive directors of the Company.

During the year, four audit committee meetings were held and the attendance is set out as follows:

Name of member	Attendance
Zhou Hong (chairperson)	4/4
Wen Bing	4/4
Wang Tian Xiang	4/4

The Company's unaudited quarterly and interim results and the group's audited results for the year ended 31 December 2005 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.

The terms of reference of the Audit Committee are posted on the Company's website.

INTERNAL CONTROL

The Company has conducted a review of its system of internal control periodically to ensure the internal control system is effective and adequate.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Company's annual general meeting was held on May 2005. The Vice Chairman as well as general manager and company secretary are presented. An annual general meeting circular is distributed to all shareholders at least 45 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. The amendments to the articles of association were approved in the 2005 annual general meeting to align with the amendments to the GEM Listing Rules came into effect on 31 March 2004.

The chairman of the board and chairperson of the audit committee did not attend in the annual general meeting as they have another business engagement. The above are deviated from the provision E.1.2 of the Code on Corporate Governance Practices. The board will make its best endeavour to comply with this Code in the forthcoming annual general meeting.

Report of the Supervisory Committee

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 2005 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 is 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 2005 and has great confidence in the future of the Company.

By order of the Supervisory Committee
Wang Bichun
Chairman

Shenzhen, the PRC, 21 March 2006

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

To the members
Shenzhen EVOC Intelligent Technology Company Limited
(Registered in the People's Republic of China with limited liability)

We have audited the financial statements on pages 35 to 67 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 Hong Kong Standards on Auditing 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group'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 and of the Group as at 31 December 2005 and of the profit and cash flows of the Group 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
21 March 2006

Consolidated Income Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
REVENUE	5	**233,445**	234,061
Cost of sales		**(142,993)**	(145,239)
Gross profit		**90,452**	88,822
Other income	5	**14,840**	14,818
Selling and distribution costs		**(21,691)**	(23,377)
Administrative expenses		**(10,998)**	(10,368)
Other operating expenses		**(23,942)**	(22,221)
Finance costs	6	**(138)**	(668)
PROFIT BEFORE TAX	7	**48,523**	47,006
Tax	10	**(3,397)**	(3,502)
PROFIT FOR THE YEAR		**45,126**	43,504
Attributable to:			
Equity holders of the parent	11	**45,126**	43,504
DIVIDEND			
Proposed final	12	**—**	11,678
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	13	**RMB0.097**	RMB0.093

Consolidated Balance Sheet

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**60,114**	24,513
Land lease prepayments	15	**5,889**	6,015
Total non-current assets		**66,003**	30,528
CURRENT ASSETS			
Inventories	17	**34,661**	28,347
Trade receivables	18	**25,125**	26,889
Bills receivable	19	**10,565**	2,181
Prepayments, deposits and other receivables	20	**6,332**	2,561
Cash and cash equivalents	21	**201,307**	206,062
Total current assets		**277,990**	266,040
CURRENT LIABILITIES			
Trade payables	22	**27,695**	17,833
Bills payable		**1,770**	—
Tax payable		**3,408**	3,180
Other payables and accruals	23	**19,317**	15,320
Other loan	24	**—**	2,000
Total current liabilities		**52,190**	38,333
NET CURRENT ASSETS		**225,800**	227,707
Net assets		**291,803**	258,235
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	25	**46,710**	46,710
Reserves	26(a)	**244,973**	199,847
Proposed final dividend	12	**—**	11,678
		291,683	258,235
Minority interests		**120**	—
Total equity		**291,803**	258,235

Chen Zhi Lie
Chairman

Tso Cheng Shun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2005

	Note	Attributable to equity holders of the parent						Minority interests	Total equity
		Issued share capital	Share premium account	Statutory funds	Retained profits	Proposed final dividend	Total		
		RMB'000	RMB'000	RMB'000 (note 26(a))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2004		46,710	85,190	18,874	63,957	14,013	228,744	—	228,744
Net profit for the year		—	—	—	43,504	—	43,504	—	43,504
Final 2003 dividend declared		—	—	—	—	(14,013)	(14,013)	—	(14,013)
Transfer from/(to) reserves		—	—	6,526	(6,526)	—	—	—	—
Proposed final 2004 dividend	12	—	—	—	(11,678)	11,678	—	—	—
At 31 December 2004 and 1 January 2005		46,710	85,190	25,400	89,257	11,678	258,235	—	258,235
Net profit for the year		—	—	—	45,126	—	45,126	—	45,126
Capital contribution by minority shareholder		—	—	—	—	—	—	120	120
Final 2004 dividend declared		—	—	—	—	(11,678)	(11,678)	—	(11,678)
Transfer from/(to) reserves		—	—	6,652	(6,652)	—	—	—	—
At 31 December 2005		46,710	85,190	32,052	127,731	—	291,683	120	291,803

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	2005 RMB'000	2004 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**48,523**	47,006
Adjustments for:			
Finance costs	6	**138**	668
Bank interest income	5	**(3,538)**	(2,439)
Depreciation and amortisation	7	**4,422**	4,658
(Gain)/loss on disposal of items of property, plant and equipment	7	**(31)**	30
Operating profit before working capital changes		**49,514**	49,923
(Increase)/decrease in inventories		**(6,314)**	6,891
Increase in trade and bills receivables		**(6,620)**	(9,681)
Increase in prepayments, deposits and other receivables		**(3,771)**	(640)
Increase in trade and bills payables		**11,632**	5,192
Increase in other payables and accruals		**3,997**	1,532
Cash generated from operations		**48,438**	53,217
Interest paid		**(138)**	(668)
PRC income tax paid		**(3,169)**	(2,866)
Net cash inflow from operating activities		**45,131**	49,683
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,538**	2,439
Purchases of items of property, plant and equipment	14	**(40,127)**	(3,359)
Increase in time deposits with original maturity of more than three months when acquired		**(30,000)**	—
Proceeds from disposal of items of property, plant and equipment		**261**	530
Net cash outflow from investing activities		**(66,328)**	(390)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(11,678)**	(14,013)
New other loan		**—**	2,000
Repayment of bank loans		**—**	(30,000)
Repayment of other loan		**(2,000)**	—
Capital contribution by minority shareholder		**120**	—
Net cash outflow from financing activities		**(13,558)**	(42,013)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(34,755)**	7,280
Cash and cash equivalents at beginning of year		**166,062**	158,782
CASH AND CASH EQUIVALENTS AT END OF YEAR		**131,307**	166,062

Consolidated Cash Flow Statement

Year ended 31 December 2005

	Notes	**2005 RMB'000**	2004 RMB'000
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	**71,307**	66,062
Time deposits with original maturity of less than three months when acquired		**60,000**	100,000
		131,307	166,062

Balance Sheet

31 December 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**60,114**	24,513
Land lease prepayments	15	**5,889**	6,015
Investment in a subsidiary	16	**5,880**	—
Total non-current assets		**71,883**	30,528
CURRENT ASSETS			
Inventories	17	**34,661**	28,347
Trade receivables	18	**25,125**	26,889
Bills receivable	19	**10,565**	2,181
Prepayments, deposits and other receivables	20	**6,304**	2,561
Cash and cash equivalents	21	**195,354**	206,062
Total current assets		**272,009**	266,040
CURRENT LIABILITIES			
Trade payables	22	**27,695**	17,833
Bills payable		**1,770**	—
Tax payable		**3,408**	3,180
Other payables and accruals	23	**19,317**	15,320
Other loan	24	**—**	2,000
Total current liabilities		**52,190**	38,333
NET CURRENT ASSETS		**219,819**	227,707
Net assets		**291,702**	258,235
EQUITY			
Issued capital	25	**46,710**	46,710
Reserves	26(b)	**244,992**	199,847
Proposed final dividend	12	**—**	11,678
Total equity		**291,702**	258,235

Chen Zhi Lie
Chairman

Tso Cheng Shun
Director

Notes to Financial Statements

31 December 2005

1. CORPORATE INFORMATION

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") 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. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements include the financial statements of the Company and its subsidiary for the year ended 31 December 2005. The results of the subsidiary are consolidated from the date of its establishment, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiary.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

HKAS 20	Accounting for Government Grants and Disclosure of Government Assistance
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 20, 21, 23, 27, 32, 33, 36, 37, 38, 39 and HKFRS 3 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting HKAS 17 — Leases is summarised as follows:

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to land lease prepayments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease prepayments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts for the year ended 31 December 2004 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Special Market — Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1 March 2006)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006)
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual period beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

EFFECT ON THE CONSOLIDATED BALANCE SHEET

Effect of new policies (Increase/(decrease))	Effect of adopting HKAS 17 Land lease prepayments RMB'000
At 31 December 2004	
Assets	
Property, plant and equipment	(6,141)
Land lease prepayments	6,015
Prepayments, deposits and other receivables	126
	—
At 31 December 2005	
Assets	
Property, plant and equipment	(6,015)
Land lease prepayments	5,889
Prepayments, deposits and other receivables	126
	—

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

SUBSIDIARIES

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of the Company's subsidiary are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in its subsidiary are stated at cost less any impairment losses.

IMPAIRMENT OF ASSETS

Where an indication of impairment exists, or when annual impairment testing for an asset is required, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IMPAIRMENT OF ASSETS (Continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises.

RELATED PARTIES

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment 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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement 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 an item of property, plant and equipment and the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPERTY, PLANT AND EQUIPMENT AND DEPRECIATION (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and 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.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents the assets incurred under construction, and is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs incurred during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

RESEARCH AND DEVELOPMENT COSTS

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using 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.

2.5 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. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Land lease prepayments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

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 Group'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.

PROVISIONS

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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 in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investment in a subsidiary, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits 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 credits 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 in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investment in a subsidiary, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 reassessed at each balance sheet date and 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.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are 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.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

GOVERNMENT SUBSIDIES

Government subsidies from the PRC government are recognised at their fair value where there is reasonable assurance that the subsidy will be received and all attaching conditions will be complied with. When the subsidy relates to an expense item, it is recognised as income over the periods necessary to match the subsidy on a systematic basis to the costs which it is intended to compensate. Where the subsidy relates to an asset, the fair value of the subsidy is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

RETIREMENT BENEFITS

The employees of the Group which operates in Mainland China are required to participate in a central pension scheme (the "CPS") operated by the local municipal government. The Group is required to contribute a certain percentage of its payroll costs to the CPS. The contributions are charged to the income statement as they become payable in accordance with the rules of the CPS.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUE RECOGNITION

Revenue is recognised when it is probable that the economic benefits will flow to the Group 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 Group 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 an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

DIVIDENDS

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity 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

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling as quoted by the People's Bank of China at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling as quoted by the People's Bank of China at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) *Provision against slow-moving inventories*

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision amount required involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

(ii) *Provision for doubtful debts*

Provision for doubtful debts is made based on assessment of the recoverability of trade receivables and other receivables. The identification of doubtful debts requires management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of trade receivables and other receivables and doubtful debt expenses/write-back in the period in which such estimate has been changed.

(iii) *Impairment of property, plant and equipment*

The carrying value of the property, plant and equipment is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable in accordance with the accounting policies as disclosed in the relevant parts of this section. The recoverable amount of the property, plant and equipment is the greater of fair value less costs to sell and value in use, the calculations of which involve the use of estimates.

4. SEGMENT INFORMATION

The Group 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 Group's operations were substantially carried out in Mainland China during the year.

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income is as follows:

	2005 RMB'000	2004 RMB'000
Revenue		
Sale of EIP products	**233,445**	234,061
Other income		
Value-added tax ("VAT") concession*	**6,973**	8,157
Government subsidies**	**2,118**	2,751
Bank interest income	**3,538**	2,439
Others	**2,211**	1,471
	14,840	14,818
	248,285	248,879

* 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 refunds, 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 2004 and the period from January to July 2005 and received the VAT refund of RMB5,039,000 in 2005 (2004: RMB8,157,000). In addition, the Company received a VAT refund of RMB1,934,000 (2004: Nil) from the Shenzhen Finance Bureau for the state new key products (國家重點新產品) developed by the Company in 2003 and 2004.

** Government subsidies mainly include the corporate income tax ("CIT") refund of RMB1,148,000 (2004: RMB1,540,000) from the Shenzhen Finance Bureau for the state new key products (2004: high technology products) developed by the Company in 2004; and monetary subsidies of RMB883,000 (2004: RMB1,052,000) from the Shenzhen Economic and Trade Bureau (深圳市經濟貿易局) and the Administration Center of Innovation Fund for Technology Based Firms of Ministry of Science and Technology (科學技術部科技型中小企業技術創新基金管理中心) for specified software products developed by the Company in 2005.

6. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank loans	—	668
Others	138	—
	138	668

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2005 RMB'000	2004 RMB'000
Cost of inventories sold		142,993	145,239
Depreciation	14	4,296	4,532
Amortisation	15	126	126
Research and development costs:			
Current year's expenditure		23,172	21,479
Minimum lease payments under operating leases in respect of land and buildings		5,461	5,726
Auditors' remuneration		550	520
Employee benefits expense (excluding remuneration of directors (note 8)):			
Wages and salaries		17,180	14,744
Retirement benefits scheme contributions		2,160	1,968
Provision for doubtful debts		1,086	1,506
Provision against slow-moving inventories		185	3,008
(Gain)/loss on disposal of items of property, plant and equipment		(31)	30
Foreign exchange differences, net		(10)	56

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:

	2005 RMB'000	2004 RMB'000
Fees	**48**	48
Other emoluments:		
Salaries, allowances and benefits in kind	**180**	174
Retirement benefits scheme contributions	**13**	8
	193	182
	241	230

(a) Independent non-executive directors

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

	2005 RMB'000	2004 RMB'000
Ms. Zhou Hong	**12**	12
Mr. Wen Bing	**12**	12
Mr. Dong Li Xin	**12**	12
Mr. Qi Yu Kun	**—**	9
Mr. Wang Tian Xiang	**12**	3
	48	48

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement benefits scheme contributions RMB'000	Total emoluments RMB'000
2005				
Mr. Chen Zhi Lie	—	80	5	85
Mr. Zhu Jun	—	80	8	88
Mr. Tso Cheng Shun	—	20	—	20
		180	13	193
2004				
Mr. Chen Zhi Lie	—	77	3	80
Mr. Zhu Jun	—	77	5	82
Mr. Tso Cheng Shun	—	20	—	20
	—	174	8	182

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: Nil).

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2004: one) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2004: four) non-director, highest paid employees for the year are as follow:

	Group 2005 RMB'000	2004 RMB'000
Salaries, allowances and benefits in kind	**260**	530
Retirement benefits scheme contributions	**21**	26
	281	556

The remuneration of each of the non-director, highest paid employees fell within the range from nil to HK$1,000,000 (equivalent to RMB1,040,000).

During the year ended 31 December 2005, the three non-director, highest paid employees of the Group received emoluments of approximately RMB98,000, RMB93,000 and RMB90,000. During the year ended 31 December 2004, the four non-director, highest paid employees of the Group received emoluments of approximately RMB283,000, RMB105,000, RMB85,000 and RMB83,000.

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.

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 for a further period of five years 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 years ended 31 December 2004 and 2005.

The branches of the Company are located in various cities of Mainland China and are subject to a corporate income tax rate of 33% on their assessable profits for the year. The subsidiary of the Group is located in the Shenzhen Special Economic Zone and is therefore subject to a corporate income tax rate of 15%. No provision for corporate income tax has been made as its subsidiary did not have any assessable profit for the year.

	2005 **RMB'000**	2004 RMB'000
Group:		
PRC income tax — current year's provision	**3,397**	3,502
Total tax charge for the year	**3,397**	3,502

10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory tax rate to the tax expense at the effective tax rate for the year, and a reconciliation of the applicable rate (i.e., statutory tax rate) to the effective tax rate, are as follows:

GROUP

	2005		2004	
	RMB'000	%	RMB'000	%
Profit before tax	**48,523**		47,006	
Tax at the applicable tax rate	**3,639**	**7.5**	3,525	7.5
Unrecognised tax losses of the branches and the subsidiary	**308**	**0.6**	338	0.7
Inventory provision not allowable for income tax purposes	**14**	**—**	226	0.5
Provision for doubtful debts not allowable for income tax purposes	**83**	**0.2**	113	0.2
Government subsidies	**(682)**	**(1.4)**	(818)	(1.7)
Others	**35**	**0.1**	118	0.3
Income tax charge at the Group's effective tax rate	**3,397**	**7.0**	3,502	7.5

There was no significant unprovided deferred tax in respect of the year (2004: Nil).

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit from ordinary activities attributable to equity holders of the parent for the year ended 31 December 2005 dealt with in the financial statements of the Company was RMB45,145,000 (2004: RMB43,504,000) (note 26(b)).

12. DIVIDEND

	2005 RMB'000	2004 RMB'000
Proposed final — Nil (2004: RMB0.025) per ordinary share	—	11,678

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amounts is based on the net profit attributable to ordinary equity holders of the parent for the year of RMB45,126,000 (2004: RMB43,504,000) and the 467,100,000 (2004: 467,100,000) ordinary shares in issue during the year.

Diluted earnings per share amounts for the two years ended 31 December 2004 and 2005 have not been disclosed as no diluting events existed during these years.

14. PROPERTY, PLANT AND EQUIPMENT

GROUP AND COMPANY

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2004							
As previously reported	12,023	3,804	13,869	12,109	956	—	42,761
Reclassification	—	(2,000)	—	2,000	—	—	—
Reclassification to land lease prepayments upon adoption of HKAS 17	(6,277)	—	—	—	—	—	(6,277)
As restated	5,746	1,804	13,869	14,109	956	—	36,484
Additions	—	73	33	1,590	—	1,663	3,359
Disposals	—	—	(5)	(1,007)	—	—	(1,012)
At 31 December 2004 and 1 January 2005 (as restated)	5,746	1,877	13,897	14,692	956	1,663	38,831
At 31 December 2004 and 1 January 2005							
As previously reported	12,023	1,877	13,897	14,692	956	1,663	45,108
Reclassification to land lease prepayments upon adoption of HKAS 17	(6,277)	—	—	—	—	—	(6,277)
As restated	5,746	1,877	13,897	14,692	956	1,663	38,831
Additions	—	—	1,927	533	291	37,376	40,127
Disposals	—	—	—	(476)	(53)	—	(529)
At 31 December 2005	5,746	1,877	15,824	14,749	1,194	39,039	78,429
Accumulated depreciation:							
At 1 January 2004							
As previously reported	527	1,508	3,413	4,454	346	—	10,248
Reclassification	—	(400)	—	400	—	—	—
Reclassification to land lease prepayments upon adoption of HKAS 17	(10)	—	—	—	—	—	(10)
As restated	517	1,108	3,413	4,854	346		10,238
Provided during the year	259	505	1,247	2,358	163	—	4,532
Disposals	—	—	(2)	(450)	—	—	(452)
At 31 December 2004 and 1 January 2005 (as restated)	776	1,613	4,658	6,762	509	—	14,318
At 31 December 2004 and 1 January 2005							
As previously reported	912	1,613	4,658	6,762	509	—	14,454
Reclassification to land lease prepayments upon adoption of HKAS 17	(136)	—	—	—	—	—	(136)
As restated	776	1,613	4,658	6,762	509	—	14,318
Provided during the year	258	145	1,312	2,408	173	—	4,296
Disposals	—	—	—	(252)	(47)	—	(299)
At 31 December 2005	1,034	1,758	5,970	8,918	635	—	18,315
Net book value:							
At 31 December 2005	4,712	119	9,854	5,831	559	39,039	60,114
At 31 December 2004	4,970	264	9,239	7,930	447	1,663	24,513

The Group's leasehold land and buildings are located in Mainland China. The land is held under a medium term lease, which has a term of 50 years commencing on 16 November 1988.

15. LAND LEASE PREPAYMENTS

	Group and Company 2005 RMB'000	2004 RMB'000 (Restated)
Carrying amount at 1 January	—	—
As previously reported	—	—
Effect of adopting HKAS 17 (note 2.4)	**6,141**	6,267
As restated	**6,141**	6,267
Recognised during the year	**(126)**	(126)
Carrying amount at 31 December	**6,015**	6,141
Current portion included in prepayments, deposits and other receivables	**(126)**	(126)
Non-current portion	**5,889**	6,015

The Group's leasehold land are located in Mainland China. The land is held under a medium term lease, which has a term of 50 years commencing on 27 November 2003.

16. INVESTMENT IN A SUBSIDIARY

	Company 2005 RMB'000	2004 RMB'000
Unlisted shares, at cost	**5,880**	—

Particulars of the subsidiary are as follows:

Name	Place of registration and operations	Registered share capital	Percentage of equity directly attributable to the Company	Principal activities
Shenzhen EVOC Software Technology Company Limited	PRC/Mainland China	RMB6,000,000	98%	Research, development, manufacture and distribution of EIP software products

17. INVENTORIES

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Raw materials	**14,703**	9,809
Work in progress	**1,787**	1,649
Finished goods	**24,322**	22,855
	40,812	34,313
Provision against slow-moving inventories	**(6,151)**	(5,966)
	34,661	28,347

18. TRADE RECEIVABLES

The Group'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 90 days, extending up to 180 days for major customers. Each customer has a maximum credit limit. The Group 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

	Group and Company	
	2005	2004
	RMB'000	RMB'000
0 to 90 days	**22,299**	23,035
91 to 180 days	**1,598**	4,317
181 to 365 days	**1,218**	108
Over 1 year	**3,186**	1,519
	28,301	28,979
Provision for doubtful debts	**(3,176)**	(2,090)
	25,125	26,889

19. BILLS RECEIVABLE

The bills receivable are aged within six months.

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
		(Restated)		(Restated)
Prepayments	**2,440**	144	**2,440**	144
Deposits and other receivables	**3,766**	2,291	**3,738**	2,291
Current portion of land lease prepayments	**126**	126	**126**	126
	6,332	2,561	**6,304**	2,561

21. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**71,307**	66,062	**65,354**	66,062
Time deposits	**130,000**	140,000	**130,000**	140,000
Cash and cash equivalents	**201,307**	206,062	**195,354**	206,062

RMB is not freely convertible into foreign currencies. Under the Mainland China'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.

22. TRADE PAYABLES

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

	Group and Company	
	2005	2004
	RMB'000	RMB'000
0 to 90 days	**25,438**	16,336
91 to 180 days	**1,295**	538
181 to 365 days	**90**	57
Over 1 year	**872**	902
	27,695	17,833

23. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Other payables	**17,749**	13,650
Accruals	**1,568**	1,670
	19,317	15,320

24. OTHER LOAN

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Other loan	**—**	2,000
	—	2,000

Other loan at 31 December 2004 represented a loan from the Shenzhen Municipal Government which was unsecured, interest-free and was repaid in July 2005.

25. SHARE CAPITAL

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

26. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 37.

(b) Company

	Share premium account RMB'000	Statutory funds* RMB'000	Retained profits 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 and 1 January 2005	85,190	25,400	89,257	199,847
Net profit for the year	—	—	45,145	45,145
Transfer from/(to) reserves	—	6,652	(6,652)	—
At 31 December 2005	85,190	32,052	127,750	244,992

* 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") which are restricted as to use.

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.

26. RESERVES (Continued)

(b) Company (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.

27. CONTINGENT LIABILITIES

	Group and Company	
	2005	2004
	RMB'000	RMB'000
Endorsed bills	**—**	2,246

At the balance sheet date, neither the Group nor the Company had any significant contingent liabilities.

28. OPERATING LEASE COMMITMENTS

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

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

	2005	2004
	RMB'000	RMB'000
Within one year	**9,742**	3,471
In the second to fifth years, inclusive	**4,419**	3,719
	14,161	7,190

29. COMMITMENTS

In addition to the operating lease commitments detailed in note 28 above, the Group had the following capital commitments at the balance sheet date:

	2005	2004
	RMB'000	RMB'000
Contracted, but not provided for:		
Buildings	**61,486**	5,146

30. RELATED PARTY TRANSACTIONS

(a) The Group had the following transaction with the related party during the year:

The office premises currently used by the Group, 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, free of charge.

(b) Compensation of key management personnel of the Group:

Further details of directors' remuneration are included in note 8 to the financial statements.

The above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as trade and bills receivables and trade and bills payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risk arising from the Group's financial instruments is credit risk.

CREDIT RISK

The Group trades mainly with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

32. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 March 2006.

Financial Highlights

COMPARISON OF KEY FINANCIAL FIGURES

Financial year		Year ended 31 December 2005	2004	2003	2002
Revenue	RMB'000	**233,445**	234,061	202,628	152,462
Gross Profit	RMB'000	**90,452**	88,822	92,383	64,978
Gross Margin	%	**38.75**	37.95	45.60	42.62
Profit for the year	RMB'000	**45,126**	43,504	51,589	39,260
Net Margin	%	**19.33**	18.59	25.46	25.75
Basic Earnings Per Share (Note)	RMB	**0.097**	0.093	0.137	0.112
Cash Generated from Operations	RMB'000	**45,131**	49,683	68,950	25,959
Trade Receivables Turnover	Days	**45**	34	24	27

FINANCIAL POSITION

Financial year		Year ended 31 December 2005	2004	2003	2002
Total Assets	RMB'000	**343,993**	296,568	287,717	176,532
Total Liabilities	RMB'000	**52,190**	38,333	58,973	96,247
Total Cash and Cash Equivalents	RMB'000	**201,307**	206,062	198,782	81,284
Shareholders' Funds	RMB'000	**291,803**	258,235	228,744	80,285
Earning per Shares — Basic (Note)	RMB	**0.097**	0.093	0.137	0.112
Net Assets per Share	RMB	**0.625**	0.553	0.490	0.229
Dividend per Share	RMB	—	0.025	0.030	0.086

Note: The calculation of basic earnings per share amounts is based on the net profit attributable to ordinary equity holders of the parent for the year of RMB45,126,000 (2004: RMB43,504,000) and the 467,100,000 (2004: 467,100,000) ordinary shares in issue during the year.