研祥智能科技股份有限公司

EVOC Intelligent Technology Company Limited*

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

Stock Code : 8285

2007

Annual Report

* for identification purpose only

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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

Tsui Chun Kuen CPA, FAIA

AUTHORIZED REPRESENTATIVES

Chen Zhi Lie
Tsui Chun Kuen CPA, FAIA

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

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Hong Kong

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AUDITOR

Shu Lun Pan Horwath Hong Kong CPA Limited
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PRINCIPAL BANKER

Industrial and Commercial Bank of China
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PRC

LEGAL ADVISER TO THE COMPANY

Commerce & Finance Law Offices
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Shenzhen 518001
PRC

COMPANY HOMEPAGE/WEBSITE

http://www.evoc.com

GEM STOCK CODE

8285

CORPORATE BACKGROUND

EVOC Intelligent Technology Company Limited was established in the People's Republic of China (the "PRC") on 18 December 2000 as a joint stock limited company under the PRC's Company Law. The Company's H shares were listed on the GEM of the Stock Exchange of Hong Kong on 10 October 2003 (the "Listing"). The Company and its subsidiary ("Group") are principally engaged in the research, development, manufacture and distribution of embedded intelligent platform ("EIP") products. As at 31 December 2007, the registered capital of the company amounted to approximately RMB123.3 million with the Group's total assets to approximately RMB2.3 billion.

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 300 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 about sales agents spread out across various provinces and autonomous regions in the PRC. Over 5,000 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, I am pleased to present the annual report of Shenzhen EVOC Intelligent Technology Company Limited ("EVOC" or the "Group") for the year of 2007 to our shareholders. With over 14 years of operating history since its establishment, the Group has become one of the leading enterprises in the Embedded Intelligence Platform ("EIP") industry in Mainland China.

During the period under review, the Group's overall competitive edges had became increasingly apparent, and, through its holding investment in Wuxi Jiang Nan Da Shi Jie Investment Development Company Limited (hereinafter referred to "Jiang Nan Da Shi Jie"), engaged in construction and operation project of services outsourcing base. The project will introduce industries of software, research and development, technical support, finance, human resources and logistic, aiming at becoming a peculiar integrated sevice outsourcing base in China with multiple industries, and to provide the base with series of ancilliary services such as training, accomodation, hotels, restaurants, retail business, property management and logistics support.

OPERATION RESULTS

During the period under review, the Group recorded satisfactory operation results. The total revenue in 2007 amounted to RMB602,626,000, representing an increase of 116.27% compared to RMB278,643,000 for the last year. The gross profit amounted to approximately RMB231,654,000, representing an increase of 100% compared to last year, while gross profit margin decreased to 38.44% from 41.5%. The net profit amounted to approximately RMB154,436,000, representing an increase of 88.40% compared to last year. The profit attributable to equity holders amounted to approximately RMB154,433,000. The earnings per share amounted to approximately RMB0.125.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW

During the period, 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. Chinese government has been actively driving informization among industries and localization of information technology, as well as promoting the setting up and introduction of the standards for EIP industry. In view of the rapid development and increasingly standardization of the EIP industry, the Group acquired more and more market opportunities as one of the home-made brands in the PRC.

As the sole member of INTEL ICA among the manufacturers in Mainland China, the Group has established long-term strategic cooperation relationship with Performance Technologies under INTEL in the United States. Complementing one another with Performance Technologies, the core competitiveness, brand recognition and corporate image of the Group have further improved. During the period under review, the Group expanded the production lines to increase the production capacities in response to market needs and achieved satisfying results in its expansion to overseas markets.

With rapid expansion in production scale and R&D resources in recent years, the Group intends to continue to spread the industrial chain in order to increase new profit growth points. After thorough investigation and research, the Group decides to develop services outsourcing business in middle and back area of Yangtze River Delta where land resources and labor force are sufficient. Since August 2006, Chinese government's policies and measures on services sourcing business were introduced in succession, which strengthed the Group's confidence in developing services outsourcing business. Currently the Group is of the view that the time is ripe ,and the Group is at the early stage of preparation for the construction of services outsourcing base project.

1. Research & development

The Group continued to adhere to the corporate core values of "Self-Innovation", further enhanced the importance of technology innovation to corporate development. During the period under review, in addition to continue to expanding the scale of R&D centers in Shenzhen headquarter, Beijing and Shanghai, the Group also established a regional R&D center in Xian which attracted personnel with high caliber in technology and management. The group also adjusted the R&D workflow throughout the company, established project management and performance assessment system, improved the project output efficiency so as to have full understanding of market changes and accelerate development of new products. The Group spent RMB36,259,000 in total in R&D for the year of 2007, representing 6% of the total revenue during the year.

In response to the development trend of the EIP industry, the news products R&D of which the Group had focused on during the period under review include:

(1) Long March Series Industry Level Original Special Computers Products;

(2) PC104 Wide-Temperature Series EIP Products;

(3) Highly-reliable CPCI Series Products.

2. Products & Services

The Group offered over 300 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 2007, 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 2007, the Group's won the following awards and accreditations:

(1) "2006 Special Growth of Top 500 in Enterprise Informization in China" (2006年度中國企業信息化500強特別成長獎) awarded by CECA National Informization Assessing Center;

(2) "2006 Top 10 Most Powerful Domestic Brands of Automatization Industry in China" (2006年度中國自動化行業最具影響力十大民族品牌) awarded by China Association of Automatization;

(3) "2006 Top 100 Private Enterprise Taxpayers of Futian District" (2006年度福田區納稅百佳民營企業) awarded by Government in Futian District, Shenzhen;

(4) "2007 Top 100 Most Active Enterprises in China" (2007中國最具生命力百強企業) awarded by National Committee of Most Active Enterprises in China and Jury of Most Active Enterprises in China;

(5) "Special Computers Demonstration Base of Most Active Enterprises in China" (中國最具生命力企業特種計算機示範基地) awarded by National Committee of Most Active Enterprises in China and Jury of Most Active Enterprises in China;

(6) "Leading Private Technology Enterprises" (民營科技領先企業) awarded by Society for the Study of Private Economy, China Association of Township Enterprises, Martket News of People's Daily, Fortune China Magazine and Fortune Forum of China Private Enterprises;

(7) "2007 Excellent Private Technology Enterprises in China" (2007年度中國優秀民營科技企業) awarded by National Industrial and Commercial League in China and China Association of Private Technology Entrepreneur;

(8) "Leading Private Key Enterprises in Shenzhen" (深圳市民營領軍骨幹企業獎牌) awarded by Shenzhen Municipal Government;

(9) "International Chamber of Commerce Certificate in Shenzhen" (深圳國際商會證書) awarded by Shenzhen International Chamber of Commerce;

(10) "Key High Technology Certificate" (重點高新技術證書) and "State Torch Plan Key High-Tech Enterprises" (國家火炬計劃重點高新技術企業) awarded by Torch High-Tech Industrial Development Center of Science and Technology Department;

(11) "Charitable Enterprises" (愛心企業獎) awarded by China Women Development Fund;

(12) a holding subsidiary Shanghai EVOC Intelligent Technology Company Limited was awarded as "Patent Key Enterprises in Shanghai" (上海市專利工作培育企業) by Shanghai Intellectual Property Rights Bureau;

CHAIRMAN'S STATEMENT

(13) a subsidiary Shenzhen EVOC Software Technology Company Limited was awarded as "2006 Top 100 Private Enterprises Taxpayers of Futian District" (2006年度福田區納稅百佳民營企業) by Government in Futian District, Shenzhen;

(14) MEC-9001 product was awarded as "2006 Innovative Products in China Automatization Industry" (中國自動化行業2006年度創新產品獎)by China Industrial Control Website;

(15) MEC-9001 product was awarded as "2006 Most Competitive Innovative Products in China Automatization Industry" (2006年度中國自動化領域最具競爭力創新產品) by China Association of Automatization;

(16) MEC-5002 product was awarded as "Excellent China Self-Innovative Embedded Technology/Products7" (中國自主創新優秀嵌入技術/產品) by China Association of Computer Users.

(17) MEC-9001 product was awarded as "2006/07 Excellent Embedded Technical Products" (2006/07年度優秀嵌入技術產品) by China Association of Computer Users.

3. Marketing and Management

During the period, the Group 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 2007, the Group continued to put more effort in cultivating and supervising its key customers, 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. The Group also sold EIP ancillary products to customers in order to fully increase the turnover, and made pre-R&D and sales through fully cultivating industry and making strategic plan of products development in advance.

In addition, expanding overseas market may become another drive of profit growth of the Group. Global market scale is far bigger than China market scale with more growth potential. During the period under review, the Group had established core marketing team of international market and successfully acquired overseas certificates for some products. According to the overseas sales experiment feedback of standardization products, the Group had timely adjusted and improved overseas market development strategy and recruited related specialist. The globalization strategy is to be fully implemented.

During the period, the Group had successfully held following seminars and products releases:

— Long March Series Computer New Products Release in Beijing (長征系列整機北京新品發佈會)

— New Products (Network Products and Computer) Release in Guangzhou (廣州新品發佈會(網絡產品和整機產品)

— New Products Release of General Products Department in Beijing (通用產品事業部北京新品發佈會) 10.23–10.27 (通訊)

— CompactPCI Technology Convention of General Products Department (通訊產品事業部CompactPCI技術交流會)

— attended annual meeting organized by PICMG (PICMG組織的年會) and exhibited Compact PCI series products

— attended Intel IDF in Beijing (Intel北京的IDF信息峰會) and exhibited Network UTM, computer MEC9001 and 104 product of the Company

- attended Automatization Exhibition of South-China (華南自動化展) (General and HMI)
- attended Shanghai IAC (上海IAC展) (General, HMI, Computer Products and 104)
- attended 2007 China International Communication Technology Products Exhibition (2007中國國際通信技術產品展覽會) (Communication)
- the 4th China International Military and Civil Technology (Xi'an) Expo (第四屆中國國際軍民兩用科技(西安)博覽會) (Computer, 104, Communication and Equipment)
- 2007 China International Communication Equipments Technology Exhibition (2007年中國國際通信設備技術展覽會) (23 October to 27 October) (Communication)
- China International Industrial Automatization (中國國際工業自動化博覽會) (Computer, 104, Communication, HMI and General)
- the 6th Western International Equipments Manufacture Industry Expo (第六屆西部國際裝備製造業博覽會) (Equipments, Communication and 104)

Through large-scale marketing and promotional activities and sharing EIP, network communication 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. During the period under review, the Group carried out fully staff training and fully improved the quality of the management of the Group in order to fit rapid development of the Group. The Group had upgraded existing ERP system to SAP version which is suitable for future operation of the Company, meanwhile introduced Internationalization Operation and Internal Control Concept, further improved the cost control workflow and decision making procedure, and lowered the operation risk of the Group roundly.

OUTLOOK AND PROSPECTS

EIP industry in China has been growing stably. With benefit from equipments changes in traditional industries and launch of informization construction of new industries, the growth of the EIP industry in China is expected to accelerate. In 2008, the Group will focus on improving the core competitiveness of the Company, expanding market share and improving profitability of the Company.

The Group will also full drive construction and operation of services outsourcing base project. After completion of the project, the Group will make use of the advantages of the services outsourcing base in location and human resources to outsource part of own science R&D, manufacturing and software outsourcing business to the base, while actively introducing overseas services outsourcing enterprises to China. In general, services outsourcing base is the expansion and extension for the existing outsourcing business of the Group , which will active drive the existing business and bring new profit growth point.

CHAIRMAN'S STATEMENT

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, and expand EVOC Central Research Institute. In the future, the Group will continue to enhance technology co-operation with upstream chips manufactures through EVOC Central Research Institute, to provide the most advanced technical achievement to the Group and the PRC.

2. Marketing and Brand

The Group will continue to implement its marketing and sales strategy which is mainly based on direct sales and supplemented by sales agents in Mainland China. In addition to expanding its market shares in Mainland China, a globalization strategy has been an important objective for the future development of the Group. The Group will improve the awareness of it Group in overseas market by sending personnel to overseas, developing agency relationships, participating overseas products exhibitions based on the results of the surveys on overseas markets. The Group plans to develop marketing outlets in regions including Eastern Asia, South East Asia and India to expand the proportion of export operations of its products through a prior trial sales of standardized products.

Sequent to the relocation to EVOC Technology Building in early 2007, the Group completed the construction and preparation work for the China Industrial Control Museum, and at the same time, completed the overall auxiliary facilities for the EVOC Technology Building. At present, the EVOC Technology Building has become a commercial center for, and a landmark in, its peripheral areas which definitely help to promote the brand name and the corporate image of the Group.

3. Management

With the rapid expansion of our scale of operations and business activities, the Group will continue to improve our internal management system, adjust our management structure, establish comprehensive performance evaluation system and staff training program in the coming year. The Group revised its instructions of working position and working identification document and increased the training hours of staffs for staffs to adapt their jobs. The existing ERP system was upgraded and replaced with an aim to complete the development tasks assigned by the Group in future.

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, 19 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year under review, the group recorded total revenues of approximately RMB602.6 million, representing an increase of approximately 116% over that of the previous year. Profit attributable to equity holders of the parent for the year was RMB154.4 million, representing an increase of approximately 88% over that of the previous year, while basic earnings per share were RMB0.125.

Turnover by product category

Sales of Products	2007 RMB'000	2006 RMB'000	Change Percentage
Board-type EIPs	268,132	142,440	+88%
Chassis-type EIPs	207,737	128,125	+62%
Remote data modules	12,797	8,078	+58%
Others	113,960	0	+100%
Total	602,626	278,643	+116%

Turnover by Geographical Location

Regions in China	2007 RMB'000	2006 RMB'000	Change Percentage
North and Northeast China	114,722	73,927	+55%
East China	87,532	39,935	+119%
South China	362,289	137,700	+163%
Southwest China	23,382	17,422	+34%
Northwest China	14,701	9,659	+52%
Total	602,626	278,643	+116%

PROFIT MARGIN

Profit margin for the year was approximately 38%, representing an approximate 3% decrease as compared to the previous year. The decrease in gross profit margin was mainly due to increase trading business in electronic components with a comparatively lower margin.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 December 2007, the Group had shareholders' funds/net assets of approximately RMB1,288 million. It mainly comprised bank balances which amounted to approximately RMB571 million, inventories of approximately RMB91 million and trade and bills receivables amounted to approximately RMB147 million. Long-term bank borrowings amounted to RMB150 million. Current liabilities of the Group mainly comprised bank borrowings of RMB280 million, trade and bills payable of approximately RMB106 million and other payables and accruals of RMB285 million. Net assets value per share of the Group is approximately RMB1.04.

As at 31 December 2007, the gearing ratio of the Group is about 44% (2006: 21%). It is defined as the Group's total liabilities over the total assets.

MANAGEMENT DISCUSSION AND ANALYSIS

EXCHANGE RATE EXPOSURE

As major currencies used for the Group's transactions were Renminbi, the exchange rate risks of the Group is considered to be minimal.

THE PLEDGE OF ASSETS

At 31 December 2007, the Group has pledged certain of its property, plant and equipment, investment properties and lease prepayments having a total carrying amount of approximately RMB253,763,000 (2006 :nil) as security for bank loans and general banking facilities granted to the Group. Except for the above, there are no other charges on the Group's assets.

CAPITAL STRUCTURE

Details of movements in the share capital of the Group during the year are described in note 28.

SIGNIFICANT INVESTMENT

The Group has not held any significant investment for the year ended 31 December 2007 except for the construction of EVOC Technology Building and acquisition of subsidiary.

HUMAN RESOURCES

A breakdown of the number of Group employees by function as at 31 December 2006 and 2007 is set out below:

By function	2007	2006
Sales and marketing	807	328
Purchasing	40	21
R&D	238	157
Management	17	17
Accounting and Finance	71	39
Quality control	74	73
Production	505	349
Human resources and administration	202	27
Total (Staff)	1,954	1,011

During the year, the increase of headcount in Sales and marketing, R&D and production departments were mainly due to expansion of business.

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.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PROFILE

EXECUTIVE DIRECTORS

Chen Zhi Lie (陳志列) , aged 44, 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. Mr. Chen 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 (全面質量管理優勢管理者)" by Quality Association of Shenzhen and as "Excellent Small Medium Enterprise of Shenzhen (深圳市優秀中小企業家)" by Association for Small Medium Enterprises of Shenzhen in 2004. In 2005, Mr. Chen was 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). In 2007, Mr. Chen was elected as a member of Guangdong Political Consultative Conference (廣東省政協委員). In 2008, Mr. Chen was accredited as 2007 CCTV's Man of the Year in Chinese Economics and awarded the price of Innovation of the Year.

Tso Cheng Shun (曹成生), aged 79, 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 Company. Mr. Tso has been serving the Company since 1995. He is responsible for developing business strategy, preparing annual financial budget and monitoring financial status of the Group.

Zhu Jun (朱軍), aged 46, 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 Company. Mr. Zhu obtained the designation of Senior Programmer from China Computer Application Software Practitioner Examination Committee (中國計算機應用軟件人員水平考試委員會) in 1990. He has extensive research and development experience in computer engineering and integration of control systems. He is responsible for managing overall R&D strategy and operations of the Company. In 2000, Mr. Zhu was awarded Shenzhen Municipal Science and Technological Advancement First Class Prize (深圳市科技進步一等獎) and Guangdong Province Technological Progress Second Runner-up Prize (廣東省科技進步三等獎). In 2003, Mr. Zhu was awarded Shenzhen Province Technological Progress First Class Prize.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Wen Bing (聞冰), aged 46, 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).

Zhou Hong (周紅), aged 42, an independent non-executive director, chairman 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 Stock department of CSG Holding Company Limited (中國南玻集團股份有限公司) (a Listed Company in Shenzhen Stock Exchange).

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT'S PROFILE

Dong Lixin (董立新), aged 48, 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.

Wang Tian Xiang (王天祥), aged 39, 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 financial department of China Gas Holding Limited (中國燃氣控股有限公司).

SUPERVISORS

Pu Jing (濮靜), aged 42, chairman of the supervisory committee of the Company. Ms. Pu graduated from Wuhan Iron and Steel University (武漢鋼鐵學院) in the PRC with a bachelor degree in engineering in electric automation in 1988. She has over 18 years of experience in industrial computer testing. Ms. Pu is a shareholder of Shenzhen Yanxiang Wangke Industry Company Limited and Shenzhen Haoxuntong Industry Company Limited and was appointed by the Company as a Supervisor in December 2000.

Mr. Zhan Guo Nian (詹國年), aged 37, a member of the supervisory committee of the Company. 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 17 years of experience in management and administration. Mr. Zhan joined the Company for management and administration work in March 2001 and was appointed by the Company as a Supervisor in October 2006.

Mr. Zhang Zheng An (張正安), aged 32, was graduated from high school, a member of the supervisory committee of the Company. 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 by the Company as a Supervisor in October 2006.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Tsui Chun Kuen (徐振權), aged 57, the chief financial controller, qualified accountant and company secretary of the Company. He obtained a master degree of business administration from University of East Asia in Macau in 1991. He is a fellow member of the Association of International Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. He has more than 20 years experience in finance and accounting. Mr. Tsui had served the Company as the financial controller, qualified accountant, company secretary and authorised representative during the period from July 2002 to August 2004 and from 22 June 2007 till now.

SENIOR MANAGEMENT

Sun Wei (孫偉), aged 45, is the general manager and the manager of the human resources and administration department of the Company. He obtained a bachelor degree in engineering with a major in engine technology from Da Lian Tie Dao University (大連鐵道大學) in the PRC in 1983. He has extensive experience in engine design, investment and human resources management. He joined the Company in March 1999.

Wang Zhen Zun (王振俊), aged 43, the assistant general manager of the Company. He is responsible for the overall sales functions of the Company. Mr. Wang obtained a bachelor degree in engineering with a major in automation of control from the automated control faculty of Beijing Industrial College (中國北京工業學院) in the PRC in 1986. Mr. Wang possesses strong technical expertise in automation technology and has over 13 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 37, the assistant general manager of the Company. He is responsible for the overall marketing functions of the Company. Mr. Fan is a certificate holder in Chinese language from Nan Cheng University (南昌大學). He has over 14 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 41, is the head of the production department of the Company. He obtained a bachelor degree in wireless electronics technology from Chongqing University (重慶大學) in the PRC in 1988. He is in charge of the quality control and production functions of the Company. He has over 14 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 2007.

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 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

CHANGE OF COMPANY NAME

On 11 May 2007, the Company changed its name from Shenzhen EVOC Intelligent Technology Company Limited to its present name.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 31 to 74.

The Directors do not recommend the payment of final dividend.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 28 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company's reserves available for distribution, calculated in accordance with relevant rules and regulations and the Company's articles of association, amounted to RMB225 million.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, 23% of the Group's revenue was attributable to the Group's five largest customers and sales to the Group's largest customer accounted for 8% of the Group's revenue for the year. 23% 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 12% of the Group's total purchases.

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

DIRECTORS' REPORT

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

Zhang Zheng An
Zhan Guo Nian
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. Upon expiry of the term, they shall be eligible for re-election.

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', SUPERVISORS' AND CONTROLLING SHAREHOLDERS INTERESTS IN CONTRACTS

Except for the connected transaction as stated in the report, no other contracts of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a director, supervisor 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' REPORT

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

As at 31 December 2007, 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	840,635,928 (Note 1)	Domestic Shares	90.90%	68.17%
Zhou Hong (周紅)	Beneficial owner	52,800	H Shares	0.02%	0.004%
Supervisor					
Zhang Zheng An (張正安)	Interest of a controlled corporation	46,239,600 (Note 2)	Domestic Shares	0.50%	0.37%

Notes:

1. These Domestic Shares are held by Shenzhen Yanxiang Wangke Industry Co., Ltd. which is owned as to 70% by Mr. Chen Zhi Lie (陳志列) ("Mr. Chen") and 4.5% by Ms. Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in Shenzhen Yanxiang Wangke Industry Co., Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by Shenzhen Yanxiang Wangke Industry Co., Ltd. in the Company pursuant to Part XV of the SFO.

2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 30% by Zhu Jun, 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 Haountong 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.

(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 2007, 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	840,635,928	Domestic Shares	90.90%	68.17%
Chen Zhi Lie (陳志列) (Note)	Interest of a controlled corporation	840,635,928	Domestic Shares	90.90%	68.17%
Shenzhen Haoxuntong Industry Co., Ltd.	Registered and beneficial owner of the Domestic Shares	46,239,600	Domestic Shares	5%	3.75%

DIRECTORS' REPORT

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..

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 2007; 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 2007, 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.

CONNECTED TRANSACTION

On 10 August 2007, the Company entered into an agreement with Shenzhen Feng Shui Long Investment Development Company Limited ("Feng Shui Long"), being a company owned as to 90% by Ms. Wang Rong, the spouse of Mr Chen Zhi Lie, an executive director of the Company, and as to 10% by an unrelated party (the "Agreement"). Pursuant to the Agreement, the Company shall contribute RMB717,898,100 to Wuxi Jiang Nan Da Shi Jie Investment Development Company Limited ("Jiang Nan Da Shi Jie") by installment in cash. After the transaction, Jiang Nan Da Shi Jie will be owned as to 51% by the Company and as to 49% by Feng Shui Long.

Under the GEM Listing Rules, the transaction constitutes a connected transaction and a very substantial acquisition of the Company. Further details of the transaction are set out in the Company's circular dated 21 September 2007. An extraordinary general meeting of the Company was held on 6 November 2007 and the above transaction was approved by the independent shareholders.

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 2007, the Company has not adopted any share option scheme or granted any option.

DIRECTORS' REPORT

REQUIRED STANDARD OF SECURITIES DEALINGS BY DIRECTORS

During the year ended 31 December 2007, 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 2007.

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.

BANK LOANS

As at 31 December 2007, the bank loans of the Group are set out in note 24 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles and the related laws of the PRC, which oblige the Company to offer new shares on pro-rata basis to existing shareholders.

ACQUISITION OF SUBSIDIARY

Effective from 19 December 2007, the Group acquired 51% of the enlarged issued capital of Wuxi Jiang Nan Da Shi Jie Investment Development Company Limited ("Jiang Nan Da Shi Jie"). This transaction has been accounted for by the acquisition method of accounting.

The Company has contracted to contribute RMB717,898,100 to acquire 51% of the enlarged capital of Jiang Nan Da Shi Jie, of which RMB61,224,500 had been paid up as at 31 December 2007 and the remaining RMB656,673,600 should be paid up in cash on or before 15 November 2009.

COMMITMENTS

As at 31 December 2007, the Group had a contracted but not provided for commitments amounting to approximately RMB96,574,000 (2006: RMB19,255,000) in respect of construction of a service outsourcing centre in Wuxi, the People's Republic of China.

DIRECTORS' 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.

The Company's unaudited quarterly and interim results and the group's audited results for the year ended 31 December 2007 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.

AUDITOR

Horwath Hong Kong CPA Limited were appointed as auditor of the company with effect from 8 February 2007 for the years ended 31 December 2006 to fill the casual vacancy caused by the resignation of Ernst & Young on 22 January 2007.

On 9 October 2007, Horwath Hong Kong CPA Limited changed its name to Shu Lun Pan Horwath Hong Kong CPA Limited. Save as above, there were no changes in auditors during the past three years.

A resolution for the re-appointment of Shu Lun Pan Horwath Hong Kong CPA Limited as auditor of the Company is to be submitted to the annual general meeting.

By Order of the Board

EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED*
Chen Zhi Lie
Chairman

Shenzhen, the PRC, 19 March 2008

* *for identification purpose only*

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 2007.

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 2007.

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

Name of director	Attendance
Chen Zhi Lie *(Chairman)*	12/12
Tso Cheng Shun	12/12
Zhu Jun	12/12
Wen Bing	12/12
Zhou Hong	12/12
Dong Lixin	12/12
Wang Tian Xiang	12/12

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;

CORPORATE GOVERNANCE REPORT

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

(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.

CORPORATE GOVERNANCE REPORT

REMUNERATION OF DIRECTORS

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

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

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

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

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

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

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

(6) to ensure that no director or any of his associates is involved 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 have appoint 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.

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

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

Services rendered	Fees paid/payable (RMB)
Audit services	650,000

DIRECTOR'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

A statement of director responsibilities for prepare financial statements is set out in "Independent Auditor's Report" of this report.

AUDIT COMMITTEE

An audit committee was established with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.33 of the GEM Listing Rules.

The primary duties of the audit committee include:

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

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

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

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

Name of member	Attendance
Zhou Hong *(Chairman)*	5/6
Wen Bing	6/6
Wang Tian Xiang	5/6

The Company's unaudited quarterly and interim results and the Group's audited results for the year ended 31 December 2007 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.

CORPORATE GOVERNANCE REPORT

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 has at least annually conduct a review of the effectiveness of the system of internal control of the company and its subsidiaries, and the review should 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 formulates 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 monitor the internal control procedures and systems of the Group and report its findings and recommendations, if any, to management and audit committee. During the year, the IA department has conducting review on expeditions of research and development, production cost, administration 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 will as audit committee to review.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company has disclosed all necessary information to the shareholders in compliance with GEM Listing Rules. The Company's annual general meeting was held on 30 May 2007. The vice chairman, company secretary and secretary of the board are presented. An annual general meeting circular is distributed to all shareholders at least 45 days before the annual general meeting. It sets out the procedures for demanding and conducting a poll and other relevant information of the proposed resolutions. 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 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 2007 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 2007 and has great confidence in the future of the Company.

By order of the Supervisory Committee
Pu Jing
Chairperson

Shenzhen, the PRC, 19 March 2008

INDEPENDENT AUDITOR'S REPORT

Horwath

Shu Lun Pan Horwath Hong Kong CPA Limited
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TO THE SHAREHOLDERS OF
EVOC INTELLIGENT TECHNOLOGY COMPANY LIMITED
(formerly known as Shenzhen EVOC Intelligent Technology Company Limited)
(A joint stock limited company incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of EVOC Intelligent Technology Company Limited set out on pages 31 to 74, which comprise the consolidated and company balance sheets as at 31 December 2007, 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 2007 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.

SHU LUN PAN 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
19 March 2008

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Turnover	6	**602,626**	278,643
Cost of sales		**(370,972)**	(162,849)
Gross profit		**231,654**	115,794
Other revenue	6	**19,892**	23,378
Valuation gain on investment properties	15	**27,620**	—
Selling and distribution costs		**(39,948)**	(22,982)
Administrative expenses		**(30,291)**	(9,831)
Other operating expenses		**(36,941)**	(20,329)
Finance costs	7	**(12,173)**	(18)
Profit before taxation	8	**159,813**	86,012
Income tax	11(a)	**(5,377)**	(4,039)
Profit for the year		**154,436**	81,973
Attributable to:			
Equity holders of the Company	12	**154,433**	81,976
Minority interest		**3**	(3)
		154,436	81,973
Earnings per share – Basic (RMB) (Restated)	13	**0.125**	0.066

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non–current assets			
Property, plant and equipment	14	**323,806**	141,139
Investment properties	15	**61,271**	—
Lease prepayments	16	**1,020,259**	5,764
Goodwill	17	**24,470**	—
Deferred tax assets	27	**3,133**	—
		1,432,939	146,903
Current assets			
Inventories	19	**91,148**	38,229
Trade receivables	20	**129,174**	33,110
Bills receivables	21	**18,259**	7,836
Lease prepayments	16	**31,506**	125
Other receivables, deposits and prepayments	22	**40,018**	11,243
Cash and cash equivalents	23	**571,061**	239,447
		881,166	329,990
Current liabilities			
Bank borrowings	24	**280,000**	—
Trade payables	25	**105,785**	26,505
Bills payable		**543**	1,248
Income tax payable		**6,275**	3,979
Other payables and accruals	26	**284,753**	21,505
Amounts due to minority shareholders	33(a)&(b)	**9,400**	49,000
		686,756	102,237
Net current assets		**194,410**	227,753
Total assets less current liabilities		**1,627,349**	374,656
Non–current liabilities			
Bank borrowings	24	**150,000**	—
Deferred tax liabilities	27	**189,807**	—
		339,807	—
Net assets		**1,287,542**	374,656

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	Note	**2007** **RMB'000**	2006 RMB'000
Equity			
Share capital	28	**123,314**	102,762
Reserves	29(a)	**497,993**	270,897
Equity attributable to equity holders of the Company		**621,307**	373,659
Minority interests		**666,235**	997
Total equity		**1,287,542**	374,656

Chen Zhi Lie
Chairman

Tso Cheng Shun
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Assets and liabilities			
Non–current assets			
Property, plant and equipment	14	**278,170**	140,155
Investment properties	15	**61,271**	—
Lease prepayments	16	**5,637**	5,764
Investments in subsidiaries	18	**127,225**	66,000
Deferred tax assets	27	**1,736**	—
		474,039	211,919
Current assets			
Inventories	19	**99,387**	57,064
Trade receivables	20	**93,468**	31,634
Bills receivable	21	**18,179**	7,836
Lease prepayments	16	**126**	125
Other receivables, deposits and prepayments	22	**38,105**	10,857
Cash and cash equivalents	23	**545,486**	176,005
		794,751	283,521
Current liabilities			
Bank borrowings	24	**280,000**	—
Trade payables	25	**81,439**	25,837
Bills payable		**543**	1,248
Income tax payable		**6,250**	3,918
Other payables and accruals	26	**48,878**	19,668
Amounts due to subsidiaries	18	**183,650**	99,471
		600,760	150,142
Net current assets		**193,991**	133,379
Total assets less current liabilities		**668,030**	345,298
Non-current liabilities			
Banking borrowings	24	**150,000**	—
Deferred tax liabilities	27	**26,656**	—
		176,656	—
Net assets		**491,374**	345,298

BALANCE SHEET

At 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Equity			
Share capital	28	**123,314**	102,762
Reserves	29(b)	**368,060**	242,536
Total equity		**491,374**	345,298

Chen 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 2007

	Share capital RMB'000 (Note 28)	Share premium RMB'000	Statutory surplus reserve RMB'000 (Note 29a)	Properties revaluation reserve RMB'000	Retained profits RMB'000	Attributable to equity holders of the Company RMB'000	Minority interests RMB'000	Total equity RMB'000
At 31 December 2005	**46,710**	**85,190**	**32,052**	**—**	**127,731**	**291,683**	**120**	**291,803**
Profit for the year	—	—	—	—	81,976	81,976	(3)	81,973
Capitalisation issue	56,052	(56,052)	—	—	—	—	—	—
Acquisition of interest in a subsidiary	—	—	—	—	—	—	(120)	(120)
Capital contribution by a minority shareholder	—	—	—	—	—	—	1,000	1,000
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**
Net income recognised directly in equity								
Revaluation gain of properties, net of deferred tax	—	—	—	93,215	—	93,215	—	93,215
Profit for the year	—	—	—	—	154,433	154,433	3	154,436
Capitalisation issue	20,552	(20,552)	—	—	—	—	—	—
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	(1,000)	(1,000)
Acquisition of interest in a subsidiary	—	—	—	—	—	—	666,235	666,235
Transfer from/(to) reserves	—	—	14,061	—	(14,061)	—	—	—
At 31 December 2007	**123,314**	**8,586**	**54,311**	**93,215**	**341,881**	**621,307**	**666,235**	**1,287,542**

The accompanying notes form part of these financial statements

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Operating activities			
Profit before taxation		**159,813**	86,012
Adjustments for:			
Bank interest expenses		**9,112**	18
Bank interest income		**(3,502)**	(3,255)
Depreciation and amortisation		**13,981**	4,946
Loss on disposal of property, plant and equipment		**135**	18
Increase in fair value of investment properties		**(27,620)**	—
Operating cash flows before working capital changes		**151,919**	87,739
Increase in inventories		**(52,919)**	(3,568)
Increase in trade and bills receivables		**(106,487)**	(5,256)
Increase in other receivables, deposits and prepayments		**(28,470)**	(5,038)
Increase/(decrease) in trade and bills payables		**77,186**	(1,712)
(Decrease)/increase in other payables and accruals		**(29,379)**	2,189
Cash generated from operations		**11,850**	74,354
Interest paid		**(9,112)**	(18)
PRC income tax paid		**(4,249)**	(3,468)
Net cash (outflow)/inflow from operating activities		**(1,511)**	70,868
Investing activities			
Interest received		**3,502**	3,255
Purchase of property, plant and equipment		**(74,031)**	(86,376)
Increase in time deposits with original maturity of more than three months when acquired		**(402,220)**	—
Decrease/(increase) in pledged bank balances		**1,349**	(11,627)
Proceeds from disposal of property, plant and equipment		**796**	513
Payments to acquire additional interest in a subsidiary		**(1,000)**	—
Acquisition of interests in subsidiaries, net of cash acquired	30	**22,858**	(120)
Net cash outflow from investing activities		**(448,746)**	(94,355)

CONSOLIDATED CASH FLOW STATEMENT

For the Year Ended 31 December 2007

	Note	2007 RMB'000	2006 RMB'000
Financing activities			
Proceeds from new bank borrowings		**430,000**	—
Capital contribution by a minority shareholder		**—**	1,000
Advances from a minority shareholder		**(49,000)**	49,000
Net cash inflow from financing activities		**381,000**	50,000
Net (decrease)/increase in cash and cash equivalents		**(69,257)**	26,513
Cash and cash equivalents at beginning of year		**157,820**	131,307
Cash and cash equivalents at end of year		**88,563**	157,820
Analysis of the balances of cash and cash equivalents			
Cash and bank balances, excluding pledged bank balances	23	**88,563**	127,820
Time deposits with original maturity of less than three months when acquired		**—**	30,000
		88,563	157,820

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

1. CORPORATE INFORMATION

EVOC Intelligent Technology Company Limited (the "Company") is a limited liability company registered in the People's Republic of China (the "PRC"). The registered office of the Company is located at EVOC Technology Building, No 31 Gaoxingzhongsi Avenue, Nanshan District, 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. The activities of the subsidiaries are set out in note 18 to the financial statements.

On 11 May 2007, the Company changed its name from Shenzhen EVOC Intelligent Technology Company Limited to its present name.

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

In the current year, the Group has adopted all of the new and revised 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 ("HKICPA") that are relevant to its operations and effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting policies.

However, the adoption of HKFRS 7 "Financial Instruments: Disclosures" and HKAS 1 Amendment "Capital Disclosures" have resulted in expanded and additional disclosures in these financial statements regarding the Group's financial instruments and the Group's objectives, policies and processes for managing capital.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) – Int 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) – Int 12	Service concession arrangements	1 January 2008
HK(IFRIC) – Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) – Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction	1 January 2008

The directors of the Company anticipate that the application of the above standards or interpretations will have no material impact on the financial statements of the Group in the period of their initial application.

HKFRS 8 and HKAS 1 (Revised) may result in new or amended disclosures in the financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of leasehold buildings and investment properties.

(c) Consolidation

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

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.

All significant intercompany transactions, balances and unrealised gains on transactions between group enterprises are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment on the asset transferred.

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.

Minority interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. 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.

(d) Business combinations

Acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured as the aggregate of the fair values, at the date 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 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, 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.

(e) Subsidiaries

Subsidiaries are entities in which the Group has the power to govern the financial and operating policies, so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Goodwill

Goodwill arising on the acquisition of a subsidiary 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 recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is 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 allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to other asset of the unit 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 the disposal of a subsidiary, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

(g) Property, plant and equipment

Buildings held for use in production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from those that would be determined using fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of such buildings is credited in equity to the properties revaluation reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such buildings is charged to profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued buildings is charged to profit or loss. On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the properties revaluation reserve is transferred directly to retained profits. No transfer is made from the properties revaluation reserve to retained profits when an asset is derecognised.

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. The principal annual rates are as follows:

Buildings	5%
Leasehold improvements	20%
Plant and machinery	10%
Furniture, fixtures and equipment	20%
Vehicles	20%

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment (Continued)

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 profit or loss.

(h) Investment properties

Investment properties, which is property held to earn rentals and/or for capital appreciation, is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains or losses arising from changes in fair value of investment property are included in profit or loss for the period in which they arise.

(i) 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 as lease prepayments, which are carried at cost and amortised over the lease term on a straight-line basis. The unamortised lease prepayments for land use rights have been separately shown in the consolidated and Company balance sheets under current and non-current assets.

(j) 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 recognised as expenses are not recognised as assets in a subsequent period.

(k) 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. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 for which the estimates of future cash flows have not been adjusted.

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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Impairment of assets excluding goodwill (Continued)

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, 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.

(l) 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.

(m) Financial assets

Financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

(i) Loans and receivables

The Group classifies its financial assets into loans and receivables based on the purpose for which the assets were acquired.

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less provision for any impairment. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. When a loan or a receivable is uncollectible, it is written off against the allowance account. The amount of provision is recognised when there is objective evidence that the asset is impaired.

(ii) Impairment of financial assets

Objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty;

— default or delinquency in interest or principal payments;

— probability hat the borrower will enter bankruptcy or financial re-organisation; or

— significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Financial assets (Continued)

(ii) Impairment of financial assets (Continued)

If any such evidence exists, any impairment loss determined and recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

Impairment loss is reversed in subsequent periods and recognised in profit or loss when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment loss was recognised, subject to the restriction that the asset's carrying amount at the date the impairment is reversed does not exceed what the amortised cost would have been had no impairment loss been recognised in prior years.

(iii) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit or loss.

(iv) Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows form the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(n) Financial liabilities and equity instrument issued by the Group

(i) Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

(ii) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(iii) Financial liabilities

The Group classifies its financial liabilities as other financial liabilities based on the purpose for which the liabilities were incurred.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Financial liabilities and equity instrument issued by the Group (Continued)

(iv) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

(v) Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(p) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(r) Taxation

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

(i) Current 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.

(ii) Deferred tax

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 generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those 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.

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.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

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.

(s) 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 ("functional currency"). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Renminbi which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

Items included in the financial statements of the Company are measured using Renminbi, the currency of the primary economic environment in which the Company operates (the "functional currency"). The financial statements are presented in Renminbi.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Foreign currencies (Continued)

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 at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at 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.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

— exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;

— exchange differences on transactions entered into in order to hedge certain foreign currency risks; and

— exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Renminbi, using exchange rates prevailing at the balance sheet date. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the 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 foreign currency 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.

(t) Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching with them and that the grants will be received.

Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

(u) Employees' benefits

(i) Short term benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Employees' benefits (Continued)

(ii) Pension obligations

The Group pays contributions to defined contribution plans, being publicly administered pension insurance plans on mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the plan prior to vesting fully in the contributions.

(v) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(w) 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.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business. Revenue is reduced for estimated customer returns, rebates and other similar allowances and excludes value added tax or other sales related taxes.

(i) Revenue from sale of products is recognised on the transfer of ownership, which generally coincides with the time of shipment.

(ii) Interest income is accrued on a time-apportioned basis by reference to the principal outstanding using the effective interest method.

(iii) Rental income from operating leases is recognised in equal instalments over the accounting periods covered by the lease term.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(y) 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

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 Company 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

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.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

5. 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)

6. TURNOVER AND OTHER INCOME

Turnover represents the sales value of goods supplied to customers:

	2007 RMB'000	2006 RMB'000
Turnover		
Sale of EIP products	**602,626**	278,643
Other income		
Value-added tax ("VAT") concession*	**12,607**	9,479
Bank interest income	**3,502**	3,255
Gross rentals from investment properties	**1,698**	—
Government subsidies	**989**	3,890
Welfare payable written back	**—**	2,933
Others	**1,096**	3,821
	19,892	23,378
Total revenue for the year	**622,518**	302,021

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

7. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest expenses:		
Bank borrowings wholly repayable within five years	**8,068**	—
Other loans	**1,044**	—
Bank charges	**2,648**	—
Others	**413**	18
	12,173	18

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

8. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging/(crediting) the following:

	2007	2006
	RMB'000	RMB'000
Cost of inventories sold	**370,972**	162,849
Depreciation	**13,855**	4,820
Amortisation of land lease prepayments	**126**	126
Research and development costs:		
Current year expenditure	**36,259**	20,114
Minimum lease payments under operating leases in respect of land and buildings	**8,113**	6,273
Auditor's remuneration	**650**	650
Staff costs (including remuneration of directors):		
Salaries, bonus and allowances	**40,354**	24,399
Retirement benefits scheme contributions	**4,022**	2,735
Provision for doubtful debts	**(444)**	1,248
Foreign exchange differences, net	**68**	(73)

9. DIRECTORS' REMUNERATION

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

	2007	2006
	RMB'000	RMB'000
Fees	**48**	48
Other emoluments:		
Salaries, allowances and benefits in kind	**174**	186
Retirement benefits scheme contributions	**17**	15
	191	201
	239	249

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

9. DIRECTORS' REMUNERATION (Continued)

(a) Independent non-executive directors

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

	2007	2006
	RMB'000	RMB'000
Mr Wen Bing	**12**	12
Ms Zhou Hong	**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 (2006: Nil).

(b) Executive directors

	Fees	**Salaries allowances and benefits in kind**	**Retirement benefits scheme contributions**	**Total emoluments**
	RMB'000	RMB'000	RMB'000	RMB'000
2007				
Mr Chen Zhi Lie	—	77	7	84
Mr Tso Cheng Shun	—	20	—	20
Mr Zhu Jun	—	77	10	87
	—	174	17	191
2006				
Mr Chen Zhi Lie	—	83	6	89
Mr Tso Cheng Shun	—	20	—	20
Mr Zhu Jun	—	83	9	92
	—	186	15	201

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

9. DIRECTORS' REMUNERATION (Continued)

(c) Supervisors

	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	RMB'000	RMB'000	RMB'000
2007			
Zhang Zheng An	20	—	20
Zhan Guo Nian	20	—	20
Pu Jing	20	—	20
	60	—	60
2006			
Wang Bichun*	—	—	—
Zhou Cheng Yan*	—	—	—
Zhang Zheng An	20	—	20
Zhan Guo Nian	20	—	20
Pu Jing	20	—	20
	60	—	60

* Retired 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 or supervisor during the year.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2006: two) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2006: three) non-director, highest paid employees for the year are as follows:

	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**534**	555
Retirement benefits scheme contributions	**35**	31
	569	586

The remuneration of each of the non-director, highest paid employees fell within the range from nil to HK$1,000,000 (equivalent to RMB979,000).

During the year ended 31 December 2007, the four non-director, highest paid employees of the Group received emoluments of approximately RMB279,000, RMB110,000, RMB90,000 and RMB90,000. 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.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

11. INCOME TAX

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 year ended 31 December 2006.

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

Subsidiaries:

Shenzhen EVOC and Xinteer are located in the Shenzhen Special Economic Zone and are therefore subject to a corporate income tax rate of 15%.

In accordance with the relevant income tax laws and regulations in the PRC, Shenzhen EVOC was exempt from corporate income tax for two years commencing from its first year with assessable profits (ie 2006) after deducting the tax losses brought forward, and was entitled to a 50% tax exemption for the next three years. Accordingly, Shenzhen EVOC was fully exempted from corporate income tax for the years ended 31 December 2007 and 2006.

Xinteer has not provided for any corporate income tax since it had no taxable income for the years ended 31 December 2007 and 2006.

Shanghai EVOC, Beijing EVOC and Jiang Nan Da Shi Jie are subject to the statutory 30% state corporate income tax and 3% local income tax.

(a) Taxation in the consolidated income statement represents:

	2007 **RMB'000**	2006 RMB'000
Current tax — PRC		
Provision for the year	**7,288**	4,039
Over provision in respect of prior year	**(743)**	—
	6,545	4,039
Deferred taxation (note 27)		
— origination and reversal of temporary differences	**(1,168)**	—
Total income tax expense	**5,377**	4,039

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

11. INCOME TAX (Continued)

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

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**159,813**	86,012
Tax at the statutory tax rate of 33% (2006: 33%)	**52,738**	28,384
Tax rate differential	**172**	(15,235)
Deferred tax not recognised	**1,461**	1,531
Utilisation of previously unrecognised tax loss	**(8)**	—
Tax effect of expenses not deductible for taxation purpose	**232**	—
Effect of tax exemption	**(47,249)**	(9,647)
Tax effect of non-taxable items	**(297)**	(1,078)
Over-provision in prior year	**(5,587)**	—
Change in tax rate	**3,765**	—
Others	**150**	84
Tax expense	**5,377**	4,039

On March 16, 2007, the National People's Congress approved the PRC Enterprise Income Tax Law, which became effective from 1 January 2008. In accordance with the new law, a unified enterprise income tax rate of 25% will be applied to both domestic-invested enterprises and foreign-invested enterprises. Enterprises established prior to March 16, 2007 eligible for preferential tax treatment in accordance with the currently prevailing tax laws and administrative regulations shall, under the regulations of the State Council, gradually be subject to the new tax rate over a five-year transitional period until 2012. Accordingly, the Company, Shenzhen EVOC and Xinteer can continue to enjoy the preferential tax rates during the transitional period.

The deferred tax balances at 31 December 2007 have been adjusted to reflect the tax rates that are expected to apply in the respective periods when the asset is realised or the liability is settled.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

12. 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 RMB52,861,000, (2006: RMB53,596,000).

13. EARNINGS PER SHARE

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

	2007	2006
Profit for the year and profit for the purpose of basic earnings per share	**RMB154,433,000**	RMB81,976,000
Shares in issue for full year	**1,027,620,000**	467,100,000
Capitalisation issue on 30 May 2006	**—**	560,520,000
Capitalisation issue on 30 May 2007	**205,524,000**	205,524,000
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,233,144,000**	1,233,144,000

The weighted average number of ordinary shares in issue for 2007 and 2006 is determined as if the capitalisation issues as described in note 28 had taken place on 1 January 2006.

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)

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:							
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
Additions	—	28	1,052	10,902	10,487	51,562	74,031
Acquisition of a subsidiary	—	—	—	37	430	42,930	43,397
Transfer from construction in progress	86,935	30,679	—	24,883	—	(142,497)	—
Disposals	—	—	(217)	(1,755)	(4)	—	(1,976)
Reclassified as investment properties	(5,746)	—	—	—	—	(29,457)	(35,203)
Revaluation gain	111,394	—	—	—	—	—	111,394
As at 31 December 2007	198,329	32,630	17,628	50,433	13,250	42,930	355,200
Accumulated depreciation:							
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
Charge for the year	2,541	3,649	1,553	5,296	816	—	13,855
Written back on disposal	—	—	(131)	(910)	(4)	—	(1,045)
Reclassified as investment properties	(1,552)	—	—	—	—	—	(1,552)
Eliminated on revaluation	(2,282)	—	—	—	—	—	(2,282)
As at 31 December 2007	—	5,501	8,852	15,316	1,725	—	31,394
Net book value:							
At December 2007	198,329	27,129	8,776	35,117	11,525	42,930	323,806
At December 2006	4,453	71	9,363	5,436	1,424	120,392	141,139

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Leasehold land and buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:							
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
Additions	—	—	1,052	9,226	10,487	51,562	72,327
Transfer from construction in progress	86,935	30,679	—	24,883	—	(142,497)	—
Disposals	—	—	(217)	(1,720)	(4)	—	(1,941)
Reclassified as investment properties	(5,746)	—	—	—	—	(29,457)	(35,203)
Revaluation gain	111,394	—	—	—	—	—	111,394
As at 31 December 2007	198,329	32,602	17,617	47,750	12,274	—	308,572
Accumulated depreciation:							
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
Charge for the year	2,541	3,649	1,553	4,999	668	—	13,410
Written back on disposal	—	—	(131)	(879)	(4)	—	(1,014)
Reclassified as investment properties	(1,552)	—	—	—	—	—	(1,552)
Eliminated on revaluation	(2,282)	—	—	—	—	—	(2,282)
As at 31 December 2007	—	5,501	8,852	14,510	1,539	—	30,402
Net book value:							
At December 2007	198,329	27,101	8,765	33,240	10,735	—	278,170
At December 2006	4,453	71	9,352	4,971	916	120,392	140,155

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

Note:

(a) The properties held by the Group and the Company were revalued at 31 December 2007 at their open market value on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuations were carried out by American Appraisal China Limited, a firm of chartered surveyors with recent experience in the location and category of properties being valued. The revaluation surplus, net of applicable deferred tax, of RMB93,215,000, has been transferred to the properties revaluation reserve.

Had these properties been carried at historical cost less accumulated depreciation, the carrying amount as at 31 December 2007 would have been RMB84,653,000 (2006: RMB4,453,000).

(b) The properties were put into use by the Group during 2007 notwithstanding that the Company is in the process of applying for the real estate title certificate for the properties.

(c) At 31 December 2007, the properties of the Group and the Company are not freely transferable (note 16(b)).

(d) The Group has pledged buildings with a carrying amount at 31 December 2007 of RMB198,329,000 (2006: nil) to secure banking facilities granted to the Group (note 24).

(e) The Group's properties are located in Mainland China and held under a medium term lease commencing from 27 November 2003.

15. INVESTMENT PROPERTIES

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Carrying amount		
At beginning of year	**—**	—
Transfer from property, plant and equipment	**33,651**	—
Fair value adjustment	**27,620**	—
At end of year	**61,271**	—

All the Group's investment properties were revalued as at 31 December 2007 at their open market value either by reference to recent market transactions in comparable properties or on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. The valuations were carried out by American Appraisal China Limited, a firm of chartered surveyors with recent experience in the location and category of properties being valued.

The property rental income earned by the Group from its investment properties, all of which are leased out under operating leases, amounted to RMB1,698,000 (2006: nil). Direct operating expenses arising on the investment properties in the year amounted to RMB3,805,000 (2006: nil).

The Group's investment properties are held in Mainland China under medium term leases.

At 31 December 2007, investment properties of the Group and the Company with a carrying value of RMB49,671,000 are not freely transferable (note 16 (b)). These investment properties are pledged to secure banking facilities granted to the Group (note 24).

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

16. LEASE PREPAYMENTS

	Group		Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost				
At beginning of the year	**6,277**	6,277	**6,277**	6,277
Acquisition of a subsidiary (note 30)	**1,046,002**	—	**—**	—
At end of year	**1,052,279**	6,277	**6,277**	6,277
Accumulated amortisation				
At beginning of year	**388**	262	**388**	262
Charge for the year	**126**	126	**126**	126
At end of year	**514**	388	**514**	388
Carrying value				
At 31 December	**1,051,765**	5,889	**5,763**	5,889
Less: Current portion included under current assets	**(31,506)**	(125)	**(126)**	(125)
Non-current portion	**1,020,259**	5,764	**5,637**	5,764

(a) The Group's and the Company's leasehold land is located in Mainland China.

(b) The piece of land in Shenzhen with a carrying value of RMB5,763,000 at 31 December 2007 (2006: RMB5,889,000) is held under a medium term lease, which has a term of 50 years commencing on 27 November 2003. The land is acquired at a concession discount on land premium and is not freely transferable unless, among others, additional premium, if any, is paid and government approval is obtained.

(c) The subsidiary acquired in 2007 holds a piece of land in Wuxi with a carrying value of RMB1,046,002,000 at 31 December 2007 (2006: nil) for a term of 40 years until 30 April 2044. This piece of land was valued by American Appraisal China Limited, a firm of chartered surveyors with recent experience in the location and category of properties being valued. The subsidiary is in the process of applying for the relevant land use rights certificate of this piece of land. At 31 December 2007, the remaining land premium payable for this piece of land was RMB219,600,000 (note 26).

(d) The Group has pledged lease prepayments with a carrying amount at 31 December 2007 of RMB5,763,000 (2006: nil) to secure banking facilities granted to the Group (note 24).

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(Expressed in Renminbi unless stated otherwise)

17. GOODWILL

	Group	
	2007	2006
	RMB'000	RMB'000
Cost and carrying amount		
At beginning of the year	**—**	—
Arising on acquisition of a subsidiary (note 30)	**24,470**	—
At end of the year	**24,470**	—

The recoverable amount of the cash-generating unit of property development is determined based on the fair value less costs to sell by reference to the prevailing market prices on the properties held under development.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares, at cost	**127,225**	66,000

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations and kind of legal entity	Registered capital	Percentage of equity attributable to the Company 2007	Percentage of equity attributable to the Company 2006	Principal activities
深圳市研祥軟件技術有限公司 Shenzhen EVOC Software Technology Company Limited ("Shenzhen EVOC")	PRC, limited liability company	RMB6,000,000	**100%**	100%	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, limited liability company	RMB10,000,000	**100% (Note)**	90% (Note)	Trading of electronic parts
上海市研祥智能技術有限公司 Shanghai EVOC Intelligent Technology Company Limited ("Shanghai EVOC")	PRC, limited liability company	RMB30,000,000	**100%**	100%	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, limited liability company	RMB30,000,000	**100%**	100%	Research, development and distribution of EIP software products
無錫市江南大世界投資發展有限公司 Wuxi Jiang Nan Da Shi Jie Investment Development Company Limited ("Jiang Nan Da Shi Jie")	PRC, limited liability company	RMB211,224,500	**51%**	n/a	Development of a service outsourcing centre

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

18. INVESTMENTS IN SUBSIDIARIES (Continued)

Note: The 100% equity interest in this subsidiary is indirectly held by the Company. Equity interests in all other subsidiaries are directly held by the Company.

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

19. INVENTORIES

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Raw materials	**39,995**	**35,650**	26,239	25,980
Work-in-progress	**13,245**	**13,245**	4,452	4,452
Finished goods	**44,059**	**56,643**	13,689	32,783
	97,299	**105,538**	44,380	63,215
Less: Provision for slow moving inventories	**(6,151)**	**(6,151)**	(6,151)	(6,151)
	91,148	**99,387**	38,229	57,064

20. 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.

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

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 to 90 days	**115,753**	**86,976**	27,961	26,481
91 to 180 days	**9,050**	**4,401**	1,986	1,983
181 to 365 days	**2,939**	**659**	2,601	2,601
Over 1 year	**2,916**	**2,916**	2,490	2,490
Trade receivables	**130,658**	**94,952**	35,038	33,555
Less: Allowance for doubtful debts	**(1,484)**	**(1,484)**	(1,928)	(1,921)
	129,174	**93,468**	33,110	31,634

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

20. TRADE RECEIVABLES (Continued)

(b) The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007		2006	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	1,928	1,921	3,176	3,176
Reversal of impairment loss recognised	(444)	(437)	(1,248)	(1,255)
At end of year	1,484	1,484	1,928	1,921

The provision of RMB1,484,000 (2006: RMB1,928,000) has been made for estimated irrecoverable amounts from the sale of goods. This provision has been determined by reference to past default experience.

(c) The ageing analysis of trade receivable that are neither individually nor collectively considered to be impaired are as follows:

	2007		2006	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
Neither past due nor impaired	118,166	89,390	27,961	26,481
1 to 3 months past due	6,636	1,987	1,986	1,983
Over 3 months past due	2,940	659	2,601	2,601
	127,742	92,036	32,548	31,065

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21. BILLS RECEIVABLE

Bills receivable are aged within six months.

22. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2007		2006	
	Group	Company	Group	Company
	RMB'000	RMB'000	RMB'000	RMB'000
Other receivables and deposits	8,171	6,560	3,373	2,987
Prepayments	31,847	31,545	7,870	7,870
	40,018	38,105	11,243	10,857

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(Expressed in Renminbi unless stated otherwise)

23. CASH AND CASH EQUIVALENTS

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Cash and bank balances	**98,841**	**95,486**	139,447	76,005
Time deposits	**472,220**	**450,000**	100,000	100,000
Cash and cash equivalents	**571,061**	**545,486**	239,447	176,005

The bank balances of RMB10,277,750 (2006: 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.

24. BANK BORROWINGS

	Group and Company	
	2007	2006
	RMB'000	RMB'000
Bank loans		
— secured	**150,000**	—
— unsecured	**280,000**	—
	430,000	—
The borrowings are repayable as follows:		
On demand or within one year	**280,000**	—
After one year but within two years	**8,000**	—
After two years but within five years	**72,000**	—
After five years	**70,000**	
	150,000	—
	430,000	—

The Group has two principal bank loans:

(i) a loan of RMB280,000,000 (2006: nil) which is due for repayment in July 2008, secured by a personal guarantee given by an executive director of the Company, and carries interest at 5.913% per annum.

(ii) a loan of RMB150,000,000 (2006: nil) repayment of which should commence on 21 October 2009 and continue until 21 October 2015. The loan is secured by charges over certain of the Group's land and properties (notes 14, 15 and 16), and carries interest at 7.83% per annum.

At 31 December 2007, the Group had available RMB50,000,000 (2006: RMB280,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

25. TRADE PAYABLES

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

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
0 to 90 days	**100,445**	**76,113**	24,041	23,427
91 to 180 days	**4,333**	**4,319**	1,328	1,328
181 to 365 days	**252**	**252**	583	529
Over 1 year	**755**	**755**	553	553
	105,785	**81,439**	26,505	25,837

26. OTHER PAYABLES AND ACCRUALS

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Payables for land lease premium and related tax (note 16)	**228,565**	**—**	—	—
Other payables	**44,746**	**38,307**	16,740	16,028
Other taxes payable	**9,231**	**8,362**	3,624	2,535
Accruals	**2,211**	**2,209**	1,141	1,105
	284,753	**48,878**	21,505	19,668

27. DEFERRED TAXATION

The movements for the year in the net deferred tax (assets)/liabilities are as follows:

The Group	**Unrealised profit on inter company transactions**	**Amortisation of lease prepayments**	**Revaluation of properties**	**Doubtful debts and provisions**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2005 and 2006	—	—	—	—	—
Acquisition of a subsidiary	—	(7,079)	174,459	—	167,380
(Credit)/charged to profit or loss	(7,362)	—	6,905	(711)	(1,168)
Charged to equity	—	—	20,462	—	20,462
At 31 December 2007	(7,362)	(7,079)	201,826	(711)	186,674

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

27. DEFERRED TAXATION (Continued)

The Company	Unrealised profit on inter company transactions	Amortisation of lease prepayments	Revaluation of properties	Doubtful debts and provisions	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2005 and 2006	—	—	—	—	—
(Credit)/charged to profit or loss	(1,736)	—	6,905	(711)	4,458
Charged to equity	—	—	20,462	—	20,462
At 31 December 2007	(1,736)	—	27,367	(711)	24,920

Deferred tax balances are presented in the balance sheet as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Net deferred tax assets	**(3,133)**	**(1,736)**	—	—
Net deferred tax liabilities	**189,807**	**26,656**	—	—
	186,674	**24,920**	—	—

28. SHARE CAPITAL

	Number of shares	RMB'000
Registered:		
At 31 December 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
Increase during the year	205,524,000	20,552
At 31 December 2007	1,233,144,000	123,314

	Number of shares	RMB'000
Issued and fully paid:		
At 31 December 2005	467,100,000	46,710
Capitalisation issue	560,520,000	56,052
At 31 December 2006	1,027,620,000	102,762
Capitalisation issue	205,524,000	20,552
At 31 December 2007	1,233,144,000	123,314

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

28. SHARE CAPITAL (Continued)

Pursuant to a shareholders' resolution passed in an annual general meeting on 30 May 2007, the Company issued new shares on the basis of 2 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 RMB20,552,400 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 1,233,144,000 and aggregate share capital of the Company increased to RMB123,314,400.

29. 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 36.

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 the registered capital of the respective companies). 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.

(b) Company

	Share premium RMB'000	**Statutory surplus reserve** RMB'000 (Note (a))	**Properties revaluation reserve** RMB'000	**Retained profits** RMB'000	**Total** RMB'000
At 31 December 2005	85,190	32,052	—	127,750	244,992
Capitalisation issue (note 28)	(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
Capitalisation issue (note 28)	(20,552)	—	—	—	(20,552)
Revaluation increase of land and buildings, net of deferred tax	—	—	93,215	—	93,215
Net profit for the year	—	—		52,861	52,861
Transfer from/(to) reserves	—	3,993	—	(3,993)	—
At 31 December 2007	8,586	41,405	93,215	224,854	368,060

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

30. ACQUISITION OF INTEREST IN A SUBSIDIARY

Effective from 19 December 2007, the Group acquired 51% of the enlarged issued capital of Wuxi Jiang Nan Da Shi Jie Investment Development Company Limited ("Jiang Nan Da Shi Jie"). This transaction has been accounted for by the acquisition method of accounting.

Jiang Nan Da Shi Jie was originally wholly owned by Feng Shui Long Investment Development Company Limited, which was 90% owned by Ms Wang Rong, the spouse of an executive director of the Company, and 10% by an unrelated party.

The Company has contracted to contribute capital to Jiang Nan Da Shi Jie of RMB717,898,100, of which RMB61,224,500 had been paid up as at 31 December 2007 and the remaining RMB656,673,600 should be paid up in cash on or before 15 November 2009.

The net assets acquired, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	RMB'000	RMB'000
Net assets acquired:			
Property, plant and equipment	43,397	—	43,397
Lease prepayments	348,163	697,839	1,046,002
Trade and other receivables	305	—	305
Bank and cash balances	22,858	—	22,858
Trade and other payables	(242,191)	—	(242,191)
Payable to the Company	(61,225)	—	(61,225)
Deferred tax assets/(liabilities)	7,079	(174,459)	(167,380)
	118,386	523,380	641,766
Capital injection			717,898
			1,359,664
Attributable to the Group (51%)			693,428
Goodwill (note 17)			24,470
Total consideration			717,898
Net cash inflow arising on acquisition:			
Cash and cash equivalent balances acquired			22,858

NOTES TO THE FINANCIAL STATEMENTS

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31. OPERATING LEASE COMMITMENTS

The Group as lessee

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:

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Within one year	**5,805**	**4,022**	5,461	4,765
In the second to fifth years, inclusive	**4,137**	**2,789**	5,328	5,278
	9,942	**6,811**	10,789	10,043

The Group as lessor

The Group and the Company rent outs their investment properties under operating leases. Property rental income earned during the year was RMB1,698,000 (2006: nil). Direct operating expenses arising on the investment properties in the year amounted to RMB3,447,720 (2006: nil).

At the balance sheet date, the Group's and the Company's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2007		2006	
	Group	**Company**	Group	Company
	RMB'000	**RMB'000**	RMB'000	RMB'000
Within one year	**4,605**	**4,605**	—	—
In the second to fifth years, inclusive	**9,367**	**9,367**	—	—
	13,972	**13,972**	—	—

32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31 above, the Group and the Company had the following capital commitments at the balance sheet date:

	2007	2006
	RMB'000	RMB'000
Contracted, but not provided for:		
Property, plant and equipment	**96,574**	19,255

NOTES TO THE FINANCIAL STATEMENTS

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33. RELATED PARTY TRANSACTIONS

At 31 December 2007, the directors consider the ultimate holding company of the Group to be Shenzhen Yanxiang Wangke Industry Company Limited, which was incorporated in the PRC.

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Other than as disclosed elsewhere in the financial statements, during the year and in the ordinary course of business, the Group had the following material transactions with related parties which are not members of the Group.

(a) Amount due to a minority shareholder of RMB9,400,000 at 31 December 2007 was unsecured, interest free and repayable on demand.

(b) Amount due to another minority shareholder at 31 December 2006 was unsecured, interest free and was repaid in full during 2007.

(c) Members of key management during the year comprised only the three executive directors whose remuneration is set out in note 9 to the financial statements.

34. CAPITAL RISK MANAGEMENT

The Group's primary objective when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For the purpose the Group defines net debts as total debt (which includes interest-bearing loans and borrowings, and trade and other payables), less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debts.

NOTES TO THE FINANCIAL STATEMENTS

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34. CAPITAL RISK MANAGEMENT (Continued)

The net debt-to-adjusted capital ratio at 31 December 2006 and 2007 was as follows:

	2007 RMB'000	2006 RMB'000
Current liabilities:		
Trade payables	**105,785**	26,505
Bills payable	**543**	1,248
Income tax payables	**6,275**	3,979
Other payables and accruals	**284,753**	21,505
Amounts due to minority shareholders	**9,400**	49,000
Bank borrowings	**280,000**	—
	686,756	102,237
Non-current liabilities		
Bank borrowings	**150,000**	—
Total debts	**836,756**	102,237
Less: Cash and cash equivalents	**(571,061)**	(239,447)
Net debt	**265,695**	(137,210)
Total equity	**1,287,542**	374,656
Net debt-to-adjusted equity ratio	**21%**	n/a

35. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business.

The main risks arising from the Groups' financial instruments in the normal course of the Group's business are credit risk, liquidity risk, interest rate and currency risk.

These risks are limited by the Group's financial management policies and practises described below:

(a) Credit risk

The Group's credit risk is primarily attributable to its trade, bills and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

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

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35. FINANCIAL RISK MANAGEMENT (Continued)

(a) Credit risk (Continued)

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has a certain concentration of credit risk as 12% (2006: 20%) and 30% (2006: 47%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 20.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates and at fixed rates expose the Group to cash flow interest rate risk and fair value interest risk respectively. The Group's interest rate profile as monitored by management is set out below.

The following table details the interest rate profile of the Group's and the Company's net borrowings (as defined above) at the balance sheet date.

	Group and Company			
	2007		2006	
	Effective interest rate		Effective interest rate	
	%	**RMB'000**	%	RMB'000
Net fixed rate borrowings				
Bank borrowings	**5.913%-7.83%**	**430,000**		—

It is estimated that as at 31 December 2007, a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit after taxation and retained profits by approximately RMB1,486,000 (2006: RMB nil). Other components of consolidated equity would increase/decrease by approximately RMB1,486,000 (2006: RMB nil) in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date. The 100 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2006.

(d) Currency risk

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

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi unless stated otherwise)

35. FINANCIAL RISK MANAGEMENT (Continued)

(e) Fair values

All financial instruments are carried at amounts not materially different from their values as at 31 December 2007 and 2006.

(f) Fair values estimation

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.

36. SUMMARY OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES BY CATEGORY

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2007 and 2006 may be categorised as follows:

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables (including cash and bank balances)	**758,512**	291,636
Financial liabilities		
Financial liabilities measured at amortised cost	**836,756**	102,237

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 March 2008.

PARTICULARS OF PROPERTIES

Location	Approximate gross floor area (square metres)	Nature of property	Interest attributable to Group	Lease term
Properties held for self-use and for rental purposes				
EVOC Building No 31, Gaoxinzhong Si Road Nanshan District, Shenzhen Guangdong Province The People's Republic of China	62,153	Commercial	100%	Medium term lease
Properties under development				
A parcel of land located at South of Xihu Road West of Fangtong Road (Block no: XXDG 2003-28) Wuxi Jiangsu Province The People's Republic of China	730,000	Commercial	51%	Medium term lease

FINANCIAL HIGHLIGHTS

COMPARISON OF KEY FINANCIAL FIGURES

		Year ended 31 December				
Financial year		**2007**	2006	2005	2004	2003
Revenue	*RMB'000*	**602,626**	278,643	233,445	234,061	202,628
Gross Profit	*RMB'000*	**231,654**	115,794	90,452	88,822	92,383
Gross Margin	*%*	**38.44**	41.56	38.75	37.95	45.60
Profit for the year	*RMB'000*	**154,436**	81,973	45,126	43,504	51,589
Net Margin	*%*	**25.63**	29.42	19.33	18.59	25.46
Basic Earnings Per Share (Note)	*RMB*	**0.125**	0.066 (Restated)	0.037 (Restated)	0.035 (Restated)	0.045 (Restated)
Cash (used in)/Generated from Operations	*RMB'000*	**(1,511)**	70,868	45,131	49,683	68,950
Trade Receivables Turnover	*Days*	**78**	41	45	34	24

FINANCIAL POSITION

		Year ended 31 December				
Financial year		**2007**	2006	2005	2004	2003
Total Assets	*RMB'000*	**2,314,105**	476,893	343,993	296,568	287,717
Total Liabilities	*RMB'000*	**1,026,563**	102,237	52,190	38,333	58,973
Total Cash and Cash Equivalents	*RMB'000*	**571,061**	239,447	201,307	206,062	198,782
Shareholders' Funds	*RMB'000*	**1,287,542**	374,656	291,803	258,235	228,744
Dividend per Share	*RMB*	**—**	—	—	0.025	0.030

Note: The basic earnings per Share has been restated as if the capitalisation issues on 30 May 2006 and 30 May 2007 had taken place on 1 January 2003.