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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 RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		Change
	2018	2017	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>Percent</i>
Revenue	555,032	501,248	+10.7%
Other income	101,914	71,541	+42.5%
Profit attributable to owners of the Company	22,493	27,768	-19.0%
Earnings per share Basic (<i>RMB</i>)	0.018	0.023	

The Directors do not recommend payment of dividend for the six months ended 30 June 2018 (2017: Nil).

FINANCIAL 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 2018, together with the comparative unaudited results for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

		Six months ended 30 June	
		2018	2017
	Notes	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover	4	555,032	501,248
Cost of sales		<u>(495,412)</u>	<u>(449,219)</u>
Gross profit		59,620	52,029
Other income	4	101,914	71,541
Selling and distribution costs		(16,296)	(14,662)
Administrative expenses		(26,248)	(22,675)
Other operating expenses		(37,068)	(33,347)
Finance costs		<u>(55,297)</u>	<u>(21,108)</u>
Profit before income tax	6	26,625	31,778
Income tax expense	7	<u>(4,132)</u>	<u>(4,010)</u>
Profit and total comprehensive income for the period attributable to owners of the Company		<u>22,493</u>	<u>27,768</u>
Earnings per share — Basic and diluted	9	<u>RMB0.018</u>	<u>RMB0.023</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	<i>Notes</i>	30 June 2018 <i>RMB'000</i> (Unaudited)	31 December 2017 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	10	878,037	870,921
Investment properties		1,819,514	1,708,894
Prepaid land leases payments		44,553	43,537
Deferred tax assets		24,820	23,207
Total non-current assets		<u>2,766,924</u>	<u>2,646,559</u>
Current assets			
Inventories	11	34,786	31,874
Properties under development		1,362,330	1,325,966
Properties held for sale		404,935	353,761
Prepaid land leases payments		—	1,016
Trade receivables	12	196,438	149,570
Bills receivable		49,503	51,714
Other receivables, deposits and prepayments		561,451	348,516
Income tax recoverable		13,740	1,632
Cash and bank balances		429,829	681,100
Total current assets		<u>3,053,012</u>	<u>2,945,149</u>
Current liabilities			
Trade payables	13	686,384	729,996
Bills payable	13	5,842	1,277
Other payables, accruals and receipts in advance		609,979	336,293
Bank borrowings	14	1,389,500	1,300,880
Income tax payable		—	26,323
Total current liabilities		<u>2,691,705</u>	<u>2,394,769</u>
Net current assets		<u>361,307</u>	<u>550,380</u>
Total assets less current liabilities		<u>3,128,231</u>	<u>3,196,939</u>

		30 June 2018	31 December 2017
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
Non-current liabilities			
Bank borrowings	<i>14</i>	799,511	795,172
Deferred tax liabilities		237,868	333,408
Total non-current liabilities		<u>1,037,379</u>	<u>1,128,580</u>
NET ASSETS		<u>2,090,852</u>	<u>2,068,359</u>
CAPITAL AND RESERVES			
Share capital	<i>15</i>	123,314	123,314
Reserves		1,967,538	1,945,045
TOTAL EQUITY		<u>2,090,852</u>	<u>2,068,359</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory surplus reserve <i>RMB'000</i>	Properties revaluation reserve <i>RMB'000</i>	Translation reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2018	123,314	8,586	79,942	444,575	445	1,411,497	2,068,359
Profit and total comprehensive income for the period	—	—	—	—	—	22,493	22,493
At 30 June 2018 (unaudited)	<u>123,314</u>	<u>8,586</u>	<u>79,942</u>	<u>444,575</u>	<u>445</u>	<u>1,433,990</u>	<u>2,090,852</u>
At 1 January 2017	123,314	8,586	79,942	429,562	1,037	1,376,016	2,018,457
Profit and total comprehensive income for the period	—	—	—	—	—	27,768	27,768
At 30 June 2017 (unaudited)	<u>123,314</u>	<u>8,586</u>	<u>79,942</u>	<u>429,562</u>	<u>1,037</u>	<u>1,403,784</u>	<u>2,046,225</u>

CONDENSED CASH FLOW STATEMENT

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	39,117	30,737
NET CASH USED IN INVESTING ACTIVITIES	(360,229)	(117,415)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	<u>69,841</u>	<u>(37,317)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(251,271)	(123,995)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>681,100</u>	<u>426,562</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>429,829</u>	<u>302,567</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS:		
CASH AND BANK BALANCE	429,829	302,567
Less: Pledged bank balances	—	—
CASH AND CASH EQUIVALENTS	<u>429,829</u>	<u>302,567</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 Gaoxinzongsi Avenue, Nanshan District, Shenzhen, the PRC.

2. PRINCIPAL ACTIVITIES

The Group engages in the research, development, manufacture and distribution of special computer products, trading of electronic products and accessories and development of properties in the PRC. 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, 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 but 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 2018 have been prepared in accordance with Hong Kong Accounting Standards (“HKASs”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange. The basis of preparation and accounting policies adopted in preparing these unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those adopted in the preparation of the Group’s annual financial statements for the year ended 31 December 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) and 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 2017. 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Turnover		
Sales of special computer products	352,540	181,561
Sales of electronic products and accessories	198,704	298,714
Sales of properties	3,788	20,973
	<u>555,032</u>	<u>501,248</u>
Other income		
Gross rentals from investment properties	77,002	74,513
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties	(32,228)	(35,316)
	<u>44,774</u>	<u>39,197</u>
Bank interest income	1,617	1,638
Value-added tax (“VAT”) concession	11	2,698
Government subsidies	51,589	20,934
Repairs and maintenance income	1,824	1,520
Sub-contracting income	3,032	3,976
Miscellaneous income	1,627	1,446
Foreign exchange differences, net	(890)	132
	<u>103,584</u>	<u>71,541</u>
	<u>658,616</u>	<u>572,789</u>

5. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers (the “CODM”) that are used to make strategic decisions.

The Group has two reportable segments. The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group’s reportable segments:

- Research, development, manufacturing and distribution of special computer products and trading of electronic accessories
- Sales of development properties

Inter-segment transactions are priced with reference to prices charged to external parties for similar order. Corporate expenses, corporate assets and corporate liabilities are not allocated to the reportable segments as they are not included in the measure of the segments’ profit, segments’ assets and segments’ liabilities that are used by the CODM for assessment of segment performance.

(a) Information about profit or loss, assets and liabilities

For the six months ended 30 June 2018

	Special computer products and electronic accessories RMB’000	Property development RMB’000	Total RMB’000
External revenue	<u>551,244</u>	<u>3,788</u>	<u>555,032</u>
Reportable segment profit/(loss)	<u>20,666</u>	<u>(22,596)</u>	<u>(1,930)</u>
As at 30 June 2018			
Reportable segment assets	1,238,042	2,883,476	4,121,518
Reportable segment liabilities	<u>535,488</u>	<u>797,229</u>	<u>1,332,717</u>

For the six months ended 30 June 2017

	Special computer products and electronic accessories <i>RMB'000</i>	Property development <i>RMB'000</i>	Total <i>RMB'000</i>
External revenue	480,275	20,973	501,248
Reportable segment profit/(loss)	2,696	(14,753)	(12,057)
As at 30 June 2017			
Reportable segment assets	892,507	2,659,238	3,551,745
Reportable segment liabilities	537,163	1,199,984	1,737,147

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Reportable segment loss	(1,930)	(12,057)
Other income	101,914	71,541
Unallocated corporate expenses	(18,062)	(6,598)
Finance costs	(55,297)	(21,108)
Profit before income tax	26,625	31,778

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold recognised as an expense	462,348	435,052
Cost of properties sold recognised as an expense	33,064	14,168
Depreciation of property, plant and equipment	17,919	23,641
Amortisation of prepaid land leases payment	866	631
(Gain)/Loss on disposal of property, plant and equipment, net	33	(1)
Minimum lease payments under operating leases	1,895	779
Research and development costs	31,041	28,770
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	47,481	37,711
Contributions to retirement benefits schemes	3,319	3,288

7. INCOME TAX EXPENSES

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. Certain of these subsidiaries are exempted from income tax while others are subject to income tax rate of 25% (2017: 25%) during the reporting period.

The company and 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.

The 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% (2017: 16.5%) on the estimated assessable profits during the reporting period. Hong Kong profits tax is calculated at 16.5% on the estimated assessable profits during the reporting period. No Hong Kong profits tax has been provided for the six month ended 30 June 2018 and 2017 as there were no estimated assessable profits arose for both periods.

8. DIVIDENDS

The Directors do not recommend the payment of any dividend for the six months ended 30 June 2018 (2017: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the owners of the Company for the six months ended 30 June 2018 is based on the unaudited profit for the six months ended 30 June 2018 of approximately RMB22,493,000 (2017: approximately RMB27,768,000) and the weighted average number of domestic and H shares in issue of 1,233,144,000 (2017: 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 2018 and 2017.

10. PROPERTY, PLANT AND EQUIPMENT

	Land and Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Furniture, fixtures and equipment <i>RMB'000</i>	Vehicles <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
Cost or valuation:							
As at 1 January 2018	714,232	56,353	27,268	94,463	15,034	120,548	1,027,898
Additions	—	7,104	—	2,792	692	14,447	25,035
Disposals	—	—	—	—	—	—	—
As at 30 June 2018	<u>714,232</u>	<u>63,457</u>	<u>27,268</u>	<u>97,255</u>	<u>15,726</u>	<u>134,995</u>	<u>1,052,933</u>
Accumulated depreciation:							
As at 1 January 2018	—	48,432	18,374	77,426	12,745	—	156,977
Charge for the period	—	14,196	1,235	2,341	147	—	17,919
Written back on disposal	—	—	—	—	—	—	—
As at 30 June 2018	<u>—</u>	<u>62,628</u>	<u>19,609</u>	<u>79,767</u>	<u>12,892</u>	<u>—</u>	<u>174,896</u>
Carrying amount:							
As at 30 June 2018 (unaudited)	<u>714,232</u>	<u>829</u>	<u>7,659</u>	<u>17,488</u>	<u>2,834</u>	<u>134,995</u>	<u>878,037</u>
As at 31 December 2017 (audited)	<u>714,232</u>	<u>7,921</u>	<u>8,894</u>	<u>17,037</u>	<u>2,289</u>	<u>120,548</u>	<u>870,921</u>

11. INVENTORIES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Raw materials	28,395	27,456
Work-in-progress	8,615	6,518
Finished goods	4,824	4,948
	<hr/>	<hr/>
	41,834	38,922
Less: Allowance for inventories	(7,048)	(7,048)
	<hr/>	<hr/>
	34,786	31,874
	<hr/> <hr/>	<hr/> <hr/>

12. 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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0 to 90 days	178,036	149,392
91 to 180 days	12	86
181 to 365 days	17,881	—
Over 365 days	509	92
	<hr/>	<hr/>
Gross trade receivables	196,438	149,570
Less: Allowance for impairment loss	—	—
	<hr/>	<hr/>
	196,438	149,570
	<hr/> <hr/>	<hr/> <hr/>

13. TRADE AND BILLS PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables	686,384	729,996
Bills payable	<u>5,842</u>	<u>1,277</u>
	<u>692,226</u>	<u>731,273</u>

The following is the ageing analysis of trade payables:

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
0 to 90 days	494,871	671,351
91 to 180 days	121,841	1,846
181 to 365 days	21,716	2,814
Over 365 days	<u>47,956</u>	<u>53,985</u>
	<u>686,384</u>	<u>729,996</u>

14. BANK BORROWINGS

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Secured bank borrowings	<u>2,189,011</u>	<u>2,096,052</u>

At the end of reporting period, total bank borrowings were scheduled to be repaid as follows:

On demand or within one year	1,389,500	1,300,880
After one year but within two years	91,000	123,920
After two years but within five years	258,511	246,252
More than five years	<u>450,000</u>	<u>425,000</u>
	<u>2,189,011</u>	<u>2,096,052</u>

15. SHARE CAPITAL

	<i>Number of shares</i>	<i>RMB'000</i>
Registered, issued and fully paid:		
At 31 December 2017 and 30 June 2018	<u>1,233,144,000</u>	<u>123,314</u>
Of which:		
Domestic Shares of RMB0.1 each	924,792,000	92,479
Overseas listed H Shares of RMB0.1 each	<u>308,352,000</u>	<u>30,835</u>
	<u>1,233,144,000</u>	<u>123,314</u>

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.

16. CAPITAL COMMITMENT

As at 30 June 2018, the Group had capital commitment contracted but not provided approximately RMB680.8 million (2017: approximately RMB636.7 million) respectively, mainly in respect of construction of a service outsourcing centre in Wuxi, the PRC, construction of commercial and residential properties in Kunshan, Jiangsu, the PRC and construction of production plants, office and staff quarters in Hangzhou, Zhejiang, the PRC.

17. RELATED PARTY TRANSACTION

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

For the six months ended 30 June 2018, the Group reported an unaudited revenue of approximately RMB555.0 million (2017: approximately RMB501.2 million), representing an increase of approximately 10.7% as compared with the same period of last year, which was mainly due to increase in sales of special computer products.

	30 June 2018 <i>RMB'000</i> (unaudited)	30 June 2017 <i>RMB'000</i> (unaudited)	Change <i>percent</i>
Turnover			
Sales of special computer products	352,540	181,561	+94.2%
Sales of electronic products and accessories	198,704	298,714	-33.5%
Sales of properties	3,788	20,973	-81.9%
	<u>555,032</u>	<u>501,248</u>	

Other income

For the six months ended 30 June 2018, the Group recorded an unaudited other income RMB101.9 million (2017: RMB71.5 million), representing an increase of approximately 42.5% as compared with the same period of last year. The increase was mainly due to rental income growth from investment properties and Government subsidies.

Gross Profit

For the six months ended 30 June 2018, the gross profit margin was slightly increased to approximately 10.7% as compared to approximately 10.4% of the same period of last year.

Profit for the Period

For the six months ended 30 June 2018, the Group recorded an unaudited net profit of approximately RMB22.5 million (2017: approximately RMB27.8 million), representing a decrease of approximately 19.0% as compared with the same period of last year. The decrease was mainly due to increase in financial cost expenses.

Liquidity, Financial Resources and Gearing ratio

As at 30 June 2018, the Group had shareholders' funds/net assets of approximately RMB2,091 million. It mainly comprised bank balances which amounted to approximately RMB430 million, inventories of approximately RMB35 million, properties under development approximately RMB1,362 million and trade and bills receivables amounted to approximately RMB246 million. Long-term bank borrowings amounted to approximately RMB800 million. Current liabilities of the Group mainly comprised bank borrowings of approximately RMB1,390 million, trade and bills payable of approximately RMB692 million and other payables and accruals of approximately RMB610 million. Net assets value per share of the Group is approximately RMB1.70.

As at 30 June 2018, the gearing ratio of the Group is approximately 64.1% (31 December 2017 approximately 63.0%). It is defined as the Group's total liabilities over the total assets.

Pledge of Assets

At 30 June 2018, 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 RMB2,949 million (31 December 2017: approximately RMB2,949 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 2018, the Company had 861 full time employees and the total remuneration for the period was approximately RMB39.2 million (30 June 2017: approximately RMB37.7 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.

Contingent Liabilities

As at 30 June 2018, the Group did not have any significant contingent liabilities.

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.

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 our efforts to enhance and transform the traditional industries in the PRC. Meanwhile, the Company was also engaged in the trading of electronic products and accessories as well as the development of properties in the PRC.

During the period, the Chinese economic development slowed down somewhat. Affected by the China-U.S. trade war and the decline in the mobile phone sector, the demand for special computers shrank as compared with the previous year. Meanwhile, the sustained high prices of internal storage and hard disk as well as the continuous rise in exchange rates led to the rapid increase in the cost of raw materials of computer products. As a result of the sustained high housing prices, the loss of demographic dividend, recruiting challenges, the moving out of equipment suppliers due to the more stringent environmental requirements and other situations in Mainland China, the cost of materials and labour increased rapidly throughout the entire industrial chain, posing enormous challenges to the profitability of the whole industry. In response to the call for “mass innovation” of the Chinese Government, new micro and small enterprises and workshop companies increasingly emerged in the industry, thus exacerbating the industry competition and the price competition as well as subjecting the Company’s traditional products to challenges. At the same time, as the developed countries returned to manufacturing and the cost of production of our international peers decreased, the competition of capturing the Chinese market with low prices was further intensified. The escalation and prolongment of the China-U.S. trade war cast a shadow over the Company’s continuous procurement of raw materials.

With a focus on the domestic market, the Company also sought to tap the market of localised products in light of the trends, so as to meet the market changes and face the challenges with its independent domestic brand and the advantages of the independent intellectual property rights. The Company internally adjusted the product offerings to strive for the enhancement of efficiency. In face of the new market trends, the Company adhered to the “quality first” principle and refused to compromise with low prices. The Company strictly complied with the comprehensive quality control measures during the whole procedure, without shortening the delivery time at the expense of quality for the market. Meanwhile, the Company also promoted intelligent manufacturing and

increased its investment, along with the introduction of the automatic production and testing equipment. This reduced the reliance on the operational staff, thereby addressing the rapid growth in the cost of human resources. At the same time, the Company still adhered to the diversified sales models including direct sales, agents, online sales and telephone sales to seek for markets and customers, which better fit us and are more willing to pay for quality.

Development of Science and Technology Industrial Park Development and other Properties

During the first half of 2018, with respect to the Company's projects, the total area sold reached about 420 sq.m. and achieved a sales revenue amounting to approximately RMB3.8 million including approximately RMB3.3 million arising from sales of section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi") and approximately RMB0.5 million as the sales revenue from phase 1 of Dianshan Lake Property Base project in Kunshan city, Jiangsu. Wuxi A1 now has completed and covers a floor area of approximately 200,000 sq.m. and A2 will soon be completed approximately 140,000 sq.m.. The phase 1 of Dianshan Lake in Kunshan had completed in 2015 with a total gross floor area of approximately 44,000 sq.m., while the mansions and offices in phase 2 of Dianshan Lake with a gross floor area of approximately of 126,000 sq.m. is expected to be completed in 2018. The first phase of the Nantong EVOC High Profile Office Park is consisted of 39 high-rise office buildings, with a total gross floor area of approximately 72,800 sq.m. is expected to be completed in 2018. Huaqiao International Finance Center in Kunshan has been designed as a 55-floor high-rise building which is 250-meter high and is expected to be completed in 2022.

Revenue from Leased Properties

During the first half of 2018, Hangzhou EVOC Technology Building had commenced to lease out. The gross rentable area of the Group approximately 313,000 s.q.m.. From January to June, the Group achieved a total revenue from property rent amounting to approximately RMB77 million.

Research & Development and Products

The Company was committed to independent innovation and continued to develop the research and applications of special computers. Various domestic units applying the products were brought together by the Company to carry out close collaboration in the development and industrialisation of special computers and products of intelligent manufacturing. We strengthened the suitable matching among hardware and software, as well as launching system solutions.

New key products of the Company under research and development during the first half of 2018 include:

Modular fanless machine

The product adopts a modular fanless and wireless design. The hard-wired internal modules and the modular removable hard disk enhance the reliability of signal conversion and the efficiency of assembling.

Marketing and Brands

The Company continued to adopt the diversified sales models including direct sales, agents, online sales and telephone sales and made full use of the online and offline resources for the full integration of marketing. By closely linking our marketing channels with the industry, the Company increased investment in the areas of localisation as well as independence and controllability. Collaboration with upstream and downstream partners was commenced.

The Company adopted a flattened mode of channel, which has been recognised by the distributing partners.

The Company established a multi-dimensional training system centring on the EVOC Intelligence Valley Institute (研祥智谷學院). By utilising the Internet training platform or technologies and conducting nationwide thematic cyclic training, centralised teaching and training, online course training and other training, distributors and employees were provided with a series of themed training on the sales systems and the technical systems, as well as training on industry sharing and cases of applications, etc.

Outlook and Prospect

Currently, global economic development has seen increasing uncertainties against the backdrop of the China-U.S trade war, especially in the special computer sector where the domestic manufacturers continue to heavily rely on the import of upstream ICs from the U.S. The increasing risks pertaining to the availability of raw materials and the rise in prices cast a greater shadow over the continuous production of special computers and the retainment of technological innovations. Still in the initial development stage of investment, domestic ICs are far from having mature and large-scale application. Special computers using domestic ICs have not yet been tested by the market. Looking forward, the Chinese economy is expected to develop stably despite increasing uncertainties. The demand for special computers has significantly decreased due to the adverse impact of the mobile phone sector. While new applications have not been developed, we are cautiously optimistic about the growth prospect.

The Company will continue to focus on the areas of special computers, striving to foster the strength of the brand and the reputation for quality. We pay attention to the product development of homemade CPUs while continuously nurturing market demand. The Company will impose adjustments on the traditional products in accordance with the competition trends, and may reduce the research, development and production of the unprofitable products.

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 2018 to 30 June 2018.

Audit Committee

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Yu Tat Chi, Michael, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Yu Tat Chi, Michael 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 2018.

Remuneration and Review Committee

The remuneration and review committee of the Company comprises one executive director Mr. Geng Wen Qiang, and two independent non-executive directors, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Dong Li Xin 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.

Nomination Committee

The nomination committee of the Company comprises one executive director Mr. Chen Zhi Lie, and two independent non-executive directors, Mr. Dong Li Xin 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 2018, 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 (Note 1)	Domestic Shares	95.00%	71.25%
Chen Zhi Lie (陳志列)	Interest of a controlled corporation	46,239,600 (Note 2)	Domestic Shares	5.00%	3.75%

Notes:

1. These Domestic Shares are held by EVOC Hi-Tech. Holding Group 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.
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.

(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 Interest of spouse	70.5% 29.5%
Wang Rong (王蓉)	EVOC Hi-Tech. Holding Group Co., Ltd.	Beneficial owner Interest of spouse	29.5% 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 2018, 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%

Notes:

1. Mr. Chen is the beneficial owner of 70.5% interests in EVOC Hi-Tech. Holding Group 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 2018, 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 2018, 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 2018, 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. Geng Wen Qiang; the independent non-executive directors of the Group are Mr. Yu Tat Chi, Michael, Mr. Wen Bing, Mr. Dong Li Xin and Mr. Zhang Da Ming.

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

Shenzhen, PRC, 10 August 2018

The Company's 2018 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*