



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: 2308

INTERIM REPORT 2014

* For identification purpose only



FINANCIAL HIGHLIGHTS

Revenue of the Group for the six months ended 30 June 2014 was approximately RMB986.2 million (2013: RMB550.5 million), representing an increase of approximately 79.2% as compared with the same period of last year.

Profit attributable to owners of the Company for the six months ended 30 June 2014 amounted to approximately RMB29.9 million (2013: RMB25.5 million), representing an increase of approximately 17.3% as compared with the same period of last year.

Earnings per share were approximately RMB0.024 (2013: RMB0.021) for the six months ended 30 June 2014.

The Directors do not recommend payment of dividend for the six months ended 30 June 2014 (2013: Nil).

UNAUDITED RESULTS

The Board of directors (the “Directors”) is pleased to present the unaudited consolidated results of the Group for the six months ended 30 June 2014, together with the comparative unaudited results for the corresponding period in 2013, as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Turnover	4	986,192	550,473
Cost of sales		(884,547)	(465,691)
Gross profit		101,645	84,782
Other income	4	32,340	41,976
Selling and distribution costs		(19,491)	(19,533)
Administrative expenses		(20,227)	(24,100)
Other operating expenses		(25,024)	(27,125)
Finance costs		(36,302)	(28,273)
Profit before income tax	5	32,941	27,727
Income tax expenses	6	(3,053)	(2,227)
Profit and total comprehensive income for the period		29,888	25,500
Profit and total comprehensive income attributable to:			
Owners of the Company		29,888	25,500
		29,888	25,500
Earnings per share — Basic and diluted	8	RMB0.024	RMB0.021

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	9	889,181	850,167
Investment properties		263,121	263,693
Prepaid land leases payments		47,597	47,598
Deferred tax assets		28,982	28,981
Total non-current assets		1,228,881	1,190,439
Current assets			
Inventories	10	71,781	33,569
Properties under development	20	1,473,335	905,576
Properties held for sale	20	—	503,781
Prepaid land leases payments		1,020	1,020
Trade receivables	11	154,295	63,746
Bills receivable		40,506	34,396
Other receivables, deposits and prepayments		440,364	317,989
Cash and bank balances		494,675	804,102
Total current assets		2,675,976	2,664,179
Current liabilities			
Trade payables	12	259,682	155,988
Bills payable		836	4,389
Other payables, accruals and receipts in advance		684,503	683,738
Bank borrowings	13	902,000	935,000
Income tax payable		3,183	43,277
Total current liabilities		1,850,204	1,822,392
Net current assets		825,772	841,787
Total assets less current liabilities		2,054,653	2,032,226

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Non-current liabilities			
Other payables		29,539	—
Bank borrowings	13	692,000	729,000
Deferred tax liabilities		126,344	126,344
Total non-current liabilities		847,883	855,344
NET ASSETS		1,206,770	1,176,882
CAPITAL AND RESERVES			
Share capital	14	123,314	123,314
Reserves		1,083,456	1,053,568
Equity attributable to owners of the Company		1,206,770	1,176,882
TOTAL EQUITY		1,206,770	1,176,882

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000	Properties revaluation reserve RMB'000	Translation reserve RMB'000	Retained earnings RMB'000	Attributable to owners of the Company RMB'000	Non- controlling interests RMB'000	Total RMB'000
At 1 January 2014	123,314	8,586	78,442	151,081	1,289	814,170	1,176,882	—	1,176,882
Profit and total comprehensive income for the period	—	—	—	—	—	29,888	29,888	—	29,888
At 30 June 2014 (unaudited)	123,314	8,586	78,442	151,081	1,289	844,058	1,206,770	—	1,206,770
At 1 January 2013	123,314	8,586	78,552	119,680	1,060	753,283	1,084,475	343,494	1,427,969
Profit and total comprehensive income for the period	—	—	—	—	—	25,500	25,500	—	25,500
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	(343,494)	(343,494)
At 30 June 2013 (unaudited)	123,314	8,586	78,552	119,680	1,060	778,783	1,109,975	0	1,109,975

CONDENSED CASH FLOW STATEMENT*For the six months ended 30 June 2014*

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	31,804	39,293
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	11,136	(299,700)
NET CASH GENERATED FROM FINANCING ACTIVITIES	14,072	68,698
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	57,012	(191,709)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	423,508	382,079
CASH AND CASH EQUIVALENTS AT END OF PERIOD	480,520	190,370
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
CASH AND BANK BALANCE	494,675	974,598
Less: Time deposits with original maturity of more than three months when acquired	—	(770,000)
Pledged bank balances	(14,155)	(14,228)
CASH AND CASH EQUIVALENTS	480,520	190,370

Notes:

1. CORPORATE INFORMATION

EVOC Intelligent Technology Company Limited (the “Company”) is a joint stock limited liability company established in the People’s Republic of China (the “PRC”). The address of its registered office and principal place of business is located at EVOC Technology Building, No. 31 Gaoxinzhongsi Avenue, Nanshan District, Shenzhen, the PRC.

2. PRINCIPAL ACTIVITIES

The Group engages in the research, development, manufacture and distribution of Special Computer (formerly known as Advanced Process Automation (“APA”)) products, trading of electronic products and accessories and development of properties in Mainland China. Special Computer is a computer system built to allow users to adopt 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. Special Computer products manufactured and distributed by the Group are widely applied in areas of tele-communication, industrial, military, electricity generation, video frequency control, transportation, Internet, commerce and finance, etc.

3. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements were unaudited. The condensed consolidated financial statements have been reviewed by the audit committee of the Company.

The Company was established in the PRC on 18 December 2000 as a joint stock limited company under the PRC’s Company Law and its H shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM”) on 10 October 2003. The Company transferred from the GEM to the Main Board of the Stock Exchange on 12 July 2010.

The Group’s unaudited condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013. They have been prepared under the historical cost convention, as modified for the revaluation of buildings and investment properties.

The Group has adopted the standards, amendment and interpretations that have been issued and effective for the accounting periods beginning on or after 1 January 2014. The adoption of such standards, amendment and interpretations did not have material effect on these results.

4. TURNOVER AND OTHER INCOME

Turnover represents the invoiced value of goods sold and services provided to customers, net of estimated customer returns, rebates and other similar allowances and excludes value added tax.

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Turnover		
Sales of Special Computer products	247,896	300,915
Sales of electronic products and accessories	738,296	249,558
	986,192	550,473
Other income		
Bank interest income	2,543	14,104
Value-added tax ("VAT") concession	2,380	3,271
Gross rentals from investment properties	29,159	23,136
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties	(4,896)	(3,614)
	24,263	19,522
Government subsidies	2,821	3,134
Sub-contracting income	2,419	1,849
Foreign exchange differences, net	(2,086)	96
	32,340	41,976
	1,018,532	592,449

5. PROFIT BEFORE INCOME TAX

	Six months ended 30 June	
	2014 RMB'000 (Unaudited)	2013 RMB'000 (Unaudited)
Cost of inventories recognised as an expense	881,575	463,438
Depreciation of property, plant and equipment	5,716	5,281
Amortisation of prepaid land leases payment	1,462	631
Loss on disposal of property, plant and equipment, net	34	1,505
Reversal of impairment loss on trade receivables	—	(1)
Minimum lease payments under operating leases	3,087	3,376
Research and development costs	22,199	23,475
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	40,219	44,357
Contributions to retirement benefits schemes	3,332	3,460

6. INCOME TAX

In accordance with the PRC Enterprise Income Tax Law, the PRC EIT is calculated at 25% on the estimated assessable profit for the year. Certain of the Company's subsidiaries established in the PRC are exempted from income tax for two years starting from their first profit making year after utilisation of tax losses brought forward and are entitled to 50% relief on the income tax in the following three years. These subsidiaries are subject to income tax rates ranging from 12.5% to 25% (2013: 12.5% to 25%) during the reporting period.

Certain subsidiaries of the Company which have been approved as new and high technology enterprise are entitled to a concessionary tax rate of 15%. These subsidiaries need to re-apply for the preferential tax treatment when the preferential tax period expires.

PRC LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights and all property development expenditures.

Subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax at a rate of 16.5% (2013: 16.5%) on the estimated assessable profits during the reporting period. No Hong Kong profits tax has been provided for the 6 month ended 30 June 2014 and 2013 as there were no estimated assessable profits arose for both periods.

7. DIVIDENDS

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2014 (2013: Nil).

8. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2014 is based on the unaudited profit for the six months ended 30 June 2014 of approximately RMB29,888,000 (2013: RMB25,500,000) and the weighted average number of domestic and H shares in issue of 1,233,144,000 (2013: 1,233,144,000) during the period.

There was no dilutive potential domestic and H shares in issue during the reporting period, the amount of diluted earnings per share is the same as basic earnings per share for the six months ended 30 June 2014 and 2013.

9. PROPERTY, PLANT AND EQUIPMENT

	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:							
As at 1 January 2014	799,278	33,700	29,297	90,603	14,367	4,582	971,827
Additions	—	3,095	457	668	73	40,489	44,782
Disposals	—	—	(18)	(204)	—	—	(222)
As at 30 June 2014	799,278	36,795	29,736	91,067	14,440	45,071	1,016,387
Accumulated depreciation:							
As at 1 January 2014	—	31,455	8,608	69,098	12,499	—	121,660
Charge for the period	1,661	530	1,614	1,800	111	—	5,716
Written back on disposals	—	—	(16)	(154)	—	—	(170)
As at 30 June 2014	1,661	31,985	10,206	70,744	12,610	—	127,206
Carrying amount:							
As at 30 June 2014 (unaudited)	797,617	4,810	19,530	20,323	1,830	45,071	889,181
As at 31 December 2013 (audited)	799,278	2,245	20,689	21,505	1,868	4,582	850,167

10. INVENTORIES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Raw materials	21,912	20,123
Work-in-progress	6,725	9,460
Finished goods	51,545	12,388
	80,182	41,971
Less: Allowance for inventories	(8,401)	(8,402)
	71,781	33,569

11. TRADE RECEIVABLES

Goods sold to customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period generally ranged from 30 days to 90 days, extending up to 180 days for major customers. Each customer has a maximum credit limit.

The ageing analysis of gross trade receivables at the end of reporting period, based on the invoice date, is as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0 to 90 days	133,849	39,616
91 to 180 days	10,832	17,366
181 to 365 days	6,029	12,065
Over 1 year	7,004	3,854
Gross trade receivables	157,714	72,901
Less: Allowance for impairment losses	(3,419)	(9,155)
	154,295	63,746

12. TRADE PAYABLES

The following is the ageing analysis of trade payables:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
0 to 90 days	194,350	144,051
91 to 180 days	17,534	9,017
181 to 365 days	43,566	1,488
Over 1 year	4,232	1,432
	259,682	155,988

13. BANK BORROWINGS

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Secured bank borrowings	1,594,000	1,664,000
At the end of reporting period, total bank borrowings were scheduled to be repaid as follows:		
On demand or within one year	902,000	935,000
After one year but within two years	250,000	329,000
After two years but within five years	442,000	400,000
	692,000	729,000
	1,594,000	1,664,000

14. SHARE CAPITAL

	Number of shares	RMB'000
Registered, issued and fully paid:		
At 1 January 2013, 31 December 2013 and 30 June 2014	1,233,144,000	123,314
Of which:		
Domestic Shares of RMB0.1 each	924,792,000	92,479
Overseas listed H Shares of RMB0.1 each	308,352,000	30,835
	1,233,144,000	123,314

Domestic shares and overseas listed H shares are both ordinary shares of the Company. However, overseas listed H shares may only be subscribed for by, and traded in Hong Kong dollars between legal and natural persons of Hong Kong, Macau, Taiwan or any country other than the PRC whereas domestic shares may only be subscribed for by, and traded between legal or natural persons of the PRC (other than Hong Kong, Macau and Taiwan) and must be subscribed for and traded in Renminbi. All dividends in respect of H shares are to be paid by the Company in Hong Kong dollars whereas all dividends in respect of domestic shares are to be paid by the Company in Renminbi. Other than the above, all domestic shares and H shares rank pari passu with each other in all respects and rank equally for all dividends or distributions declared, paid or made.

15. CAPITAL COMMITMENT

As at 30 June 2014, the Group had authorised but not contracted for and contracted but not provided for were approximately RMB38.9 million (2013: RMB645.1 million) and RMB260.3 million (2013: RMB384.1 million) respectively, in respect of construction of a service outsourcing centre in Wuxi, the PRC, construction of production plants, office and research and development building and staff quarters in Guangming, Shenzhen, the PRC.

16. FOREIGN EXCHANGE RISKS

Since most of the transactions of the Group were denominated in Renminbi, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the period under review.

17. RELATED PARTY TRANSACTION

During the period under review, the Group did not have any material related party transactions.

18. CONTINGENT LIABILITIES

As at 30 June 2014, the Group did not have any significant contingent liabilities.

19. RESERVES

Movements of the reserves for the six months ended 30 June 2014 and 2013 are shown in the condensed consolidated statement of changes in equity.

20. PROPERTIES UNDER DEVELOPMENT

The total amount of properties under development had been included the properties held for sale RMB503,781,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 June 2014, the Group reported an unaudited revenue of approximately RMB986.2 million (2013: RMB550.5 million), representing an increase of approximately 79.2% as compared with the same period of last year, which was mainly due to increase in sales of electronic products and accessories. The Group has commenced to lease the units in the plaza “Shenzhen-HK Metropolis” under the Wuxi project. In the first half of the year, over 7,000 square metres of units has been leased. As there is a rent-free period, rental revenue will be generated after the period.

Gross Profit

For the six months ended 30 June 2014, the gross profit margin was approximately 10.3% as compared to 15.4% of the same period of last year. The decrease in gross profit margin was mainly due to increase in electronic products and accessories business with a comparatively lower margin.

Profit for the Period

For the six months ended 30 June 2014, the Group recorded an unaudited net profit of approximately RMB29.9 million (2013: RMB25.5 million), representing an increase of approximately 17.3% as compared with the same period of last year. The increase was mainly due to the contributions from sales increase form electronic products and accessories.

Liquidity, Financial Resources and Gearing ratio

As at 30 June 2014, the Group had shareholders' funds/net assets of approximately RMB1,207 million. It mainly comprised bank balances which amounted to approximately RMB495 million, inventories of approximately RMB72 million, properties under development approximately RMB1,473 million and trade and bills receivables amounted to approximately RMB195 million. Long-term bank borrowings amounted to approximately RMB692 million. Current liabilities of the Group mainly comprised bank borrowings of approximately RMB902 million, trade and bills payable of approximately RMB261 million and other payables and accruals of approximately RMB685 million. Net assets value per share of the Group is approximately RMB0.98.

As at 30 June 2014, the gearing ratio of the Group is about 69.1% (31 December 2013: 69.5%). It is defined as the Group's total liabilities over the total assets.

Pledge of Assets

At 30 June 2014, the Group has pledged certain of its property, plant and equipment, investment properties, lease prepayments and construction in progress having a total carrying amount of approximately RMB1,303.9 million (31 December 2013: RMB1,303.9 million) as security for bank loans and general banking facilities granted to the Group. Except the above, there are no other charges on the Groups assets.

Employee Information

As at 30 June 2014, the Company had 1,022 full time employees and the total remuneration for the period was approximately RMB40.2 million (30 June 2013: RMB44.3 million). 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.

Capital Structure

There has been no significant change in the capital structure during the period.

Significant Investment, material acquisitions and disposals

The Group has no significant investment, material acquisitions or disposals during the period.

Business Review

During the period under review, the Company continued to engage in the research, development, manufacture and sale of special computer products in the PRC. We dedicated efforts to enhance and transform the traditional industries in the PRC, and to fuel the development of these industries towards the direction of information, intelligence, digitalization and automation at all-out efforts, giving a much-needed boost to the living quality of people. On top of this, the Company is also engaged in the trading of electronic products and accessories as well as property development. Building on an operating history of two decades from our establishment since 1993, our shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong on 10 October 2003 and was subsequently transferred to the Main Board of the Stock Exchange of Hong Kong on 12 July 2010, with the stock code 02308.HK. We are now the sole listed company in the special computer industry in the PRC.

The Company offers special computer products in three series and solutions tailored for a number of industries. These products are widely applied in a wide variety of sectors including railway transportation, coal mine safety, environmental protection, communications, commerce, industry, finance, energy, military, video frequency control and internet.

The macroeconomic performance of the PRC continued to be subject to instability factors, albeit it was kept at a steady level of economic growth and in a stable state of industrial output. Positive progress was attained in the adjustment of the industrial structure of the PRC during the year, coupled with continued optimization of industrial structure and record-breaking achievement in energy saving and consumption reduction. Given that the macroeconomic performance stood at high level and a number of instability factors exist, the Company seized the opportunities presented by industrial transformation. With unswerving adherence to effective strategies, and on the basis of a diversified sales model that combines direct sales, marketing, network marketing and telemarketing, we spent greater intensity of efforts on R&D investment and technological innovation, thereby reinforcing our core competitiveness. At the same time, through further upgrade of our organizational structure and adjustment of our internal working processes, we set clearer goals at various department levels, in an effort to reduce costs, raise efficiency and enhance profits per capita.

Research & Development and Products

During the period, the Company's project management was conducted through a R&D center set up at its reliability management center. With a focus on hot issues of the industry, we carried out industry surveys and pre-research on techniques. In relation to hot issues of the industry and breakthroughs of key technologies, we launched related investigation on the industry and issued reports thereon. The reports served to give the personnel of our R&D and product departments better understanding of the industry and form a basis and reference from which the Company's future product lines can be framed. Meanwhile, a dedicated technical presentation and research team, devoted to conduct research on common issues and technologies of product applications and industry applications, was set up in respect of the R&D center. We had made applications for the related patents.

The Company undertook next-generation IT industry special projects under 2014 Shenzhen strategic emerging industry development funds (Shen Zhen Shi Jing Xin Wei) and special projects under 2014 IOT development funds from MIIT, endeavoring to embark on industry applications and demonstration in the horizon of industrial networking technologies. Also, we newly secured 863 projects, one Shenzhen technology development project as well as one Shenzhen major technology research project. During the same period, the Company received 2013 Outstanding Contribution Award for Quality in Shenzhen.

From January to June 2014, the Company focused on the R&D of the following new products, including:

1. 慧視機器 Vision Inspection System

While increasing product quality inspection tasks are involved in the course of modern industrial automation production, in usual cases, these tasks cannot be accomplished with a high degree of repeatability and intelligence on a continuous, stable basis by people manually due to the limitation of their own capacity and capability. The Company has launched 慧視機器 vision inspection system, which is an intelligent testing device designed for liquid crystal display production on automation sites. The device is a precision machine vision recognition system integrating optical, mechanical, electrical and automation technologies. These products, which are structured on highly integrated optical imaging systems, new automatic transmission device and modular overall unit systems, are effective in detecting defects in LCD screens down the generations. They are featured by their flexibility, high detection efficiency, short detection time, high precision, user-friendly operation of software control modules, low system running vibration, little noise, attractive rack appearance, as well as anti-oil, anti-dust surface.

2. Advanced Industrial Controller

With a huge number of embedded applications, a great amount of technology platforms, rising personalized demand for customized applications and swift changes in technology evolution — which are known as “growth in three aspects and change in one aspect”, there are duplication in technology development, variance in standards, poor inheritance of technology, high costs of application and R&D, long duration of life cycle and serious waste of resources. As such, it is essential for us to create a platform that can perform reconstruction on the basis of different applications, build a layer that is compatible with different hardware architectures, put in place a software layer that provides standardized function modules and establish SDK application development environment as well, in order to enable us to structure customer applications in rapid, cost-effective manner. The advanced industrial control products introduced by the Company are special computers based on brand new architectures that are designed for the said purposes, and can be widely used in a wide range of applications.

3. New Platform Motherboard

The Company's new platform motherboard products, featured by high performance and low power consumption, can be used in military, automation and electricity.

4. Railway Special PIS Series Computer Products

With higher and higher requirement from customers for railway PIS products in terms of features, processing performance, product quality plus product testing standards, the existing PIS product design can no longer meet the ever-growing demand from customers. To this end, the Company has rolled out an entire array of special railway PIS computer products. With these products, solutions can be quickly achieved without industry applications. These products can be widely used in railway PIS systems, including the applications on vehicles such as the metro, suburban railway, high-speed rail, common rail, and so on.

During the period under review, the special computer R&D/pilot base built by the Company in Shenzhen, China (currently known as “研祥智谷”) was put into full operation. 研祥智谷 is mainly used for the production, R&D and end test of hardware and software of automation products. It enables us to comprehensively improve our efficiency, shorten R&D cycle and expand production scale, thus bolstering our overall competitive edge. Following the complete relocation of our manufacturing center to 研祥智谷, our production activities have resumed to usual operation. Thanks to enhanced capacity following the relocation of the Company’s manufacturing center to 研祥智谷, we stood poised to cater for the needs of our rapid development. Moreover, given reduced rental costs as a result of the use of our self-owned property and lower labor costs as a result of higher degree of automation, we reaped bigger net profits. Along with significant improvement in the standards of the production, living and supporting facilities of 研祥智谷 (EVOC Intelligence Valley), we have created better working and living conditions, which are conducive to the stability and development of our employees. The Company was much honored to be granted “2013 Annual Investment Contribution Award, Shenzhen Guangming New District” by China Shenzhen Guangming New District Party Committee and Management Committee, in recognition of the completion and commission of EVOC Intelligence Valley, making a move to contribute our part to the construction and development of Guangming New District.

During the period, the Company launched 2014 University Cradle Project, themed on “brilliant success for 90s new pillars, in pace with EVOC”, under which an “Embedded technology laboratory” was set up by the Company in joint force with Beijing University of Chemical Technology, Northeastern University and Hebei University of Science and Technology. The laboratory is used for carrying out teaching and research experiments related to electrical and electronic disciplines, with a view to assisting young students in pursuing for achievements in academic field and scientific practice. As a player with a leading niche in the special computer industry, we have been well-served by our continued emphasis on long-held values of a blended integration of industry, academia

and research. We have now successively cemented cordial cooperation with a couple of well-known institutions like Beijing University of Aeronautics and Astronautics, Beijing University of Technology, Tibet University and Xi'an Jiaotong University. Through multiple ways, for instance, the setting up of embedded technology joint laboratories on a partnership basis and the launching of student internship programs, we tied up tighter collaboration with universities in the spectrums of industry, academia and research. Through reinforcement of resources integration, we flourished the innovative development of special computers in the horizons of electronics science and technology, electrical engineering, microelectronics, information and communication engineering, automation science and technology, as well as computer science and technology.

Product Categories

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

	Turnover			
	Six months ended 30 June			
	2014 (Unaudited)		2013 (Unaudited)	
	RMB'000	%	RMB'000	%
Board-type Special Computer	135,751	13.8	163,296	29.7
Chassis-type Special Computer	108,877	11.0	130,969	23.8
Remote data modules	3,268	0.3	6,650	1.2
Special Computer products	247,896	25.1	300,915	54.7
Trading of electronic products & accessories	738,296	74.9	249,558	45.3
Total	986,192	100	550,473	100

Marketing and Brand

We remained committed to a multi-facet marketing model based on three main kinds of marketing methods, namely direct marketing, distribution and new channels (Internet sales and telephone sales). In relation to direct marketing, it has transited from pure sales to market-oriented approach, whereby our commerce department was responsible for handling large customers, enhancing the strength of managers about the industry. Based on market research, the operation of the industry was dealt with by a dedicated team of industry managers, product managers and sales engineers. For dealers, we took "direct marketing approach of dealer management" based on flat distribution rather than sales agents. In connection with key customers, we adopted direct marketing management. We provided dealer training and counseling services, and required dealers to greatly enhance their technical strength through

installed capacity certification and services certification. The launch of a dealer cloud platform was expected to offer functions such as real-time order placements and data query, thus sharply reducing labor costs. Intensified efforts were made on telephone sales model. Client resources not yet shipped within a certain period must be released, thus leading to internal competition.

In light of notable changes in the prevailing external marketing landscape, network economy and fans economy played an increasing part in the mainstream. The Company remained focused on enhancing brand influence and reputation among younger age groups (85s youngsters), sticking to a marketing philosophy targeting on 85s youngsters and network marketing. We were more determined than ever to step up endeavors on network marketing and expansion of network coverage. Also, we made an attempt to fortify our marketing on social media with widespread popularity among young people, such as the placement of advertisements on WeChat, Tencent Space, QQ Chat Window as well as mainstream video sites. On the front of seminars, our focus was placed on a diverse variety of forms including industry thematic seminars, network seminars and media interviews. While we cut the placement of advertisements on print media in the industry, we increased the promotion on search engines like Baidu, Google and Sogou, which was a reflection of the shift of the forms of advertising from traditional channels to entertainment-led basis. In respect of the marketing operation model, it has shifted from the previous open-loop marketing to the current closed-loop marketing cored on the promotion of sales. In relation to the marketing sector, we continued to reinforce our investment in industries including rail traffic, network security and high-end manufacturing.

“EVOC Commerce Mall” (研祥商城), the first-of-its-kind high-end automation branded electronic mall built by the Company with first-mover initiative, was in highly efficient operation. Being an one-of-a-kind B2B e-commerce platform with indispensable significance in the high-end automation industry, “EVOC Commerce Mall” (研祥商城) was positioned as a platform offering users with one-stop purchasing services related to EVOC products. During the period under review, through a wide array of monthly activities for “EVOC Commerce Mall” (研祥商城), online and offline interaction, provision of specific products via network and differentiation of products, we achieved promising results. In view of the smooth progress of “EVOC Commerce Mall” (研祥商城), we were well-positioned to effectively address the rise in labor costs and the ever-higher degree of difficulty of management along with our business expansion. In addition, we raised the efficiency of feedbacks to pre-sale and after-sale technical services. Furthermore, we captured market demand with our time-to-market capabilities, thereby lifting up the competitiveness of our products.

During the period under review, the Company hosted and participated in the following marketing activities:

1. We participated in the first high-tech outcome exhibition for private enterprises jointly organized by the of the PLA General Armament Department, the Ministry of Industry and Information Technology, the National Defense Science and Industry Bureau and the National Federation.
2. In the eastern, southern and northern regions, we conducted a series of door-to-door recommendation seminars in respect of industry benchmark enterprises and research institutes. We launched promotion campaigns and collected data relating to customers' demand on the basis of their own needs. By offering customers access to door-to-door exclusive services with definite goals and strong positioning, we garnered exceptional fruits and recognition from customers for the seminars.
3. Partnering with China Industrial Network, we organized the "Westward Industrial Server" network seminar. At the conference, the background of the birth of industrial servers, technology advantages and industrial applications were illustrated while several hot topics such as the frequent incidents of cyber espionage and national bans on the purchase of server products from foreign countries were discussed. Through this exchange seminar, participants' understanding of industry servers has been greatly improved.
4. In Shenzhen, China, we held "fresh impetus, bright future" — 2014 EVOC global strategic dealers' marketing summit for the year, at which we shared views with and bridged communication with distributors as well as concluded the achievements and issues relating to market exploration during for the first half of the year, paving a solid path for the growth of the market for the second half of the year.
5. Teaming up with search engines including Baidu and Google in the aspect of promotion, we continued to enhance EVOC's brand exposure. Through promotional initiatives of "EVOC Commerce Mall" (研祥商城) and activities of WeChat, the loyalty of potential users was heightened.
6. We established a stronger sales team. Through progressive training, we enhanced the technological level as well as the market research and analysis capability and operational capacity of our sales force. By expanding our team of middle, senior sales engineers, we transformed our direct marketing team members into market-oriented sales elites consisting of "consultants", so as to enhance our competitiveness in the market.

Outlook and Prospect

According to a report recently issued by MIIT CCID Institute, in the first half of this year, the cumulative growth rate of the added value of the equipment industry of the PRC was buoying up constantly, with a steady rise and favorable turnaround in the growth rate of the export value. There was also a robust demand for intelligent manufacturing equipment. As per the report, moving forward towards the second half of the year, the equipment industry of the PRC will pick up broad-based growth momentum, while the industries relating to industrial robots (quotes, interrogation), service robotics, intelligent equipment such as 3D printing device, rail transportation equipment as well as energy-saving and environmentally-friendly equipment will show a rapid growth trend. As noted from the report, in the second half of 2014, with increasing urbanization and accelerated pace of the development of “smart cities”, the construction of a number of infrastructure including railways, subways, highways and water supply facilities will be speeded up, adding new vitality to the development of the equipment manufacturing industry during the second half of the year. What is more, the industries related to the development of urbanization and the construction of “smart cities” — such as engineering machinery, elevators, urban rail equipment, smart grids, networking equipment and agricultural machinery will be blessed with relatively high speed growth. With the rise in labor costs, the upgrade of industrial structure and the accelerated breakthroughs in smart homes, intelligent equipment such as industrial robots, service robots, 3D printing and wearable devices will become new growth points of the industry. In particular, driven by the further implementation of the policy relating to “machine substitutions of manual operation” across the country, the industrial robotics industry will further grow at faster speed.

As the country calls for immediate solution to the current issue of information security, information security is the very essence at the national level. Along with the localization of the manufacture of information security equipment at accelerated pace, the related policy is expected to be put into force this year. We envisage that the policy will exert more far-reaching impact on the industry. The industry is going to follow an apparent trend where high-quality resources will be integrated at accelerated speed, and where higher degree of concentration of market will be gradually accounted for by information security players with relatively stronger strength. According to statistical data, the information security market in the PRC has a size of around RMB20 billion, which is set to bring more promising market space and development opportunities for the Company.

Over the year, given that the approval of rail transit projects has been granted by the national ministries rather than the provincial authorities, rail transit construction is turning into another boom cycle. As reflected from the relevant statistics from the National Development and Reform Commission, up to now, rail transit construction in 36 cities over the country has been approved, and construction works are already underway. With the latest submission of

construction projects by four cities including Nantong, Luoyang, Jinan and Huhhot, the number of cities with rail transit construction in progress across the country is expected to increase to 40, with a total mileage under construction of nearly 4,000 km. According to estimates, during three years prior to the “12th Five Year” Plan, the accumulated investment in urban rail transit construction to be completed over the country amounts to RMB570 billion, of which an investment of RMB260 billion is planned to be completed this year. An investment amount of over RMB1 trillion is anticipated to be completed during the entire period of the “12th Five Year” Plan.

To sum up, in 2014, in view of impressive growth in demand for special computers from the domestic market and increasing activeness of the market of cloud computing platform-based services, big data will enter an application phase. As industry upgrades have added new stimulus to the advanced manufacturing market, the Company will capture the opportunities in the market by leveraging on its leading edge in terms of brand and quality of special computers, thus achieving business growth by taking advantage of the opportunities arising from the demand for localization of manufacture and intelligent manufacture. We will remain focused on rail transportation, information security, environmental protection equipment, electrical equipment and construction machinery. By offering a full array of high-end network products, we will meet the demand for network information security. With a focus on tactic customers, we will target on high-end market. Meanwhile, boasting on the growth opportunities arising from the automation equipment demand lured by the growth of the cloud computing/big data market and industrial upgrade, we will beef up our business scale and profitability. Also, leveraging on our competitive advantages and resources, we will uphold our strategy of self owned branding and technological innovation, in order to enhance our core competitiveness, thereby carving out and staying in the top spot in the high-end automation application and development fields in the PRC.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Corporate Governance Practices

The Company has complied throughout the period under review with the code provisions set out in the Code on Corporate Governance (the “Code”) contained in Appendix 14 of the Listing Rules without any deviation. None of the Directors is aware of any information that would reasonably suggest that the Company is not or was not in compliance with the Code at any time during the period under review.

Securities Transactions

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct of the Group regarding Directors' securities transactions. All Directors of the Company confirmed that they have complied with the Model Code in their securities transactions throughout the period from 1 January 2014 to 30 June 2014.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Ling Chun Kwok, Mr. Dong Lixin and Mr. An Jian. Mr. Ling Chun Kwok is the Chairman of the audit committee. Written terms of reference of the audit committee which comply with the code provisions set out in the Code has been adopted by the Board. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board of Directors. The committee met in a semi-annual basis and the review covers the findings of internal auditors, internal controls, risk management and financial reporting matters. The audit committee has discussed with the management and reviewed the interim results of the Group for the six months ended 30 June 2014.

Remuneration and Review Committee

The remuneration and review committee of the Company comprises one executive director Mr. Zhu Jun, and two independent non-executive directors, Mr. Dong Lixin and Mr. An Jian. Mr. Dong Lixin is the Chairman of the remuneration and review committee. Written terms of reference of the remuneration and review committee which comply with the code provisions set out in the Code has been adopted by the Board. The remuneration and review committee is principally responsible for formulating the Group's policy and structure for all remunerations of the Directors and senior management and providing advice and recommendations to the Board. The remuneration and review committee held two meetings during the period under review.

Nomination Committee

The nomination committee of the Company comprises one executive director Mr. Chen Zhi Lie, and two independent non-executive directors, Mr. Dong Lixin and Mr. Wen Bing. Mr. Chen Zhi Lie is the Chairman of the nomination committee. The nomination committee is primarily responsible for considering and recommending to the Board suitably qualified persons to become the members of the Board and also reviewing the structure, size and composition of the Board on a regular basis and as required.

Directors' and Supervisors' Interests in the Shares, Underlying Shares and Debentures

As at 30 June 2014, the interest and short positions of the Directors, supervisors (the "Supervisors") and chief executives of the Company in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange, 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	878,552,400	Domestic Shares (Note 1)	95.00%	71.25%
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	46,239,600	Domestic Shares (Note 2)	5.00%	3.75%

Notes:

- These Domestic Shares are held by EVOC Hi-Tech. Holding Group Co., Ltd. (formerly known as Shenzhen Yanxiang Wangke Industry Co., Ltd.) which is owned as to 70.5% by Mr. Chen Zhi Lie (陳志列) ("Mr. Chen") and 29.5% by Ms. Wang Rong (王蓉), spouse of Mr. Chen. By virtue of Mr. Chen's holding of more than one-third interest in EVOC Hi-Tech. Holding Group Co., Ltd., Mr. Chen is deemed to be interested in all the Domestic Shares held by EVOC Hi-Tech. Holding Group Co., Ltd. in the Company pursuant to Part XV of the SFO.
- These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen. By virtue of Mr. Chen holding the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen 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

Directors	Associated corporation	Type of interests	Approximate percentage of holding of the total share capital of the associated corporation
Chen Zhi Lie (陳志列)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner	70.5%
		Interest of spouse	29.5%
Wang Rong (王蓉)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner	29.5%
		Interest of spouse	70.5%

Note:

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

Substantial Shareholders

As at 30 June 2014, 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 10% 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
EVOC Hi-Tech. Holding Group Co., Ltd. (Note 1)	Registered and beneficial owner of the Domestic Shares	878,552,400	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列) (Note 1)	Interest of a controlled corporation	878,552,400	Domestic Shares	95.00%	71.25%
Shenzhen Haoxuntong Industry Co., Ltd. (Note 2)	Registered and beneficial owner of the Domestic Shares	46,239,600	Domestic Shares	5.00%	3.75%
Chen Zhi Lie (陳志列) (Note 2)	Interest of a controlled corporation	46,239,600	Domestic Shares	5.00%	3.75%

Note:

1. Mr. Chen is the beneficial owner of 70.5% interests in EVOC Hi-Tech. Holding Group Co., Ltd. (formerly known as Shenzhen Yanxiang Wangke Industry Co., Ltd.) and is deemed to be interested in the Domestic Shares owned by EVOC Hi-Tech. Holding Group 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 EVOC Hi-Tech. Holding Group Co., Ltd.
2. These Domestic Shares are held by Shenzhen Haoxuntong Industry Co. Ltd. which is owned as to 100% by Mr. Chen. By virtue of Mr. Chen holding the entire interest in Shenzhen Haoxuntong Industry Co. Ltd., Mr. Chen 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.

Save as disclosed above:

- (i) As at 30 June 2014, none of the directors, supervisors or chief executives or their respective associates 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 are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange; and
- (ii) As at 30 June 2014, so far as is known to any director or supervisor, there is no person (other than a Director or supervisor or chief executive of the Company) who 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 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Enlarged Group or any other substantial shareholders whose interest or short position were recorded in the register required to be kept by the Company under section 336 of the SFO.

Directors' and Supervisors' Rights To Purchases Shares

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

Share Option Scheme

Up to 30 June 2014, the Company has not adopted any share option scheme or granted any option.

Competing Interests

None of the directors, initial management shareholders or any of their respective associates (as defined in the Listing Rules) had any interests in any business which compete or is likely to compete with the business or Group, and none of them has other conflicts of interest with the Group.

Purchases, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the period.

Sufficiency of Public Float

According to information of the Company available to the public and to the knowledge of the Board, the Board confirms that the Company has maintained a sufficient public float up to the date of this report.

Directors

As at the date hereof, the executive directors of the Group are Mr. Chen Zhi Lie, Mr. Tso Cheng Shun and Mr. Zhu Jun; the independent non-executive directors of the Group are Mr. Ling Chun Kwok, Mr. Wen Bing, Mr. Dong Lixin and Mr. An Jian.

By order of the Board
EVOC Intelligent Technology Company Limited*
Chen Zhi Lie
Chairman

Shenzhen, PRC, 12 August 2014

The Company's 2014 interim results announcement and this interim report are published on the website of the Stock Exchange at (<http://www.hkex.com.hk>) and on the Company's website at (<http://www.evoc.com>).

* For identification purpose only