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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 with limited liability)

(Stock Code: 2308)

UNAUDITED ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS			
	Year ended 31 December		Change
	2019	2018	
	RMB'000	RMB'000	%
	(Unaudited)	(Audited)	
Turnover	1,688,153	1,423,139	+18.6%
Gross profit	463,199	216,026	+114.4%
Other income	328,279	329,215	-0.3%
Profit attributable to owners of the Company	263,154	156,940	+67.7%
Earnings per share (Basic and diluted)	0.213	0.127	+67.7%
Gross profit margin percentage	27.4%	15.2%	+12.2%
	As at 31 December		Change
	2019	2018	%
Net asset value per share	RMB2.09	RMB1.83	+14.2%

UNAUDITED CONSOLIDATED RESULTS

For the reasons explained below under “Review of Unaudited Annual Results”, the auditing process for the annual results of EVOC Intelligent Technology Company (the “Company”) and its subsidiaries (collectively the “Group”) has not been completed. In order to keep the Shareholders and potential investors informed of the business operation and financial position of the Group, the board of directors (the “Board”) of the Company decides to publish the unaudited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures for the corresponding year in 2018 as follows:

UNAUDITED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	<i>Notes</i>	Year ended 31 December	
		2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Turnover	4	1,688,153	1,423,139
Cost of sales		<u>(1,224,954)</u>	<u>(1,207,113)</u>
Gross profit		463,199	216,026
Other income	4	328,279	329,215
Selling and distribution costs		(46,107)	(42,322)
Administrative expenses		(144,456)	(91,160)
Other operating expenses		(178,085)	(134,087)
Fair value gain on investment properties		17,718	11,408
Fair value gain on transfer of properties held for sale to investment properties		220	17,167
Finance costs		<u>(127,055)</u>	<u>(98,599)</u>
Profit before income tax	5	313,713	207,648
Income tax expense	6	<u>(50,559)</u>	<u>(50,708)</u>
Profit for the year attributable to owners of the Company		<u><u>263,154</u></u>	<u><u>156,940</u></u>
Other comprehensive income, net of tax			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of land and buildings		54,023	33,947
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		<u>(170)</u>	<u>98</u>
Other comprehensive income for the year, net of tax		<u>53,853</u>	<u>34,045</u>
Total comprehensive income for the year attributable to owners of the Company		<u><u>317,007</u></u>	<u><u>190,985</u></u>
Earnings per share — Basic and diluted (<i>RMB</i>)	8	<u><u>0.213</u></u>	<u><u>0.127</u></u>

UNAUDITED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment		804,106	760,954
Investment properties		2,112,208	2,044,931
Right-of-use assets		93,695	—
Prepaid land lease payments		—	42,521
Deferred tax assets		25,846	24,387
		3,035,855	2,872,793
Total non-current assets			
Current assets			
Inventories		71,234	37,301
Properties under development		623,257	863,600
Properties held for sale		1,441,438	964,455
Prepaid land lease payments		—	1,016
Trade receivables	9	295,607	131,211
Bills receivable	9	115,357	34,115
Other receivables, deposits and prepayments		319,896	259,632
Contract costs		1,780	3,170
Due from related companies		2,831	5,028
Income tax recoverable		—	3,416
Cash and bank balances		1,281,633	1,079,953
		4,153,033	3,382,897
Total current assets			
Current liabilities			
Trade payables	10	1,000,062	740,185
Bills payable	10	100,238	1,500
Contract liabilities		104,942	195,034
Other payables, accruals and receipts in advance		330,175	305,370
Due to related companies		142	397
Lease liabilities		8,815	—
Bank borrowings		781,225	1,268,081
Income tax payable		76,112	17,585
		2,401,711	2,528,152
Total current liabilities			
Net current assets		1,751,322	854,745
Total assets less current liabilities		4,787,177	3,727,538

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> <i>(Audited)</i>
Non-current liabilities		
Bank borrowings	1,760,018	1,109,496
Other payables, accruals and receipts in advance	10,487	—
Lease liabilities	55,046	—
Deferred tax liabilities	383,952	358,698
	<hr/>	<hr/>
Total non-current liabilities	2,209,503	1,468,194
	<hr/>	<hr/>
NET ASSETS	2,577,674	2,259,344
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL AND RESERVES		
Share capital	123,314	123,314
Reserves	2,454,360	2,136,030
	<hr/>	<hr/>
TOTAL EQUITY	2,577,674	2,259,344
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Notes:

1. CORPORATE INFORMATION

The Company is a joint stock limited liability company established in the People's Republic of China (the "PRC"). The Group is principally engaged in the research, development, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories and development of properties in the PRC.

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

(a) Adoption of new/revised HKFRSs — effective 1 January 2019

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features and Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKFRS 3	Definition of a Business ¹
Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ¹

¹ Effective for annual periods beginning on or after 1 January 2020

3. 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 and operating 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, manufacture and distribution of special computer products, assembling and trading of electronic products and accessories
- Development of properties for sale and investment purposes

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.

For the year ended 31 December 2019

	Special computer products and electronic products and accessories <i>RMB'000</i> (Unaudited)	Property development <i>RMB'000</i> (Unaudited)	Others* <i>RMB'000</i> (Unaudited)	Elimination <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)
External revenue	1,376,755	239,055	72,343	—	1,688,153
Intersegment revenue	—	—	104,149	(104,149)	—
Reportable segment profit	183,461	58,243	180	—	241,884
Interest income	8,811	—	12	—	8,823
Research and development costs	(146,601)	—	—	—	(146,601)
Other income	153,532	—	12	—	153,544
Depreciation:					
— Property, plant and equipment	(36,697)	(11,170)	—	—	(47,867)
— Right-of-use-assets	(5,144)	(721)	—	—	(5,865)
Reversal of impairment on inventories	4,640	—	—	—	4,640
Fair value loss on investment properties	—	(15,265)	—	—	(15,265)
Fair value gain on transfer of properties held for sale to investment properties	—	220	—	—	220
Reportable segment assets	2,052,354	3,378,792	88,228	—	5,519,374
Additions to non-current assets	29,135	8,357	—	—	37,492
Reportable segment liabilities	(1,025,943)	(874,342)	(813)	—	(1,901,098)

* The revenue is generated from trading of chemical products and is below the quantitative threshold of 10 per cent of the combined revenue of all operating segments and hence is not considered as a reportable segment.

For the year ended 31 December 2018

	Special computer products and electronic products and accessories <i>RMB'000</i> (Audited)	Property development <i>RMB'000</i> (Audited)	Total <i>RMB'000</i> (Audited)
External revenue	<u>1,338,759</u>	<u>84,380</u>	<u>1,423,139</u>
Reportable segment profit	<u>142,384</u>	<u>8,870</u>	<u>151,254</u>
Interest income	3,164	—	3,164
Research and development costs	(104,781)	—	(104,781)
Other income	162,466	—	162,466
Depreciation and amortisation	(30,040)	(7,645)	(37,685)
Reversal of impairment on inventories	1,092	—	1,092
Fair value gain on investment properties	—	15,833	15,833
Fair value gain on transfer of properties held for sale to investment properties	—	17,167	17,167
Reportable segment assets	1,653,946	3,065,763	4,719,709
Additions to non-current assets	54,368	101,151	155,519
Reportable segment liabilities	<u>(622,989)</u>	<u>(727,412)</u>	<u>(1,350,401)</u>

Notes:

- (a) The following is an analysis of Group's revenue from its major customers which represent 10 per cent or more of the Group's revenues during the year and is attributable to the reportable segment of "research and development, manufacturing and distribution of special computer products, assembling and trading of electronic products and accessories":

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Customer A	847,487	558,367
Customer B	<u>—</u>	<u>266,144</u>

(b) Reconciliation of reportable segment revenues, results, assets and liabilities

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Revenue		
Total of reportable segments' revenue and consolidated revenue	<u>1,688,153</u>	<u>1,423,139</u>
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Profit before income tax		
Total of reportable segments' profit	241,884	151,254
Unallocated other income	174,735	166,749
Unallocated fair value gain/(loss) on investment properties	32,983	(4,425)
Unallocated corporate expenses	(8,834)	(7,331)
Finance costs	<u>(127,055)</u>	<u>(98,599)</u>
Profit before income tax	<u>313,713</u>	<u>207,648</u>
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Total of reportable segments' assets		
Reportable segment assets	5,519,374	4,719,709
Deferred tax assets	25,846	24,387
Unallocated property, plant and equipment	260,635	254,768
Unallocated investment properties	1,317,499	1,239,971
Unallocated corporate assets	<u>65,534</u>	<u>16,855</u>
Consolidated total assets	<u>7,188,888</u>	<u>6,255,690</u>
	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Total of reportable segments' liabilities		
Reportable segment liabilities	1,901,098	1,350,401
Unallocated bank borrowings	2,250,052	2,269,662
Deferred tax liabilities	383,952	358,698
Income tax payables	<u>76,112</u>	<u>17,585</u>
Consolidated total liabilities	<u>4,611,214</u>	<u>3,996,346</u>

(c) **Geographic information**

All revenue from external customers and non-current assets other than deferred tax assets are located in the PRC (place of domicile).

The geographical location of customers is based on the location at which the goods were delivered and the services were provided. The geographical location of non-current assets other than deferred tax assets is based on the physical location of the assets.

In the following table, revenue is disaggregated by primary geographical market, major products and service lines and timing of revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

	Special computer products and electronic products and accessories		Property development		Others		Total	
	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)	2019 RMB'000 (Unaudited)	2018 RMB'000 (Audited)
Primary geographical markets								
PRC	1,376,755	1,338,759	239,055	84,380	72,343	—	1,688,153	1,423,139
Major products and services								
Sales of special computer products	529,268	404,157	—	—	—	—	529,268	404,157
Sales of mobile phones and accessories	847,487	595,570	—	—	—	—	847,487	595,570
Sales of computer components	—	339,032	—	—	—	—	—	339,032
Sales of properties	—	—	239,055	84,380	—	—	239,055	84,380
Others	—	—	—	—	72,343	—	72,343	—
	1,376,755	1,338,759	239,055	84,380	72,343	—	1,688,153	1,423,139
Timing of revenue recognition								
At a point in time	1,376,755	1,338,759	239,055	84,380	72,343	—	1,688,153	1,423,139

4. TURNOVER AND OTHER INCOME

Turnover represents the invoiced value of goods sold and services provided to customers and excludes value added tax. The amounts of each significant category of revenue recognised during the year are as follows:

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Turnover		
Sales of special computer products	529,268	404,157
Sales of electronic products and accessories		
— Computer components	—	339,032
— Mobile phones and accessories	847,487	595,570
Sales of chemical products	72,343	—
Sales of properties	239,055	84,380
	1,688,153	1,423,139

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Receivables	295,607	131,211
Contract liabilities	104,942	195,034

The contract liabilities mainly relate to the advance consideration received from customers. RMB167,143,000 of the contract liabilities as of 31 December 2018 has been recognised as revenue for the year ended 31 December 2019 at a point in time when the customers obtained control of the assets.

The Group has applied the practical expedient to its sales contracts for special computer products, electronic products and accessories and sales of properties. Therefore, information about revenue that the Group will be entitled to when it satisfies the remaining performance obligations under the contracts for special computer products, electronic products and accessories and sales of properties that had an original expected duration of one year or less is not provided.

	2019 RMB'000 (Unaudited)	2018 <i>RMB'000</i> (Audited)
Other income		
Gross rentals from investment properties	168,649	158,022
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants	<u>(274)</u>	<u>(2,524)</u>
	168,375	155,498
Bank interest income	8,823	3,164
Value-added tax (“VAT”) concessions (<i>Note (a)</i>)	21,397	9,137
Government subsidies (<i>Note (b)</i>)	100,494	131,451
Repairs and maintenance income	5,524	2,257
Sub-contracting income	—	39
Exchange gain	331	—
Sundry income	<u>23,335</u>	<u>27,669</u>
	<u>328,279</u>	<u>329,215</u>

Notes:

- (a) VAT refunds were obtained from local tax authority in respect of sales of approved software and integrated circuit products.
- (b) Financial incentives were granted by the PRC government for development of high-technology products and purchases of specified property, plant and equipment for development of specified project. Included in the amount of government grants recognised as other income for the year ended 31 December 2019, RMB14,129,000 (2018: RMB20,478,000) related to grants that the Group has fulfilled the relevant granting criteria immediately upon receipt of payment and the grant was not capital in nature, RMB47,549,000 (2018: RMB68,914,000) and RMB26,532,000 (2018: RMB31,291,000) related to grants that compensated for research and development costs that were incurred and expensed for development of high-technology products during the current year and the preceding year respectively and RMB12,284,000 (2018: RMB10,768,000) related to grants that are recognised over the expected useful lives of the relevant specified property, plant and equipment for development of specified project.

5. PROFIT BEFORE INCOME TAX

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

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Auditor's remuneration	1,943	2,159
Cost of inventories recognised as an expense (<i>Note (a)</i>)	1,107,235	1,151,357
Cost of sales of properties recognised as an expense	117,719	55,756
Depreciation:		
— Property, plant and equipment	47,867	36,669
— Right-of-use-assets (<i>Note (b)</i>)	5,865	—
Amortisation of prepaid land lease payments	—	1,016
Foreign exchange difference, net	(331)	285
Loss on disposal of property, plant and equipment	26	98
Loss on written off of property, plant and equipment	189	3,706
Reversal of impairment on inventories (<i>Note (c)</i>)	(4,640)	(1,092)
Minimum lease payments under operating leases	—	3,821
Research and development costs (<i>Note (d)</i>)	146,601	104,781
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	96,873	87,357
Contributions to retirement benefits schemes	11,167	8,930
	<u>108,040</u>	<u>96,287</u>

Notes:

- (a) Cost of inventories sold includes, but not limited to, the staff costs of RMB21,809,000 (2018: RMB23,855,000), depreciation charges of RMB3,730,000 (2018: RMB4,374,000), costs of raw materials and parts used in assembling of mobiles phones of RMB726,197,000 (2018: RMB554,104,000) and subcontracting fees in assembling of mobile phones of RMB7,369,000 (2018: RMB7,621,000).
- (b) The Group has initially applied HKFRS 16 using the modified retrospective approach with a date of initial application of 1 January 2019, under which the cumulative effect of initial application is recognised as at 1 January 2019. After initial recognition of right-of-use assets at 1 January 2019, the group as lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information has not been restated.
- (c) Reversal of impairment on inventories is included in "Other income" in the unaudited consolidated statement of comprehensive income.
- (d) Research and development costs are included in other operating expenses and mainly consists of depreciation charge of RMB2,350,000 (2018: RMB2,470,000), consumable and material expenses amounting to RMB87,384,000 (2018: RMB48,303,000), staff costs amounting to RMB30,503,000 (2018: RMB28,957,000) and inspection fee amounting to RMB1,544,000 (2018: RMB4,781,000).

The depreciation charges and staff costs included in the cost of inventories sold. Research and development costs are included in the total amounts of depreciation charges and staff costs of the Group shown in the table above.

6. INCOME TAX EXPENSE

The amount of income tax expense in the consolidated statement of comprehensive income represents:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Current tax — the PRC		
Enterprise income tax (“EIT”)		
Current year	6,742	22,414
Land appreciation tax (“LAT”)		
Current year	38,029	15,500
	<u>44,771</u>	<u>37,914</u>
Deferred taxation		
Origination and reversal of temporary differences, net	5,788	12,794
Income tax expense	<u>50,559</u>	<u>50,708</u>

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. During the current year, one of these subsidiaries is entitled to 50% relief on the income tax (2018: 50% relief from income tax).

The Company which has been approved as new and high technology enterprise is entitled to a concessionary tax rate of 15%. The Company needs to re-apply for the preferential tax treatment when the preferential tax period expired on 1 December 2020.

Other subsidiaries are subject to income tax rate of 25% (2018: 25%) during the reporting period.

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.

The subsidiary incorporated in Hong Kong is subject to Hong Kong profits tax under a two-tiered profits tax rates regime. The first HK\$2 million of profits are taxed at 8.25%, and profits above HK\$2 million are taxed at 16.5%. No Hong Kong profits tax has been provided for the years ended 31 December 2019 and 2018 as there was no estimated assessable profit.

7. DIVIDENDS

The board of directors do not recommend the payment of final dividend for the year ended 31 December 2019 (2018: Nil).

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2019 (Unaudited)	2018 (Audited)
Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (<i>RMB'000</i>)	263,154	156,940
Weighted average number of domestic and H shares in issue	1,233,144,000	1,233,144,000
Basic and diluted earnings per share (<i>RMB</i>)	<u>0.213</u>	<u>0.127</u>

There was no 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 both years.

9. TRADE AND BILLS RECEIVABLES

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade receivables, net (<i>Note</i>)	295,607	131,211
Bills receivable	<u>115,357</u>	<u>34,115</u>
Total	<u>410,964</u>	<u>165,326</u>

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.

Note:

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

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
0 to 90 days	275,362	123,235
91 to 180 days	11,659	7,199
181 to 365 days	146	682
Over 1 year	<u>8,440</u>	<u>95</u>
Gross trade receivables	<u>295,607</u>	<u>131,211</u>

10. TRADE AND BILLS PAYABLES

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
Trade payables	1,000,062	740,185
Bills payable	<u>100,238</u>	<u>1,500</u>
	<u><u>1,100,300</u></u>	<u><u>741,685</u></u>

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

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)
0 to 90 days	775,775	636,568
91 to 180 days	59,533	35,693
181 to 365 days	16,996	13,441
Over 1 year	<u>147,758</u>	<u>54,483</u>
	<u><u>1,000,062</u></u>	<u><u>740,185</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the period under review, the Company continued to engage in the research, development, manufacture and distribution of special computer products in the PRC. We dedicated our efforts to enhancing and transforming the traditional industries in the PRC. Meanwhile, the Company was also engaged in assembling and trading of electronic products and accessories and development of properties in the PRC.

Due to the slowdown in GDP growth of the Chinese economy and the continuous uncertainties over the China-U.S. trade conflict, coupled with the cost of living in first-tier cities in Mainland China continued to rise and the total number of rural migrant workers decreased due to the higher prices of staple agricultural products and the changes in population structure during the year. This exacerbated the problems faced by enterprises in respect of recruitment difficulty and high cost of labour. At the same time, the payment systems for social insurance, provident funds and individual income tax were improved by the Chinese government, and the requirements for environmental protection and safe production were tightened, leading to rising production and operating costs for enterprises, which posed extremely difficult challenges to the profitability of the entire industry.

Since 2019, more and more Chinese enterprises have been included in the Entity List released by the U.S. Department of Commerce. There are thus more export restrictions on ICs (integrated circuits) from the U.S.. The price of storage integrated circuits increased due to the trade conflict between Japan and South Korea. All of the above factors intensified the risks pertaining to the availability of and the price rise in the raw materials of special computers. With increasing uncertainties over the international trade environment, entities in the manufacturing industry showed lack of confidence, the market lacked motivation for updating and iterating information products, and the new generation had lower consumption expectations, which indirectly affected the market demand for special computers.

In face of the changing development trends of the domestic and overseas markets, the Company adjusted its market expectations and operating strategies in a timely manner. It applied the sales rule of “cash before delivery” to enhance cash flow. By increasing the number of distributors, it alleviated the market pressure on delivery and served more customers. The Company continued to adhere to the “quality first” principle and strictly followed the all-round quality control measures throughout the process, and is not willing to compromise quality due to rising costs. The Company was more prudent in launching research and development projects for new products, and properly updated the structure of existing products, with a stronger focus on the market and customers in Mainland China.

Development of Science and Technology Industrial Park and Other Properties

In 2019, the gross sales revenue from the construction of the Science and Technology Industrial Park amounted to approximately RMB239 million for the year. Section A1 of Wuxi SHIOC International Outsourcing Base (“Wuxi”) has a completed gross floor area of approximately 177,000 sq.m., which consists of 12 office and commercial buildings that are currently in sale. Section A2 of Wuxi has a completed gross floor area of approximately 132,000 sq.m., which consists of 84 office buildings that are currently in sale. Phase 2 of Homer’s International Garden at Dianshan Lake in Kunshan was fully completed in 2019 with a gross floor area of approximately 56,000 sq.m.. The first phase of the Nantong EVOC Science and Technology Park project was fully completed in 2019 with a gross floor area of approximately 72,800 sq.m., which consists of 39 office buildings. Huaqiao EVOC International Finance Center in Kunshan has been designed as a 250-metre high-rise building with 56 stories, and is expected to be fully completed in 2023.

Revenue from Leased Properties

As at the end of 2019, the total leased area of the Group reached 270,000 sq.m., achieving total property rental revenue of approximately RMB169 million for the whole year. The EVOC Technology Building in Hangzhou was completed in 2017, and a gross floor area of approximately 66,000 sq.m. was rented other than a portion for self-use. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed in early 2014 with a gross floor area of approximately 245,000 sq.m.. The project includes one research and development office building, two buildings of plants and one furnished apartment building with an approximate gross floor area of 58,000 sq.m., 92,000 sq.m. and 55,000 sq.m. respectively, as well as an underground parking lot occupying approximately 40,000 sq.m.; 90% of the park was leased. Shenzhen EVOC Technology Building was completed in 2007 with a gross floor area of approximately 62,000 sq.m.. Other than keeping a small portion for self-use, all the units in the building were rented. For Section A1 of Wuxi SHIOC International Outsourcing Base (“Wuxi”), offices with a gross floor area of approximately 50,000 sq.m. and commercial lots with a gross floor area of approximately 54,000 sq.m. were available for lease. Phases 1 and 2 of Homer’s International Garden at Dianshan Lake in Kunshan have a gross floor area of approximately 47,000 sq.m. for office use, and part of it was rented.

RESULT OF THE YEAR

In 2019, the Group recorded a turnover of approximately RMB1,688.2 million, representing an increase of approximately 18.6% as compared with last year, of which sales of special computer products was approximately RMB529.3 million, sales of mobile phones and accessories was approximately RMB847.5 million, trading of chemical products was approximately RMB72.3 million, and sales of properties was approximately RMB239.1 million. Profit attributable to owners of the Company was approximately RMB263.2 million. Excluding fair value changes on investment properties and transfer of properties held for sale to investment properties of approximately RMB17.9 million, core profit attributable to owners was approximately RMB245.3 million. Core profit margin attributable to owners was approximate 14.5%.

Research & Development and Products

The Company was committed to independent innovation and continued to develop the research and applications of special computers. Various domestic research institutes and units applying the products were brought together by the Company to carry out close collaboration in the development and industrialisation of products based on the intelligent node of industrial internet. 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 in 2019:

1. Independent and controllable industrial servers for industrial applications

A series of independent and controllable industrial server products will be provided to the industries with high information safety requirements such as communication and financial industries. BIOS technology and safety management software developed by EVOC are embedded in the products.

2. High-performance multi-extension online computing platform

The product targets the three safety areas of industrial control system, cloud and internet of things. An online computing platform will be provided for applications such as firewalls, anti-virus walls, physical isolation and intrusion detection.

3. Intelligent testing system for production

The product designed for smart screen production by providing a testing solution throughout the process to create unmanned testing. The intelligent equipment produces, collects and analyses big data, and carries out remote maintenance and upgrade as well as smart diagnosis.

Marketing and Brands

The Company continued to adopt the diversified sales models including direct sales, distribution, online sales and offline sales, making full use of the online and offline resources. Marketing and communication efforts were fully integrated by engaging in trade shows, distributor meetings, seminars, media partnerships, search engine bidding and private media operation. The Company implemented marketing strategies based on the industry of customers, increased investment in the controllable areas, and closely collaborated with upstream and downstream partners.

Consistently aiming for professional development, the Company focused on building brand assets and the reputation for quality. It provided comprehensive product support and service through its branches, official website, customer hotline, WeChat platform and online shop. It continuously won the trust of its customers by quickly responding to their needs.

The Company received recognition from its distributor partners by providing all-round marketing support based on a flattened channel model. To achieve sales targets, the Company increased investment in channel resources, and carried out closer cooperation with the distributor partners for public relations campaigns.

The Company established a multi-dimensional training system with a focus on EVOC Intelligence Valley Institute (研祥智谷學院). By using online training platforms or technologies, the Company conducted nationwide thematic cyclic training, centralised teaching and training, online course training and other training. Distributors and internal employees thus received themed training on the sales systems and the technical systems, as well as training on industry and application case study.

Outlook and Prospect

Currently, due to the continuous China-U.S. trade frictions, the intensification of protectionism, Brexit, geopolitical tensions and emerging populism in different regions, all brought more risks and challenges to the Chinese economy and even the world economy. By the end of 2019, cases of novel coronavirus pneumonia (NCP) were found in Mainland China. In February 2020, World Health Organisation (WHO) officially announced the name of the novel coronavirus as “COVID-19”. The epidemic prompted the Chinese government to implement stringent prevention and control measures, which further increased production costs in Mainland China and diminished the competitive edges of its manufacturing industry. With ongoing uncertainties about the epidemic development, which may exacerbate the decline of market information and creates negative impact on the market sales of special computers. There are increasing risks pertaining to the availability of and the price rise in foreign ICs, which poses relatively serious concerns to the continuous production and technological innovation of special computers. Meanwhile, as the rising prices of basic supplies, changes in demographic structure, the environmental protection and production safety regulations are becoming

more stringent, coupled with the improved payment systems for enterprises' social insurance and provident funds, placed higher requirement towards the management of turnover costs and the labour costs of special computers and raw materials. The Company will continue to focus on the areas of special computers, and expedite the research, development and application of intelligent software and hardware products. While expanding the new industry internet and 5G markets in the PRC, it will also focus on building brand advantages and reputation among customers, and continuously foster market demand.

Furthermore, the outbreak of COVID-19 has brought more uncertainties to the Group's operating environment in the PRC. In respect of the Group's operations, the epidemic has caused delay in supply, deferred production and sales. Certain adverse impact of such epidemic is expected on its production and sales in the first quarter of 2020. The Group has formulated response measures to alleviate the consequential impact. However, it is still full of uncertainties at this stage.

With the gradual restoration of order in the affected provinces and municipalities, economic activities are expected to rebound quickly after downturn. The Group will continue to implement its business expansion plan in a timely and prudent manner.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2019, the Group's reported a total revenue of approximate RMB1,688.2 million (2018: approximate RMB1,423.1 million) representing an approximate increase of 18.6%, analysed by product categories as follows:

	2019 <i>RMB'000</i> (Unaudited)	2018 <i>RMB'000</i> (Audited)	Change %
Turnover			
Sales of special computer products	529,268	404,157	+31.0%
Sales of electronic products and accessories			
— Computer components	—	339,032	-100%
— Mobile phones and accessories	847,487	595,570	+42.3%
Sales of chemical products	72,343	—	+100%
Sales of properties	239,055	84,380	+183.3%
	<u>1,688,153</u>	<u>1,423,139</u>	<u>+18.6%</u>

Cost of Sales and Gross Profit Margin

Cost of sales for the period was approximately RMB1,225.0 million, represents an approximate increase of 1.5% as compared to previous year.

Gross profit margin for the period increased by approximate 12.2 percentage points to approximate 27.4%.

The increase of gross profit margin was mainly due to improvement of profit margin in special computer products.

Other Income

Other income for the period slightly decreased from approximate RMB329.2 million in 2018 to approximate RMB328.3 million in 2019.

Selling & Distribution Costs

The selling and distribution costs increased by 9.0% from approximate RMB42.3 million in 2018 to approximate RMB46.1 million in 2019. It was due to the increase in wages and welfare benefit of sales team.

Administrative Expenses

The administrative expenses increased by 58.4% from approximate RMB91.2 million in 2018 to approximate RMB144.5 million in 2019. It was mainly due to increase of property insurance, wages and welfare costs of administrative staff.

Research & Development Costs

The research and development costs increased by 39.9% from approximate RMB104.8 million in 2018 to approximate RMB146.6 million in 2019. The increase was mainly due to the material parts consumables.

Fair Value Changes

During the period, the Group recorded a fair value gain of approximate RMB17.7 million on investment properties and fair value gain of approximate RMB0.2 million on transfer of properties held for sale to investment properties.

Finance Costs

Finance costs net of interest capitalised were approximately RMB127.1 million in 2019, compared with approximately RMB98.6 million in 2018, representing an increase of 28.9%. The increase was mainly due to increase in bank borrowings.

Income Tax Expenses

Income tax expenses in 2018 and 2019 were both approximate RMB51 million with no significant changes.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company increased from approximate RMB156.9 million in 2018 to approximate RMB263.2 million in 2019, representing an approximate increase of 67.7%. The net profit margin has been increased from 11.0% to 15.6%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internal resource and banking facilities by bankers in the PRC. As at 31 December 2019, the Group's gearing ratio had slightly increased to approximate 64.1% (calculated on the basis of the Group's total liabilities over total assets) from approximate 63.9% as at 31 December 2018. At the year end date the Group's total bank borrowings amounted to approximate RMB2,541.2 million (2018: approximate RMB2,377.6 million). The Group's cash and bank balances as at 31 December 2019 increased to approximate RMB1,281.6 million (2018: approximate RMB1,080.0 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to approximate 1.73 as at 31 December 2019 (2018: approximate 1.34).

FOREIGN EXCHANGE EXPOSURES

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 year under review.

CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 31 December 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had contracted but not provided capital commitments for amounting to approximate RMB677.9 million (2018: approximate RMB420.0 million) in respect of the construction of buildings and properties under development in Kunshan and Hangzhou.

PLEDGE OF ASSETS

At 31 December 2019, the Group has pledged certain of its property, plant and equipment, investment properties, lease prepayments and construction in progress with a total carrying amount of approximate RMB3,563.3 million (2018: approximate RMB3,441.6 million) as security for bank borrowings and general banking facilities granted to the Group. Except for the above, there are no other charges on the Group's assets.

EMPLOYEE INFORMATION

As at 31 December 2019, the Group had a total workforce of 865 (2018: 821). Employee benefits during the year were approximately RMB108.0 million (2018: approximate RMB96.3 million).

The Group recognises the importance of high caliber and competent staff and has a strict recruitment policy and performance appraisal scheme. Remuneration policies are mainly in line with industry practices, and are formulated on the basis of performance and experience and will be reviewed regularly. The Group remunerates its employees based on performance, experience and prevailing industry practices. The Group also provides Mandatory Provident Fund benefits for its employees in Hong Kong and the Statutory Retirement Scheme for its employees in the PRC.

DIRECTORS', SUPERVISORS' AND CONTROLLING SHAREHOLDERS INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company, any of its subsidiaries or its holding company was a party and in which a director, supervisor or controlling shareholder of the Company has a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTERESTS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company 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 2019 to 31 December 2019.

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 on a semi-annual basis and the review covers the findings of internal controls, risk management and financial reporting matters. The audit committee reviewed and monitored the external auditor’s independence and effectiveness of the audit process in accordance with applicable standard. The audit committee has discussed with the management and reviewed the annual results of the Group for the year ended 31 December 2019.

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. The remuneration and review committee has rights and duties consistent with those set out in the Code Provisions. 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 of Directors.

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

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. Wen Bing, Mr. Dong Li Xin and Mr. Zhang Da Ming and Mr. Yu Tat Chi, Michael,.

EVENTS AFTER THE REPORTING PERIOD

After the COVID-19 outbreak in early 2020, a series of precautionary and control measures have been implemented around the world. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of financial statements were authorised for issue, the Group was not aware of any material adverse effects on its financial statements as a result of the COVID-19 outbreak.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2019 has not been completed due to the COVID-19 outbreak. The unaudited annual results contained herein have not been agreed with the Company's auditors as required under Rule 13.49(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. An announcement relating to the audited results will be made by the end of April 2020, when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants.

The unaudited annual results contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2019 as agreed by the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting. In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

The financial information contained herein in respect of the annual results of the Group have not been audited and have not been agreed with the auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This unaudited annual results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and the Company's website at www.evoc.com. The annual report of the Company for the year ended 31 December 2019 will also be published on the aforesaid websites in due course.

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

Shenzhen, the PRC, 31 March 2020

* *For identification purpose only*