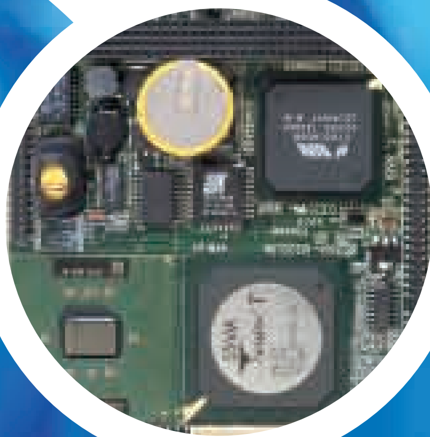
深圳市研祥智能科技股份有限公司

Shenzhen EVOC Intelligent Technology Company Limited*

(a joint stock limited company incorporated in the People's Republic of China)

Stock Code: 8285



ANNUAL REPORT 2006

* for identification purpose only

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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
Pu Jing *(Chairperson)*
Zhan Guo Nian
Zhang Zheng An

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
Horwath Hong Kong CPA Limited
2001, Central Plaza
18 Harbour Road, Wanchai
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 Baoye 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 subsidiaries ("Group") are principally engaged in the research, development, manufacture and distribution of embedded intelligent platform ("EIP") products. As at 31 December 2006, the registered capital of the company amounted to approximately RMB102.8 million with the Group's total assets to approximately RMB477 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 290 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 subsidiaries, branches, offices, representative offices and sales agents spread out across various provinces and autonomous regions 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.

CHAIRMAN'S STATEMENT

To Our Shareholders,

On behalf of the board of directors (the "Board"), I am pleased to present the annual report of Shenzhen EVOC Intelligent Technology Company Limited ("EVOC" or the "Group") for the year of 2006 to our shareholders. As one of the leading enterprises in the EIP Industry of Mainland China, the competitive edge of the Group in the areas of R&D, manufacturing, marketing and after-sale services of EIP products was enhanced during the year under review and the Group has established a solid foundation in the EIP industry.

FINANCIAL PERFORMANCE

In 2006, the Group delivered strong operating results by starting off its business with adherence to the core development strategy of "self-innovation" during the year under review. In 2006, the total revenue was 278.6 million, representing an increase of 19% compared to last year. The gross profit was 116 million, representing an increase of 28% compared to last year. The profit margin increased from 39% to 42%. The net profit was approximately 82 million, representing an increase of 82% compared to last year. The profit attributable to shareholders was approximately RMB82 million and the earnings per share was approximately RMB0.080.

In general, the Group achieved satisfactory results in the year 2006. The Board is satisfied with the solid foundation the Group established during the past few years. The Group is prepared for the new challenges in the future in order to create better economic benefits.

BUSINESS REVIEW

During the year, the Group continued to engage in the research, development, manufacture and distribution of EIP products in the PRC. The Group worked unswervingly to upgrade and transform Chinese traditional industries, enabling them to benefit from the rapid development of information technology. In 2006, the Group made a breakthrough in its market shares in Mainland China with its brand awareness and corporate image generally enhanced. The Group achieved satisfactory results in launching new products and penetrating into new and specialized industries. The Group believes that the competitive edge and the market share of its products in the industry will further be enhanced, as new products enter into the market.

CHAIRMAN'S STATEMENT

As the sole member of ICA ("the Intel Communication Alliance") among the domestic EIP manufacturers in the PRC, the Group has now become an important strategic partner of INTEL, a famous upstream chip manufacturer, and Performance Technologies, a US platform developer, in Asia pacific region. Against the overall background of the rapid development in the EIP industry, the Group's joining force with major market players surely opens up a broader market for the Group and drives the core competitiveness of the Group to enhance continuously, thus putting more pressure on competitors.

In view of the rapid development of the EIP industry, relevant government authorities and departments in the PRC is setting standards for the EIP industry. The Group is honoured to draft the standards as a major contributor. The draft of standardization put forward by the Group was reviewed, and taken as an important basis in formulating the national standard for the EIP industry in China. The Board strongly believes, with the promulgation of the industry standard, a more disciplined and fast growing EIP market is well worthy of anticipation.

1. Research & Development

In 2006, the Group continued to pay much attention to R&D's impact on corporate development. While keeping on enlarging the scale of its research headquarters in Shenzhen, the Group also set up regional research centers in Beijing and Shanghai to grasp the market trends of different regions in the PRC, and to speed up the development of new products. In 2006, the total research and development costs of the Group was RMB20 million, representing 7% of the total turnover of the year.

In light of the trends of the EIP industry, the selected new products under research and development by the Group during the year included: EIP products with low power consumption and without fans, latest EIP Core 2 Duo processors platform, Compact PCI processor platform, high performance board computers and highly reliable industry specific EIP.

2. Products & Services

The Group offered over 290 EIP products in three series and a number of industry specific solutions. The EIP products manufactured and distributed by the Group were widely used in those traditional industries transformed through digitalization and informization, and in those new industries emerging from the development of global informization. In 2006, the structure of EIP products began to undergo substantial changes. The Group timely increased the ratio of software and service in products, thus gradually shifting from standardized service to customized service. Through the marketing outlets all over the PRC, the Group provided customers with timely and comprehensive technical services which effectively enhanced the competitiveness of the Group's brand.

In 2006, the Group's won the following awards and accreditations:

(1) "Shenzhen 100 Software Enterprise" awarded by Shezhen Software Enterprise Association

(2) Shenzhen Information Technology Enterprise Self Innovation Outstanding Enterprise" awarded by Shenzhen Electronic Association

(3) "Shenzhen Civilized Unit" awarded by Shenzhen Government

(4) "Shenzhen 100 Self Innovation Small and Medium Enterprise" awarded by Shenzhen Small and Medium Enterprise Development Association

(5) "Innovative Domestic Enterprises" awarded by Shenzhen Commerce Association.

(6) "500 Small and Medium Enterprise in Electronic Commerce" at Electronic Business Application Conference

CHAIRMAN'S STATEMENT

3. Marketing and Management

The Group set up a new representative office in Shenyang. The Group also fully consolidated its marketing system according to its development plan and increased the size of its marketing team with its overall quality fully enhanced. In 2006, the Group put more effort in cultivating and supervising its key customers, particularly the market players, to which sales were of high gross profit margin and with low collection risks, in order to increase the sales of EIP products of high-end mainstream brand to gain a breakthrough in profits, and to steadily boost overall profitability. Besides, taking numerous studies on overseas market expansion, the Group started to build export teams and sales to overseas market in small quantities. With its products well received by international market, the Group was more than ever determined to implement globalization strategy.

The Group successfully held large-scale marketing and promotional activities such as “2006 EIP Technology Exchange Seminar”, “Small and Medium-sized Enterprise Development Strategy Salon”, “Intel Embedded and Telecommunication Solution Seminar (INTEL City EIP Seminar)”, “2006 EIP Technology Application Seminar” and “Specialized Industry Product Promotion and Project Discussion Seminar”. Through sharing EIP technology and experience with various customers and partners, a strong platform for EIP technology exchange, dominated by the Group, was further established and strengthened.

The Group formally moved into EVOC Technology Building in early 2007 with its corporate image and brand awareness enhanced. The Group seized this opportunity to fully consolidate its internal corporate management so as to optimize the Group’s operation efficiency. The Group named the year 2006 as the “Year for Foundation Construction”, in which endeavouring to keep and inspire existing officials in management, R&D and marketing, the Group gave special attention on recruiting talents from outside. The Group had formed a stable and highly efficient operation team, which established a solid foundation for the Group’s rapid growth. The Group also timely adjusted its corporate core values according to strategic goals. The Group encouraged innovation within the Group to reinforce the importance of technical innovation to corporate development.

OUTLOOK AND PROSPECTS

Looking into 2007, the official opening of EVOC Technology Building marks a new phase of development for the Group. The Board believes that the main tasks of the Group in the future will be constant enhancement of the Company’s core competitiveness and profitability. The Group will stick to its core value of “self-innovation” when enhancing its core competitiveness, and at the same time enlarge its sale network and seek other business opportunities to further increase the Group’s overall profitability.

1. Research & Development

The application of EIP products will be more comprehensive and the tradition application is calling for more sophisticated products. The Group will continue to enhance its efforts on, and put more resources in, research and development. The product lines of the Group will be researched and developed for market segments, and emphasis will be put on the optimization of the research and development on such key industries as communication, network, railways and power generation. The Group will also focus on the recruitment of the talented research and development personnel and provision of training programmes. In addition to enlargement of the number of research and development personnel in Shenzhen headquarters, and the R&D centres in Beijing and Shanghai, the Company will also set up a regional R&D centre in Xian. In the future, the Group will work more closely with INTEL for technical cooperation. EVOC Central Research Institute, as an auxiliary organization set up inside EVOC Technology Building, will provide the most advanced technical achievement to the Group and the PRC.

CHAIRMAN'S STATEMENT

2. Marketing and Branding

The Group will continue to stick to its marketing strategy which is based on direct sales and supplemented by sales agents in Mainland China. The Group will formulate a globalization strategy as its key target for its future development. The Group will take advantage of its competitive edges on research and development, marketing, branding and services to increase its market shares in Mainland China and gradually strengthen its marketing efforts for its products in overseas markets in the coming one to two years via Hong Kong, an important platform in Asian and overseas markets, which will drive the growth of the Group's results in both domestic and overseas markets The Board will be cautious about the Group's expansion into overseas markets and strive to minimize investment risks.

The Group will also strengthen its marketing efforts on the popularity of brand name "EVOC" and its corporate image. After moving into EVOC Technology Building, the Group will complete the construction and preparation work for the China Industrial Control Museum as scheduled, and at the same time, complete the overall auxiliary facilities for EVOC Technology Building. The Group is aiming to develop EVOC Technology Building as a commercial center for, and a landmark in, its peripheral areas. It will, by that time, definitely help to promote the brand name and the corporate image of the Group.

3. Management

In the future, the EIP market will see a constant and stable growth and an uncertain market competition. With the expansion of our business activities, the Group will continue to improve our internal management system and enhance our sales and technical service network in the coming year. The Group plans to upgrade its existing ERP system to the latest version which is more applicable to our future operation. With the implementation of the new system, the Group will also introduce the internal control concept with standards for international operation. It is expected that the management model for new tailor-made ERP system will help to improve the Group's overall operational efficiency. The Group will implement stricter cost control measures and make investment decision to further improve our financial position, while seeking to expand into new business.

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 that constantly support the Group and the Company. Looking into the future, the members of the Group will continue devote themselves to their work. I believe, in the future, the Group will still create desirable economic benefits and bring better returns to our shareholders.

Chen Zhi Lie
Chairman

Shenzhen, the PRC, 22 March 2007

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year under review, the Group recorded total revenues of approximately RMB279 million, representing an increase of approximately 19% over that of the previous year. Profit attributable to equity holders of the Company for the year was RMB82 million, representing an increase of approximately 82% over that of the previous year, while basic earnings per share were RMB0.080.

Turnover by product category

Sales of Products	2006 RMB'000	2005 RMB'000	Change Percentage
Board-type EIPs	**142,440**	117,739	+21%
Chassis-type EIPs	**128,125**	108,898	+18%
Remote data modules	**8,078**	6,808	+19%
Total	**278,643**	233,445	+19%

The turnover of chassis-type EIPs and board-type EIPs products remain strong throughout the year.

Turnover by Geographical Location

Regions in China	2006 RMB'000	2005 RMB'000	Change Percentage
North and Northeast China	**73,927**	68,578	+8%
East China	**39,935**	43,031	-7%
South China	**137,700**	99,739	+38%
Southwest China	**17,422**	12,535	+39%
Northwest China	**9,659**	9,562	+1%
Total	**278,643**	233,445	+19%

PROFIT MARGIN

The profit margin for the year was approximately 42%, representing an approximate 3% increase as compared to the previous year. The increase in profit margin was mainly due to strong demand in our products and effective cost control measures implemented. The Group has maintained a good relationship with our key customers and has strong bargaining power with our existing and new customers.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2006, the Group had shareholders' funds/net assets of approximately RMB375 million. It mainly comprised bank balances which amounted to approximately RMB239 million, inventories of approximately RMB38 million and trade and bills receivables amounted to approximately RMB41 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 RMB102 million. Net assets value per share of the Group is approximately RMB0.36.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2006, the gearing ratio of the Group is about 21% (2005: 15%). It is defined as the Group's total liabilities over 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, 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, bank balances of the Group of approximately RMB11.6 million were pledged (2005 : Nil).

CAPITAL STRUCTURE

Pursuant to a special resolution passed on 30 May 2006 in the AGM, the share capital of the Company increased from RMB46,710,000 to RMB102,762,000. The Company relies on internal resources and the net proceeds from 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 2006 except for the construction of EVOC Technology Building.

HUMAN RESOURCES

A breakdown of the number of Group employees by function as at 31 December 2005 and 2006 is set out below:

By function	**2006**	2005
Sales and marketing	**328**	300
Purchasing	**21**	19
R&D	**157**	87
Management	**17**	15
Accounting and Finance	**39**	37
Quality control	**73**	70
Production	**349**	283
Human resources and administration	**20**	17
Infrastructure	**7**	7
Total (Staff)	**1,011**	835

During the year, R&D Centres in Beijing and Shanghai were set up and R&D staff was increase and production staff was increase because of increase in sales.

MANAGEMENT DISCUSSION AND ANALYSIS

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 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Chen Zhi Lie (陳志列), aged 43, the Chairman and an executive director of the Group. 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 20 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 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 78, the Vice Chairman and an executive director of the Group. 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 Group. 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 Group.

Zhu Jun (朱軍), aged 45, 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 Group. He joined the Company in October 1995 and is responsible for monitoring the R&D center of the Group. 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 Group. 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 45, 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 21 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 41, 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 Investment department of CSG Holding Company Limited (中國南玻集團股份有限公司) (a Company Listed in Shenzhen Stock Exchange). Ms. Zhou was appointed as an independent non-executive Director in September 2001.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PROFILE

Dong Lixin (董立新), aged 47, 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 38, 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 17 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 finance 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

Pu Jing (濮靜), aged 41, chairperson of the supervisory committee. 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 17 years of experience in industrial computer testing. Ms. Pu is a shareholder of Shenzhen Yanxiang Wangke Industry Company Limited and Shenzhen Haoxuntong Industry Co., Limited and was appointed as a Supervisor in December 2000.

Mr. Zhan Guo Nian (詹國年), aged 36, a member of the supervisory committee. Mr. Zhan graduated from Chengdu Geological College (中國成都地質學院) in the PRC with a bachelor degree in engineering in 1991. He has over 16 years of experience in management and administration. Mr. Zhan joined the Company for management and administration work in March 2001 and was appointed as a Supervisor in October 2006.

Mr. Zhang Zheng An (張正安), aged 31, was graduated from high school, a member of the supervisory committee. Mr. Zhang is a shareholder of Shenzhen Haoxuntong Industry Co., Ltd and has over 11 years of experience in management and administration and was appointed as a Supervisor in October 2006.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Lee Sing Yeung Simon (李聲揚), aged 38, is the qualified accountant and the company secretary of the Group. He is a fellow of both The Association of Chartered Certified Accountants and The Hong Kong Institute of Certified Public Accountants. He has over 15 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.

SENIOR MANAGEMENT

Sun Wei (孫偉), aged 44, is the general manager and the manager of the human resources and administration department of the Group. 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.

Wang Zhen Zun (王振俊), aged 42, the assistant general manager of the Group. 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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PROFILE

Fan Xiao Ning (樊小寧), aged 36, the assistant general manager of the Group. He is responsible for the overall marketing functions. 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 40, is the head of the production department of the Group. 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. He has over 12 years of experience in the quality control of electronic products. He joined the Company in July 1999.

DIRECTORS' REPORT

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2006.

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 subsidiaries are set out in note 14 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 61.

The Directors do not recommend the payment of final dividend.

CONVERSION OF SHARE PREMIUM INTO SHARE CAPITAL

The Directors proposed to convert share premium in the amount of RMB20,552,400 in the reserves of the Company into 205,524,000 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 2 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.

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 12 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 22 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2006, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to RMB176 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 18% of the Group's turnover was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 5% of the Group's turnover for the year. 44% 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 30% of the Group's total purchases.

DIRECTORS' REPORT

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	(Retired at 10 October 2006)
Zhou Cheng Yan	(Retired at 10 October 2006)
Zhang Zheng An	(Appointed at 10 October 2006)
Zhan Guo Nian	(Appointed at 10 October 2006)
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.

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' AND SUPERVISORS' SERVICE CONTRACTS

Each of the director and supervisor 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.

Apart from the foregoing, no director and supervisor 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' REPORT

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 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

Director	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
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	700,529,940 (Note 1)	Domestic Shares	90.90%	68.17%
Zhou Hong (周紅)	Beneficial owner	44,000	H Shares	0.02%	0.004%
Supervisor					
Zhang Zheng An (張正安)	Interest of a controlled corporation	38,533,000 (Note 2)	Domestic Shares	5.00%	3.75%

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 Haoxuntong Industry Co. Ltd. which is owned as to 30% by Zhu Jun (朱軍), an executive Director, 30% by Pu Jing (濮靜), a Supervisor and 40% by Zhang Zheng An (張正安). By virtue of Zhang Zheng An (張正安) holding of more than one-third interest in Shenzhen Haoxuntong Industry Co. Ltd, Zhang Zheng An (張正安) is deemed to be interested in all the Domestic Shares held by Shenzhen Haoxuntong Industry Co. Ltd. in the Company pursuant to Part XV of the SFO.

DIRECTORS' REPORT

(b) Long position — interests in associated corporations

Director	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列)	Shenzhen Yanxiang Wangke Industry Co., Ltd.	Beneficial owner Family	70% 4.5%
Wang Rong (王蓉)	Shenzhen Yanxiang Wangke Industry Co., Ltd.	Beneficial owner Family	4.5% 70%

Note:

Ms. Wang Rong (王蓉) is the spouse of Mr. Chen Zhi Lie (陳志列) and therefore Mr. Chen is taken to be interested in the shares held by Ms. Wang Rong (王蓉) and Ms. Wang Rong (王蓉) is deemed to be interested in the shares held by Mr. Chen by virtue of Part XV of the SFO.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 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. (Note)	Registered and beneficial owner of the Domestic Shares	700,529,940	Domestic Shares	90.90%	68.17%
Shenzhen Haoxuntong Industry Co., Ltd.	Registered and beneficial owner of the Domestic Shares	38,533,000	Domestic Shares	5.00%	3.75%
Xiao Keng (肖鏗)	Beneficial owner	14,752,800	H Shares	5.74%	1.44%

Note:

Mr. Chen Zhi Lie 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.

DIRECTORS' REPORT

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 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 December 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 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 2006, 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 2006, 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 2006.

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 year.

DIRECTORS' REPORT

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the related party transaction for the year are set out in note 26 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 2006, the Group had a contracted but not provided for commitments amounting to approximately RMB19,255,000 (2005:RMB61,486,000) 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 Company's 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 unaudited quarterly and interim results and the audited results for the year ended 31 December 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.

AUDITORS

Horwath Hong Kong CPA Limited were appointed as auditors of the Company with effect from 8 February 2007 for the year ended 31 December 2006 to fill the casual vacancy caused by the resignation of Ernst & Young on 22 January 2007. There has been no other change of auditors in the past years.

Horwath Hong Kong CPA Limited 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, 22 March 2007

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Company complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules throughout the year ended 31 December 2006.

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 2006.

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

Name of director	Attendance
Chen Zhi Lie *(Chairman)*	6/6
Tso Cheng Shun	6/6
Zhu Jun	6/6
Wen Bing	6/6
Zhou Hong	6/6
Dong Lixin	6/6
Wang Tian Xiang	6/6

The board is responsible to the shareholders' general meeting and exercises the following powers:

(1) to be responsible for the convening of the shareholders' general meeting and to report on its work to the shareholders' general meeting;

(2) to implement the resolutions of the shareholders' general meeting;

(3) to decide on the Company's business plans and investment plans;

(4) to formulate the Company's proposed annual preliminary and final financial budget;

CORPORATE GOVERNANCE REPORT

(5) to formulate the Company's profit distribution plan and plan for recovery of losses;

(6) to formulate proposals for increases of reductions of the Company's registered share capital and the issue of corporate securities;

(7) to draw up plans for the merger, division or dissolution of the Company;

(8) to decide on the establishment of the Company's internal management structure;

(9) to appoint or dismiss the Company's general manager, and pursuant to the general manager's nomination to appoint or dismiss the deputy general manager and financial controller of the Company and decide on their remuneration;

(10) to examine and approve the Company's basic management system;

(11) to formulate proposals for any amendments of the Company's Articles of Association;

(12) decide on administration matters and execute agreements other than those which are required to be dealt with in shareholders' general meeting by the Company Law and Articles of Association; and

(13) to exercise any other powers designated by the shareholders in general meeting or conferred by the 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 GENERAL MANAGER

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;

CORPORATE GOVERNANCE REPORT

(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 in deciding his own remuneration.

During the year, one 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
Zhu Jun	1/1
Zhou Hong	1/1

The remuneration and review committee has considered and reviewed the terms of employment contracts of all directors and supervisors and consider that the terms of employment contracts of all directors and supervisors 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 are appointed for a term of office for 3 years. The Board is empowered under the articles of association to appoint any person as a director to fill a causal vacancy. All directors and supervisors were re-elected and appointed at the annual general meeting held on 30 May 2006.

AUDITORS' REMUNERATION

During the year, the remuneration paid to the Company's auditors, Horwath Hong Kong CPA Limited, is set out as follows:

Services rendered	**Fees paid/ payable** RMB'000
Audit services	650

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.

CORPORATE GOVERNANCE 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, five audit committee meetings were held and the attendance is set out as follows:

Name of member	**Attendance**
Zhou Hong *(Chairperson)*	5/5
Wen Bing	5/5
Wang Tian Xiang	4/5

The unaudited quarterly and interim results and the audited results for the year ended 31 December 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.

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

INTERNAL CONTROL

The Board assume responsibility to ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investment at all times. To fulfill this responsibility, the directors at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries, and the review has cover all material controls, including financial, operational and compliance controls and risk management functions. The Company has established an internal audit department ("IA") as a major vehicle to carry out the internal audit function of the Company.

The Company has an ongoing process for identifying, evaluating and managing the significant risks faced by the Company and IA department will formulate audit plans to investigate and report on any irregularities. The scopes and timing of audit review is usually determined according to risk assessment. Special reviews may also be performed on areas of concern identified by management or the Audit Committee from time to time.

IA department consistently monitors the internal control procedures and systems of the Group and reports its findings and recommendations, if any, to management and Audit Committee. During the year, the IA department has conducted review on expeditions of research and development, production cost, administrative and selling expenses, logistics safety and effectiveness, staff performance as well as risk management on investment. The report made by the IA department was presented to the management as well as Audit Committee to review.

CORPORATE GOVERNANCE REPORT

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 in May 2006. The Chairman, vice chairman, company secretary and secretary of the board were present. An annual general meeting circular was distributed to all shareholders at least 45 days before the annual general meeting. It set out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. All resolutions proposed at the annual general meeting were approved by the shareholders by a show of hands.

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 2006 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 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 2006 and has great confidence in the future of the Company.

By order of the Supervisory Committee
Pu Jing
Chairperson

Shenzhen, the PRC, 22 March 2007

INDEPENDENT AUDITOR'S REPORT

Horwath

Horwath Hong Kong CPA Limited
Certified Public Accountants
2001 Central Plaza
18 Harbour Road
Wanchai, Hong Kong
Telephone : (852) 2526 2191
Facsimile : (852) 2810 0502
www.horwath.com.hk

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

We have audited the consolidated financial statements of Shenzhen EVOC Intelligent Company Limited set out on pages 29 to 61, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2006 and of the profit and cash flows of the group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HORWATH HONG KONG CPA LIMITED
Certified Public Accountants

2001 Central Plaza
18 Harbour Road
Wanchai
Hong Kong

Chan Kam Wing, Clement
Practising Certificate number P02038

22 March 2007

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	5	**278,643**	233,445
Cost of sales		**(162,849)**	(142,993)
Gross profit		**115,794**	90,452
Other income	5	**23,378**	14,840
Selling and distribution costs		**(22,982)**	(21,691)
Administrative expenses		**(9,831)**	(10,998)
Other operating expenses		**(20,329)**	(23,942)
Finance costs		**(18)**	(138)
Profit before taxation	6	**86,012**	48,523
Taxation	9(a)	**(4,039)**	(3,397)
Profit for the year		**81,973**	45,126
Attributable to:			
Equity holders of the Company	10	**81,976**	45,126
Minority interests		**(3)**	—
		81,973	45,126
Earnings per share – Basic (RMB)	11	**0.080**	0.044 (Restated)

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	**141,139**	60,114
Lease prepayments	13	**5,764**	5,889
		146,903	66,003
Current assets			
Inventories	15	**38,229**	34,661
Trade receivables	16	**33,110**	25,125
Bills receivable	17	**7,836**	10,565
Other receivables, deposits and prepayments	18	**11,368**	6,332
Cash and cash equivalents	19	**239,447**	201,307
		329,990	277,990
Current liabilities			
Trade payables	20	**26,505**	27,695
Bills payable		**1,248**	1,770
Income tax payable		**3,979**	3,408
Other payables and accruals	21	**21,505**	19,317
Amount due to a minority shareholder	26(b)	**49,000**	—
		102,237	52,190
Net current assets		**227,753**	225,800
Net assets		**374,656**	291,803

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Note	**2006**	2005
		RMB'000	RMB'000
Equity			
Share capital	22	**102,762**	46,710
Reserves	23(a)	**270,897**	244,973
Equity attributable to equity holders of the Company		**373,659**	291,683
Minority interests		**997**	120
Total equity		**374,656**	291,803

Chan Zhi Lie
Chairman

Tso Cheng Shun
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	12	**140,155**	60,114
Lease prepayments	13	**5,764**	5,889
Investments in subsidiaries	14	**66,000**	5,880
		211,919	71,883
Current assets			
Inventories	15	**57,064**	34,661
Trade receivables	16	**31,634**	25,125
Bills receivable	17	**7,836**	10,565
Other receivables, deposits and prepayments	18	**10,982**	6,304
Cash and cash equivalents	19	**176,005**	195,354
		283,521	272,009
Current liabilities			
Trade payables	20	**25,837**	27,695
Bills payable		**1,248**	1,770
Income tax payable		**3,918**	3,408
Other payables and accruals	21	**19,668**	19,317
Amounts due to subsidiaries	14	**99,471**	—
		150,142	52,190
Net current assets		**133,379**	219,819
Net assets		**345,298**	291,702

BALANCE SHEET

At 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Equity			
Share capital	22	**102,762**	46,710
Reserves	23(b)	**242,536**	244,992
Total equity		**345,298**	291,702

Chan Zhi Lie
Chairman

Tso Cheng Shun
Director

The accompanying notes form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Year Ended 31 December 2006

	Share capital	Share premium	Statutory surplus reserve	Retained profits	Proposed final dividend	Attributable to equity shareholders of the Company	Minority interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 22)		*(Note 23(a))*					
At 31 December 2004	**46,710**	**85,190**	**25,400**	**89,257**	**11,678**	**258,235**	**—**	**258,235**
Capital contribution by a minority shareholder	—	—	—	—	—	—	120	120
Net profit for the year	—	—	—	45,126	—	45,126	—	45,126
2004 final dividend	—	—	—	—	(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**
Capitalisation issue	56,052	(56,052)	—	—	—	—	—	—
Acquisition of interest in a subsidiary	—	—	—	—	—	—	(120)	(120)
Capital contribution by a minority shareholder	—	—	—	—	—	—	1,000	1,000
Net profit/(loss) for the year	—	—	—	81,976	—	81,976	(3)	81,973
Transfer from/(to) reserves	—	—	8,198	(8,198)	—	—	—	—
At 31 December 2006	**102,762**	**29,138**	**40,250**	**201,509**	**—**	**373,659**	**997**	**374,656**

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2006

	2006 RMB'000	2005 RMB'000
Operating activities		
Profit before taxation	**86,012**	48,523
Adjustments for:		
Finance costs	**18**	138
Bank interest income	**(3,255)**	(3,538)
Depreciation and amortisation	**4,946**	4,422
Loss/(gain) on disposal of items of property, plant and equipment	**18**	(31)
Operating profit before working capital changes	**87,739**	49,514
Increase in inventories	**(3,568)**	(6,314)
Increase in trade and bill receivables	**(5,256)**	(6,620)
Increase in other receivables, deposits and prepayments	**(5,038)**	(3,771)
(Decrease)/increase in trade and bills payables	**(1,712)**	11,632
Increase in other payables and accruals	**2,189**	3,997
Cash generated from operations	**74,354**	48,438
Interest paid	**(18)**	(138)
PRC income tax paid	**(3,468)**	(3,169)
Net cash inflow from operating activities	**70,868**	45,131
Investing activities		
Interest received	**3,255**	3,538
Purchase of property, plant and equipment	**(86,376)**	(40,127)
Increase in time deposits with original maturity of more than three months when acquired	**—**	(30,000)
Increase in pledged bank balances	**(11,627)**	—
Proceeds from disposal of item of property, plant and equipment	**513**	261
Acquisition of interest in a subsidiary	**(120)**	—
Net cash outflow from investing activities	**(94,355)**	(66,328)

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2006

		2006	2005
		RMB'000	RMB'000
Financing activities			
Dividends paid		**—**	(11,678)
Repayment of bank loans		**—**	(2,000)
Capital contribution by a minority shareholder		**1,000**	120
Advances from a minority shareholder		**49,000**	—
Net cash inflow/(outflow) from financing activities		**50,000**	(13,558)
Net increase/(decrease) in cash and cash equivalents		**26,513**	(34,755)
Cash and cash equivalents at beginning of year		**131,307**	166,062
Cash and cash equivalents at end of year		**157,820**	131,307
Analysis of the balances of cash and cash equivalents			
Cash and bank balances, excluding pledged bank balances	19	**127,820**	71,307
Time deposits with original maturity of less than three months when acquired		**30,000**	60,000
		157,820	131,307

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

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 engages in the research, development, manufacture and distribution of Embedded Intelligence Platform ("EIP") products in Mainland China.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

* HKAS 21 Amendment	Net Investment in a Foreign Operation
* HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
* HKAS 39 Amendment	The Fair Value Option
* HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
* HK(IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease

(a) HKAS 21 "The Effect of Changes in Foreign Exchange Rates"

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 and 2005.

(b) HKAS 39 "Financial Instruments: Recognition and Measurement"

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered as insurance contracts, to be recognised initially at fair value and to be re-measured at the higher of the amount determined in accordance with HKAS 37 "Provision, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriated, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements as the Group did not has any guarantee given during the year or on balance sheet date.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset to be measured at fair value through the income statement. The adoption of this amendment has had no effect on these financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transaction, this amendment has had no effect on these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(c) HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease"

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

The Group has not early adopted the following new HKFRSs, that have been issued but are not yet effective, to these financial statements.

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
HK(IFRIC) – Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives	1 June 2006
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions	1 March 2007

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. In the opinion of the directors, while the adoption of HKAS 1 Amendment and HKFRS 7 will result in new and amended disclosure, these new and revised HKFRSs should not have any significant impact on the Group's results of operations and financial position.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

(b) Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

A subsidiary is a company in which the Company has the power, directly or indirectly, to govern the financial and operating polices, so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another enterprise.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the loss for the year between minority interests and the equity shareholders of the Company.

Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, all such profits are allocated to the Group's interest until the minority's share of losses previously absorbed by the Group has been recovered.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at costs, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Property, plant and equipment

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

Depreciation is charged so as to write off the cost of assets, other than land and properties under construction, to their estimated residual value over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Buildings	4.5%
Leasehold improvements	20%
Plant and machinery	9%
Furniture, fixtures and equipment	18% to 20%
Motor vehicles	18%

Renovations and improvements are capitalised and depreciated over their expected useful lives.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss account.

Construction in progress represents buildings, plant and machinery and other property, plant and equipment under construction and is stated at cost. Cost comprises direct costs of construction as well as interest charges during the period of construction, installation and testing and certain exchange differences on any related borrowed funds. Capitalisation of interest charges ceases when substantially all the activities necessary to prepare the asset for its intended use are complete. Construction in progress is transferred to property, plant and equipment when it is completed and ready for its intended use.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Owner occupied leasehold interest in land

The land and buildings elements of a lease are considered separately for the purposes of lease classifications, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease and is shown in the consolidated and Company balance sheets under property, plant and equipment. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land use rights are classified to as prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The unamortised prepaid lease payment for land use rights have been separately shown in the consolidated and Company balance sheets under current and non-current assets.

(h) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the assets that will generate probable future economic benefits. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recoginsed as expenses are not recognised as assets in a subsequent period.

(i) Impairment of assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost includes cost of purchase of materials computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is based on estimated normal selling prices in the ordinary course of business, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow moving or defective items where appropriate.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the year in which the related revenue is recognised. The amount of any write down of inventories to net realisable value and all losses of inventories are recognised as an expense in the year the write down or loss occurs. The amount of any reversal of any write down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the year in which the reversal occurs.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's or Company's balance sheet when a group company or the Company becomes a party to the contractual provisions of the instrument.

(i) Trade receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. Appropriate allowances for estimated irrecoverable amounts are recogised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a know amount of cash and are subject to an insignificant risk of changes in value.

(iii) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

(iv) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(l) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(l) Taxation (Continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(m) Leases

(i) Finance leases

Leases that substantially transfer all the risks and rewards of ownership of assets to the Group are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The finance charges are charged to the profit and loss account over the lease period.

Assets held under finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

(ii) Operating leases

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

(n) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are only disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Translation of foreign currencies (Continued)

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss account for the year. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss account for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation (including comparatives) are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expenses items (including comparatives) are translated at the average exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(p) Government subsidy

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

(q) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected costs of bonus payments are recognised as liabilities when the Group has present legal or constructive obligations as a result of services rendered by employees and reliable estimates of the obligations can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension costs

The Group has various defined contribution plans in accordance with the local conditions and practices in the provinces in which they operate. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior periods. The Group's contributions to the defined contribution plans are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and exclude value added tax or other sales related taxes.

(i) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

(ii) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year, including additions resulting from acquisitions through purchases of subsidiaries.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

(u) Use of estimate

The preparation of these financial statements in conformity with HKFRSs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(v) Critical accounting estimates and judgements

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements apart from those involving estimation as discussed below, which have the most significant effect on the amounts recognised in the financial statements.

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgement in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

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 the Group's assets and liabilities within the next financial year are discussed below.

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/written back in the period in which the estimate has been changed.

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/written back in the period in which the estimate has been changed.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

5. TURNOVER AND OTHER INCOME

The Group's turnover represents the net invoiced value of goods sold net of value-added tax and after allowances for returns and discounts.

An analysis of turnover and other income is as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Sale of EIP products	**278,643**	233,445
Other income		
Value-added tax ("VAT") concession*	**9,479**	6,973
Government subsidies	**3,890**	2,118
Bank interest income	**3,255**	3,538
Welfare payable written back	**2,933**	—
Others	**3,821**	2,211
	23,378	14,840
Total revenue for the year	**302,021**	248,285

* Being VAT refunds obtained from the Shenzhen Futian District State Tax Bureau in respect of approved software and integrated circuit products.

6. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:

	2006 RMB'000	2005 RMB'000
Cost of inventories sold	**162,849**	142,993
Depreciation	**4,820**	4,296
Amortisation of land lease prepayments	**126**	126
Research and development costs:		
Current year's expenditure	**20,114**	23,172
Minimum lease payments under operating leases in respect of land and buildings	**6,273**	5,461
Auditor's remuneration	**650**	550
Staff costs (excluding remuneration of directors):		
Salaries, bonus and allowances	**24,399**	17,180
Retirement benefits scheme contributions	**2,735**	2,160
Provision for doubtful debts	**52**	1,150
Provision against slow-moving inventories	**—**	180
Loss/(gain) on disposal of property, plant and equipment	**18**	(31)
Foreign exchange differences, net	**(73)**	(10)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

7. DIRECTORS' REMUNERATION

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

	2006	2005
	RMB'000	RMB'000
Fees	**48**	48
Other emoluments:		
Salaries, allowances and benefits in kind	**186**	180
Retirement benefits scheme contributions	**15**	13
	201	193
	249	241

(a) Independent non-executive directors

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

	2006	2005
	RMB'000	RMB'000
Ms Zhou Hong	**12**	12
Mr Wen Bing	**12**	12
Mr Dong Li Xin	**12**	12
Mr Wang Tian Xiang	**12**	12
	48	48

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

7. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000	RMB'000
2006				
Mr Chen Zhi Lie	—	83	6	89
Mr Zhu Jun	—	83	9	92
Mr Tso Cheng Shun	—	20	—	20
	—	186	15	201
2005				
Mr Chen Zhi Lie	—	80	5	85
Mr Zhu Jun	—	80	8	88
Mr Tso Cheng Shun	—	20	—	20
	—	180	13	193

(c) Supervisors

	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000
2006			
Wang Bichun*	—	—	—
Zhou Cheng Yan*	—	—	—
Zhang Zheng An#	20	—	20
Zhan Guo Nian#	20	—	20
Pu Jing	20	—	20
	60	—	60
2005			
Wang Bichun*	—	—	—
Zhou Cheng Yan*	—	—	—
Pu Jing	—	—	—
	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

7. DIRECTORS' REMUNERATION (Continued)

(c) Supervisor (Continued)

*Retired on 10 October 2006

#Appointed on 10 October 2006

There were no arrangements under which a director or a supervisor waived or agreed to waive any emoluments, and no incentive payment nor compensation for loss of office was paid or payable to any director during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2005: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining three (2005: three) non-director, highest paid employees for the year are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**555**	260
Retirement benefits scheme contributions	**31**	21
	586	281

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

During the year ended 31 December 2006, the three non-director, highest paid employees of the Group received emoluments of approximately RMB388,000, RMB109,000 and RMB89,000. 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.

9. TAXATION

Company:

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 obtained approval in 2004 for a 50% exemption from income tax for three more years. The exemption ceased on 31 December 2006. Accordingly, the Company was entitled to a 50% exemption from corporate income tax for the years ended 31 December 2005 and 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 year.

Subsidiaries:

Shenzhen EVOC 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.

Shanghai EVOC, Xinteer and Beijing EVOC are subject to the statutory 30% state corporate income tax and 3% local income tax. Xinteer and Beijing EVOC have not provided for any corporate income tax since they have no taxable income for the year.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

9. TAXATION (Continued)

(a) Taxation in the consolidated income statement represents:-

	2006	2005
	RMB'000	RMB'000
PRC income tax – current year's provision	**4,039**	3,397

(b) Taxation charge of the Group for the year can be reconciled to the profit as stated in the financial statements as follows:-

	2006	2005
	RMB'000	RMB'000
Profit before tax	**86,012**	48,523
Tax at the statutory tax rate of 33% (2005: 33%)	**28,384**	16,013
Tax rate differential	**(15,235)**	(12,374)
Deferred tax not recognised	**1,531**	308
Tax effect of expenses not deductible for taxation purpose	**—**	97
Effect of tax exemption	**(9,647)**	—
Tax effect of non-taxable items	**(1,078)**	(682)
Others	**84**	35
Taxation charge for the year	**4,039**	3,397

(c) There was no significant unprovided deferred tax in respect of the year (2005: Nil).

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB53,596,000 (2005: RMB45,145,000).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the following data:

	2006	2005
Profit for the year and profit for the purpose of basic earnings per share	**RMB81,976,000**	RMB45,126,000
Shares in issue for full year	**467,100,000**	467,100,000
Capitalisation issue on 30 May 2006	**560,520,000**	560,520,000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,027,620,000**	1,027,620,000

The weighted average number of ordinary shares in issue is determined as if the capitalisation issue as described in note 22 had taken place on 1 January 2005.

There are no diluted earnings per share since the Company has no dilutive potential shares.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

12. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 31 December 2004	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
Additions	—	46	1,004	2,830	1,143	81,353	86,376
Disposals	—	—	(35)	(1,213)	—	—	(1,248)
As at 31 December 2006	5,746	1,923	16,793	16,366	2,337	120,392	163,557
Accumulated depreciation:							
At 31 December 2004	776	1,613	4,658	6,762	509	—	14,318
Charge for the year	258	145	1,312	2,408	173	—	4,296
Written back on disposal	—	—	—	(252)	(47)	—	(299)
At 31 December 2005	1,034	1,758	5,970	8,918	635	—	18,315
Charge for the year	259	94	1,478	2,711	278	—	4,820
Written back on disposal	—	—	(18)	(699)	—	—	(717)
As at 31 December 2006	1,293	1,852	7,430	10,930	913	—	22,418
Net book value:							
At December 2006	4,453	71	9,363	5,436	1,424	120,392	141,139
At December 2005	4,712	119	9,854	5,831	559	39,039	60,114

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:							
At 31 December 2004	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
Additions	—	46	993	1,825	597	81,353	84,814
Disposals	—	—	(35)	(1,213)	—	—	(1,248)
As at 31 December 2006	5,746	1,923	16,782	15,361	1,791	120,392	161,995
Accumulated depreciation:							
At 31 December 2004	776	1,613	4,658	6,762	509	—	14,318
Charge for the year	258	145	1,312	2,408	173	—	4,296
Written back on disposal	—	—	—	(252)	(47)	—	(299)
At 31 December 2005	1,034	1,758	5,970	8,918	635	—	18,315
Charge for the year	259	94	1,478	2,171	240	—	4,242
Written back on disposal	—	—	(18)	(699)	—	—	(717)
As at 31 December 2006	1,293	1,852	7,430	10,390	875	—	21,840
Net book value:							
At December 2006	4,453	71	9,352	4,971	916	120,392	140,155
At December 2005	4,712	119	9,854	5,831	559	39,039	60,114

The Company'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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

13. LEASE PREPAYMENTS

	Group and Company	
	2006	2005
	RMB'000	RMB'000
Cost		
At beginning and end of year	**6,277**	6,277
Accumulated amortisation		
At beginning of year	**262**	136
Charge for the year	**126**	126
At end of year	**388**	262
Carrying value		
At 31 December	**5,889**	6,015
Less: Current portion included in other receivables, deposit and prepayments (note 18)	**(125)**	(126)
Non-current portion	**5,764**	5,889

The Group's leasehold land is 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.

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**66,000**	5,880

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

14. INVESTMENTS IN SUBSIDIARIES (Continued)

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Registered capital	Percentage of equity attributable to the Company		Principal activities
			2006	2005	
深圳市研祥軟件技術有限公司 Shenzhen EVOC Software Technology Company Limited ("Shenzhen EVOC")	PRC	RMB6,000,000	**100%**	98%	Research, development, manufacture and distribution of EIP software products
深圳市研祥新特科技有限公司 Shenzhen EVOC Xinteer Technology Company Limited ("Xinteer")	PRC	RMB10,000,000	**90% (Note)**	N/A	Not yet commenced businesses during the year
上海市研祥智能技術有限公司 Shanghai EVOC Intelligent Technology Company Limited ("Shanghai EVOC")	PRC	RMB30,000,000	**100%**	N/A	Research, development, manufacture and distribution of EIP software products
北京市研祥興業國際科技有限公司 Beijing EVOC Xingye International Technology Company Limited ("Beijing EVOC")	PRC	RMB30,000,000	**100%**	N/A	Not yet commenced businesses during the year

N/A: These companies were incorporated in 2006.

Note: The 90% equity interest was indirectly held by the Company. Subsequent to the year end, the Group's equity interest in this companywas increased to 100%.

Amounts due to subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment.

15. INVENTORIES

	2006		2005	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	**26,239**	**25,980**	14,703	14,703
Work-in-progress	**4,452**	**4,452**	1,787	1,787
Finished goods	**13,689**	**32,783**	24,322	24,322
	44,380	**63,215**	40,812	40,812
Less: Provision for slow moving inventories	**(6,151)**	**(6,151)**	(6,151)	(6,151)
	38,229	**57,064**	34,661	34,661

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

16. 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:

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 to 90 days	**27,961**	**26,481**	22,299	22,299
91 to 180 days	**1,986**	**1,983**	1,598	1,598
181 to 365 days	**2,601**	**2,601**	1,218	1,218
Over 1 year	**2,490**	**2,490**	3,186	3,186
	35,038	**33,555**	28,301	28,301
Less: Provision for doubtful debts	**(1,928)**	**(1,921)**	(3,176)	(3,176)
	33,110	**31,634**	25,125	25,125

17. BILLS RECEIVABLE

The bills receivable are aged within six months.

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Other receivables and deposits	**3,373**	**2,987**	3,766	3,738
Prepayments	**7,870**	**7,870**	2,440	2,440
Current portion of lease prepayments (note 13)	**125**	**125**	126	126
	11,368	**10,982**	6,332	6,304

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

19. CASH AND CASH EQUIVALENTS

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and bank balances	**127,820**	**64,378**	71,307	65,354
Pledged bank balances	**11,627**	**11,627**	—	—
Time deposits	**100,000**	**100,000**	130,000	130,000
Cash and cash equivalents	**239,447**	**176,005**	201,307	195,354

The bank balances of RMB11,627,000 were pledged to a bank for issuance of bank guarantees to certain subcontractors of the Company.

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.

20. TRADE PAYABLES

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

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 to 90 days	**24,041**	**23,427**	25,438	25,438
91 to 180 days	**1,328**	**1,328**	1,295	1,295
181 to 365 days	**583**	**529**	90	90
Over 1 year	**553**	**553**	872	872
	26,505	**25,837**	27,695	27,695

21. OTHER PAYABLES AND ACCRUALS

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Other payables	**16,740**	**16,028**	16,225	16,225
Other taxes payables	**3,624**	**2,535**	1,524	1,524
Accruals	**1,141**	**1,105**	1,568	1,568
	21,505	**19,668**	19,317	19,317

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

22. SHARE CAPITAL

	Number of shares of RMB0.1 each	**RMB'000**
Registered:		
At 31 December 2004 and 2005	467,100,000	46,710
Increase during the year	560,520,000	56,052
At 31 December 2006	1,027,620,000	102,762
Issued and fully paid:		
At 31 December 2004 and 2005	467,100,000	46,710
Capitalisation issue (note 23)	560,520,000	56,052
At 31 December 2006	1,027,620,000	102,762

	2006		2005	
	Number of shares	**RMB'000**	Number of shares	RMB'000
Domestic shares of RMB0.1 each	**770,660,000**	**77,066**	350,300,000	35,030
H Shares of RMB0.1 each	**256,960,000**	**25,696**	116,800,000	11,680
	1,027,620,000	**102,762**	467,100,000	46,710

Pursuant to a special resolution passed in an annual general meeting on 30 May 2006, the Company issued new shares on the basis of 12 new ordinary shares of RMB0.1 each for every 10 existing shares of RMB0.1 each to all shareholders by capitalising a total amount of RMB56,052,000 in the share premium account. Upon capitalisation of the share premium account into share capital, the total number of ordinary shares of the Company in issue increased to 1,027,620,000 and aggregate share capital of the Company increased to RMB102,762,000.

23. 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 34.

In accordance with the PRC Companies Law, the Company and its PRC subsidiaries were required to transfer 10% of their profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the statutory surplus reserve (until such reserve reaches 50% of registered capital of the respective companies) and a percentage of not less than 5% as determined by management of the profit after tax to the public welfare fund. With the amendment of the PRC Companies Law which was effective from 1 January 2006, enterprises in the PRC are no longer required to transfer any profit to the public welfare fund. Any balance of public welfare fund brought forward from 31 December 2005 should be transferred to the statutory surplus reserve. The statutory surplus reserve is non- distributable and can be used to make up losses or to increase share capital. Except for the reduction of losses incurred, other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

23. RESERVES (Continued)

(b) Company

	Share premium	Statutory surplus reserve	Retained profits	Total
	RMB'000	RMB'000 (Note (a))	RMB'000	RMB'000
At 31 December 2004	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
Capitalisation issue (note 22)	(56,052)	—	—	(56,052)
Net profit for the year	—	—	53,596	53,596
Transfer from/(to) reserves	—	5,360	(5,360)	—
At 31 December 2006	29,138	37,412	175,986	242,536

24. OPERATING LEASE COMMITMENTS

The Group and the Company lease 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 and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2006		2005	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Within one year	**5,461**	**4,765**	9,742	9,742
In the second to fifth years, inclusive	**5,328**	**5,278**	4,419	4,419
	10,789	**10,043**	14,161	14,161

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

25. COMMITMENTS

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

	2006	2005
	RMB'000	RMB'000
Contracted, but not provided for:		
Buildings	**19,255**	61,486

26. RELATED PARTY TRANSACTIONS

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

The office premises used by the Group during the year, which were located at the 7th floor, No.5.8 Tianji Building, Tianan Cyber Park, Chegongmiao, Shenzhen, the PRC, with an area of 575 square metres, were provided by the Chairman, Mr. Chen Zhi Lie, free of charge.

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

(b) Amount due to a minority shareholder was unsecured and interest free. Subsequent to the year end, the amount was repaid to the minority shareholder in full.

(c) Members of key management during the year comprised only the three executive directors whose remuneration is set out in Note 7 to the financial statements.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Financial risk factors

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 the Group's policy not to trade financial instruments.

The main risk arising from the Group's financial instruments is credit risk foreign exchange risk, liquidity risk, and interest rate risk.

(i) 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Financial risk factors (Continued)

(ii) Foreign exchange risk

The Group's main operations are in the PRC and has no significant exposure to any specific foreign currency.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, other liquid assets and the ability to close out market positions. The Group maintains sufficient bank balances and cash at the balance sheet date.

(iv) Fair value and cash flow interest rate risk

The Group has no significant interest-bearing assets, as such its income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk from its short-term bank borrowings is minimal.

(b) Fair value estimation

The fair values of bank balances and cash, trade and other receivables, trade and other payables are not materially different from their carrying amounts.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

28. POST BALANCE SHEET EVENT

Subsequent to the year end, the Directors proposed to convert share premium in the amount of RMB20,552,400 in the reserves of the Company into 205,524,000 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 2 new shares for every 10 existing ordinary shares. The proposed capitalisation issue is subject to the approval of the shareholders at the forthcoming annual general meeting.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2007.

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

		Year ended 31 December				
Financial year		**2006**	2005	2004	2003	2002
Turnover	*RMB'000*	**278,643**	233,445	234,061	202,628	152,462
Gross Profit	*RMB'000*	**115,794**	90,452	88,822	92,383	64,978
Gross Margin	*%*	**41.56**	38.75	37.95	45.60	42.62
Profit for the year	*RMB'000*	**81,973**	45,126	43,504	51,589	39,260
Net Margin	*%*	**29.42**	19.33	18.59	25.46	25.75
Basic Earnings Per Share (Note)	*RMB*	**0.080**	0.044 (Restated)	0.093	0.137	0.112
Cash Generated from Operations	*RMB'000*	**70,868**	45,131	49,683	68,950	25,959
Trade Receivables Turnover	*Days*	**41**	45	34	24	27

FINANCIAL POSITION

		Year ended 31 December				
Financial year		**2006**	2005	2004	2003	2002
Total Assets	*RMB'000*	**476,893**	343,993	296,568	287,717	176,532
Total Liabilities	*RMB'000*	**102,237**	52,190	38,333	58,973	96,247
Total Cash and Cash Equivalents	*RMB'000*	**239,447**	201,307	206,062	198,782	81,284
Total Equity	*RMB'000*	**374,656**	291,803	258,235	228,744	80,285
Net Assets per Share	*RMB*	**0.365**	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 equity holders of the Company for the year of RMB81,976,000 (2005: RMB45,126,000) and the 1,027,620,000 (2005: 1,027,620,000) ordinary shares in issue during the year.