



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 : 8235



* for identification purpose only

2006

First Quarterly Report

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

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

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

FINANCIAL HIGHLIGHTS

The revenue of the Group for the three months ended 31 March 2006 was approximately RMB56 million (2005: RMB41 million), representing an increase of approximately 37% as compared to the same period of last year.

The profit attributable to equity holders of the parent for the three months ended 31 March 2006 amounted to approximately RMB8 million (2005: RMB5 million), representing an increase of approximately 53% as compared to the same period of last year.

Earnings per share of the Group was approximately RMB0.017 (2005: RMB0.011) for the three months ended 31 March 2006.

The board of directors (the “Directors”) are pleased to present the unaudited consolidated results of the Group for the three months ended 31 March 2006, together with the comparative unaudited results for the corresponding period in 2005 as follows:

CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 31 March	
		2006 (Unaudited) RMB'000	2005 (Unaudited) RMB'000
Revenue	3	55,611	40,688
Cost of sales		(36,129)	(26,406)
Gross profit		19,482	14,282
Other income		2,088	2,282
Selling and distribution costs		(5,027)	(5,244)
Administrative expenses		(2,226)	(2,345)
Other operating expenses		(5,645)	(3,245)
Finance costs		(41)	(14)
Profit before tax		8,631	5,716
Tax	4	(640)	(488)
Profit attributable to equity holders of the parent		7,991	5,228
Dividend	5	—	—
Earnings per share attributable to ordinary equity holders of the parent			
Basic	6	RMBO.017	RMBO.011

Notes:

1. Corporate information

Shenzhen EVOC Intelligent Technology Company Limited is a joint stock limited company incorporated 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 period, the Group was principally engaged in the research, development, manufacture and distribution of Embedded Intelligence Platform ("EIP") products in Mainland China.

2. Basis of preparation

The unaudited quarterly results of the Group 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. The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2005. They have been prepared under the historical cost convention. They are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. Revenue

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

4. Tax

The Company is located in the Shenzhen Special Economic Zone and is therefore subject to a corporate income tax rate of 15%. In accordance with the relevant income tax laws and regulations in the PRC, the Company was exempt from corporate income tax for two years commencing from its first year with assessable profits after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years.

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.

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 period.

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 period.

5. Dividend

The Directors do not recommend the payment of dividend for the three months ended 31 March 2006.

6. Earnings per share attributable to ordinary equity holders of the parent

The calculation of basic earnings per share for the three months ended 31 March 2006 is based on the net profit attributable to ordinary equity holders of the parent for the period of approximately RMB7,991,000 (2005: RMB5,228,000) and the 467,100,000 (2005: 467,100,000) ordinary shares in issue during the period.

Diluted earnings per share amounts for the three months ended 31 March 2005 and 2006 have not been disclosed as no diluting events existed during these period.

7. Consolidated Statement of Changes in Equity

	Attributable to equity holders of the parent					Proposed final dividend	Total
	Issued share capital RMB'000	Share premium account RMB'000	Statutory funds RMB'000	Retained earnings RMB'000			
At 1 January 2005	46,710	85,190	25,400	89,257	11,678	258,235	
Net profit for the year	—	—	—	45,126	—	45,126	
Final 2004 dividend declared	—	—	—	—	(11,678)	(11,678)	
Transfer from/(to) reserves	—	—	6,652	(6,652)	—	—	
At 31 December 2005 and 1 January 2006	46,710	85,190	32,052	127,731	—	291,683	
Net profit for the period	—	—	—	7,991	—	7,991	
At 31 March 2006	46,710	85,190	32,052	135,722	—	299,674	

MANAGEMENT DISCUSSION AND ANALYSIS**Financial Review**

For the three months ended 31 March 2006, the Group reported an unaudited revenue of RMB55,611,000 (2005: RMB40,688,000), representing a growth of 37% as compared with the same period of last year which was mainly due to strong demand for the group's products.

For the three months ended 31 March 2006, the Group recorded an unaudited net profit of RMB7,991,000 (2005: RMB5,228,000), represented a growth of 53% as compared with the same period of last year. The gross profit margin was 35% (2005: 35%). The gross profit margin was relatively stable. The growth of net profit was mainly due to the increase in turnover as a result of favorable market conditions and improvement in the quality of customers. The increase in net profit outweighing the increase in revenue which was attributable to the implementation of effective measures to control cost and expenses by the Group during the period.

Liquidity, Financial Resources and Gearing ratio

As at 31 March 2006, the Group had shareholders' funds/net assets of approximately RMB300 million. It mainly comprised bank balances of approximately RMB196 million, inventories of approximately RMB36 million and trade and bills receivables of approximately RMB40 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 RMB57 million. Net assets value per share of the Group was approximately RMB0.64.

As at 31 March 2006, the gearing ratio of the Group is 16% (2005: 14%). It is defined as the Group's total liabilities over the total assets.

Business Review

During the period under 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 promote and encourage the application of EIP (Embedded Intelligent Platform) products, enabling different industries to benefit from the development of information technology and automation and with an aim to improve the qualities of human lives. The Group offers over 280 EIP products and a number of industry-specific solutions to different industries which can be broadly classified by distinctive function and features into three categories, namely, chassis-type EIP products, board-type EIP products and remote data modules. EIP products manufactured and distributed by the Group are widely applied in areas of telecommunication, industrial, military, video frequency control, transportation, Internet, commerce and finance, etc.

During the period under review, the Group had focus on the research and development of the following new products:

1. chassis-type EIP products with low energy consumption and without fans;
2. C-M grade (standard and semi-standard length) board-type EIP products with low energy consumption;
3. specific EIP products used in finance industries; and
4. COMPATPIC Platform with high standard double processor.

Product Categories

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

	Turnover Three months ended 31 March			
	2006 (unaudited)		2005 (unaudited)	
	RMB'000	%	RMB'000	%
Board-type EIP	28,035	50.4	21,152	52.0
Chassis-type EIP	26,036	46.8	18,406	45.2
Remote data modules	1,540	2.8	1,130	2.8
	55,611	100	40,688	100

Sales, Marketing and Branding

During the period under review, the Group continued to fine-tune its sales and marketing strategy and concentrate on key areas and key industries. For geographic distribution, the Group will focus in North and East China. For industry distribution, the Group will focus in large traditional industries such as communications, transportation and electricity, etc. In the first half of 2006, the Group will position itself to maintain market share in EIP products and increase efforts in upgrading of popular products. The Group will strengthen its marketing research in key areas and key industries. The Group will also assign designate staffs and set up specific departments to perform the follow-up and analysis of key customers, markets and products and launching specific sales strategy to specific industries and products. The Group will provide necessary training and support for sales agents in order to increase their sales volume.

In line with the marketing promotion campaigns started in the past, "EIP technology seminars 2006 (2006年EIP技術研討會)" were continued. In sharing of the technology and experience in the application of EIP with customers and co-operative partners, the Group is in a dominant position and established a solid foundation and platform for EIP technology exchange in China. The Group has already placed advertisements in more than 60 professional media and 30 websites with an aim to further increase its recognition and awareness in EIP markets.

The Group has participate in the following exhibitions and fairs during the first quarter of 2006:

1. 2006 Asian Pacific Electronic, Automation and Equipment and Meter Fair (2006亞太電子、自動化與儀器儀表展覽會);
2. Fifth International Industrial and Equipment and Meter (Wuxi) Fair 2006 (2006第五屆國際工業自動化及儀器儀表(無錫)展);
3. Ninth Nanjing Industrial Control Automation and Equipment and Meter Fair 2006 (2006第九屆南京工業控制自動化及儀器儀表展);
4. Seventh China International Industrial Automation and Equipment and Meter (Jinan) Fair (第七屆中國國際工控自動化及儀器儀表(濟南)展覽會);
5. Third Chongqing International Automation and Equipment and Meter Fair 2006 (2006第三屆重慶展輝國際自動化及儀器儀表展覽會); and
6. Fifth China Xian International Electricity and Electrical Appliances and Electrical Automation Equipment Fair (第五屆中國西安國際電力電工裝備及電氣自動化設備展覽會).

The Group will stick to its marketing strategy and sales model which are based on direct sales and supplemented by sales agents.

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 brand name and its image.

OUTLOOK AND PROSPECTS

With rapid development of global IT industry, networking, artificial intelligence and information technology has become part of daily life and embedded systems are more extensively used in IT industry in various ways. It will also stimulate the application, development and innovation of EIP based technology in relevant industries.

However, the popularity and usage of artificial intelligence in the human lives is still developing. There are much room of improvement in the following areas such as medical, transportation, security control, construction automation, entertainment, supermarkets, industrial

automation and computer in vehicles, etc. Since the application of artificial intelligence technology in the people's lives is still in infancy, the Group believes that the growth of EIP systems will outweigh personal computers in the future. Therefore, the Group has confidence in the continuing strong demand in EIP products.

The year 2006 was named as the "Year for Foundation Construction (骨幹建設年)", the Group will review and adjust its internal resources in order to maximize efficiency. The Group will endeavor to improve its core management and continue to invest in research and development. The Group will place emphasis in attracting talented staffs and reinforce its team of research and development for future growth.

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

As at 31 March 2006, 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 <i>(Note 1)</i>	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 <i>(Note 2)</i>	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 March 2006, 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 March 2006; 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 March 2006, have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other substantial shareholders whose interest or short position were recorded in the register required to be kept by the Company under section 336 of the SFO.

DIRECTORS' AND SUPERVISORS' RIGHTS TO PURCHASE SHARES

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

SHARE OPTION SCHEME

Up to 31 March 2006, the Company has not adopted any share option scheme or granted any option.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

CONNECTED TRANSACTIONS

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

COMMITMENTS

As at 31 March 2006, the Group had a contracted but not provided for commitments amounting to approximately RMB66,837,000 (31 December 2005:RMB 61,486,000) in respect of construction of EVOC Technology Building.

CORPORATE GOVERNANCE

For the three months ended 31 March 2006, the Company complied with all the code provisions set out in Appendix 15 of the Code on Corporate Governance Practices of the GEM Listing Rules.

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.

The Group's unaudited quarterly results for the three months ended 31 March 2006 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.

By Order of the Board
SHENZHEN EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED *
Chen Zhi Lie
Chairman

Shenzhen, the PRC, 11 May 2006

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

* *For identification purpose only*