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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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS	Year ended 31 December		Change
	2016	2015	
	RMB'000	RMB'000	
Revenue	1,141,666	1,444,099	-20.9%
Gross profit	203,652	219,051	-7.0%
Other income	180,104	144,400	+24.7%
Profit attributable to owners of the Company	269,058	229,721	+17.1%
Earnings per share			
Basic (RMB)	0.218	0.186	+17.2%
Gross profit margin percentage	17.8%	15.2%	+2.6%
Proposed final dividend (per share) (RMB)	—	0.015	-100.0%

RESULTS

The Directors are pleased to present the audited consolidated results of EVOC Intelligent Technology Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2016, together with the comparative figures for the corresponding year in 2015 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

		Year ended 31 December	
		2016	2015
	Notes	RMB'000	RMB'000
Turnover	4	1,141,666	1,444,099
Cost of sales		<u>(938,014)</u>	<u>(1,225,048)</u>
Gross profit		203,652	219,051
Other income	4	180,104	144,400
Selling and distribution costs		(48,201)	(40,156)
Administrative expenses		(54,220)	(46,200)
Other operating expenses		(83,314)	(99,125)
Fair value gain on investment properties		46,457	19,345
Fair value gain on transfer of properties held for sale to investment properties		155,589	120,256
Finance costs		<u>(35,986)</u>	<u>(52,678)</u>
Profit before income tax	5	364,081	264,893
Income tax expense	6	<u>(95,023)</u>	<u>(35,172)</u>
Profit for the year attributable to owners of the Company		<u>269,058</u>	<u>229,721</u>
Other comprehensive income, after tax			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of land and buildings		23,971	87,711
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		<u>(184)</u>	<u>(58)</u>
Other comprehensive income for the year, net of tax		<u>23,787</u>	<u>87,653</u>
Total comprehensive income for the year attributable to owners of the Company		<u>292,845</u>	<u>317,374</u>
Earnings per share — Basic and diluted (RMB)	8	<u>0.218</u>	<u>0.186</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	<i>Notes</i>	2016 RMB'000	2015 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		826,856	965,334
Investment properties		1,619,097	936,138
Prepaid land lease payments		44,553	45,569
Deferred tax assets		23,025	26,420
Total non-current assets		<u>2,513,531</u>	<u>1,973,461</u>
Current assets			
Inventories		31,179	26,909
Properties under development		1,014,040	653,107
Properties held for sale		528,043	906,719
Prepaid land lease payments		1,016	1,016
Trade receivables	<i>9</i>	6,465	105,882
Bills receivable	<i>9</i>	30,888	26,724
Other receivables, deposits and prepayments		138,798	107,992
Income tax recoverable		3,932	—
Cash and bank balances		426,562	418,671
Total current assets		<u>2,180,923</u>	<u>2,247,020</u>
Current liabilities			
Trade payables	<i>10</i>	468,350	382,637
Bills payable	<i>10</i>	60,000	265
Other payables, accruals and receipts in advance		241,078	278,067
Bank borrowings		846,400	1,218,400
Income tax payable		24,295	13,226
Total current liabilities		<u>1,640,123</u>	<u>1,892,595</u>
Net current assets		<u>540,800</u>	<u>354,425</u>
Total assets less current liabilities		<u>3,054,331</u>	<u>2,327,886</u>
Non-current liabilities			
Bank borrowings		700,156	315,395
Deferred tax liabilities		335,718	268,382
Total non-current liabilities		<u>1,035,874</u>	<u>583,777</u>
NET ASSETS		<u><u>2,018,457</u></u>	<u><u>1,744,109</u></u>
CAPITAL AND RESERVES			
Share capital		123,314	123,314
Reserves		1,895,143	1,620,795
TOTAL EQUITY		<u><u>2,018,457</u></u>	<u><u>1,744,109</u></u>

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, 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 2016

HKFRSs (Amendments)	Annual Improvements 2012–2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts

Amendments to HKAS 1 — Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

Included in the clarifications is that an entity's share of other comprehensive income from equity accounted interests in associates and joint ventures is split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

The adoption of the amendments has no impact on these financial statements.

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not previously used revenue-based depreciation methods.

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to apply the equity method in accounting for its investments in subsidiaries, joint ventures and associates in its separate financial statements. The amendments are applied retrospectively in accordance with HKAS 8.

The adoption of the amendments has no impact on these financial statements as the Company has not elected to apply the equity method in its separate financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 — Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary's main purpose is to provide services that relate to the investment entity's investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12. The amendments are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Company is neither an intermediate parent entity nor an investment entity.

Amendments to HKFRS 11 — Accounting for Acquisitions of Interests in Joint Operations

The amendments require an entity to apply the relevant principles of HKFRS 3 Business Combinations when it acquires an interest in a joint operation that constitutes a business as defined in that standard. The principles of HKFRS 3 are also applied upon the formation of a joint operation if an existing business as defined in that standard is contributed by at least one of the parties. The amendment are applied prospectively.

The adoption of the amendments has no impact on these financial statements as the Group has not acquired or formed a joint operation.

(b) New and 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 HKAS 7	Disclosure Initiative ¹
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses ¹
HKFRS 9	Financial Instruments ²
HKFRS 15	Revenue from Contracts with Customers ²
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarification to HKFRS 15) ²
HKFRS 16	Leases ³

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

Amendments to HKAS 7 — Disclosure Initiative

The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 — Recognition of Deferred Tax Assets for Unrealised Losses

The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

HKFRS 9 — Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income (“FVTOCI”) if the objective of the entity’s business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss (“FVTPL”).

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 — Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5 steps approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments HKFRS 15 — Revenue from Contracts with customers

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases” and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the directors are not yet in a position to quantify the effects on the Group’s financial statements.

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 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.

Certain comparative figures on the measurement of the segment results have been restated to conform to the current year’s presentation.

For the year ended 31 December 2016

	Special Computer products and electronic accessories <i>RMB'000</i>	Property development <i>RMB'000</i>	Total <i>RMB'000</i>
External revenue	<u>893,715</u>	<u>247,951</u>	<u>1,141,666</u>
Reportable segment profit	<u>64,551</u>	<u>176,395</u>	<u>240,946</u>
Interest income	2,270	305	2,575
Depreciation and amortisation	(28,419)	(2,196)	(30,615)
Reversal of impairment loss on trade receivables	173	—	173
Impairment loss on inventories	(1,564)	—	(1,564)
Reportable segment assets	818,567	2,570,662	3,389,229
Additions to non-current assets	59,725	96,873	156,598
Reportable segment liabilities	<u>(281,352)</u>	<u>(664,632)</u>	<u>(945,984)</u>

For the year ended 31 December 2015

	Special Computer products and electronic accessories <i>RMB'000</i> (Restated)	Property development <i>RMB'000</i> (Restated)	Total <i>RMB'000</i> (Restated)
External revenue	<u>1,268,682</u>	<u>175,417</u>	<u>1,444,099</u>
Reportable segment profit	<u>120,853</u>	<u>105,857</u>	<u>226,710</u>
Interest income	1,265	117	1,382
Depreciation and amortisation	(27,120)	(2,517)	(29,637)
Reversal of impairment loss on trade receivables	104	—	104
Reversal of impairment loss on inventories	2,133	—	2,133
Reportable segment assets	869,588	2,182,400	3,051,988
Additions to non-current assets	4,044	124,528	128,572
Reportable segment liabilities	<u>(200,703)</u>	<u>(615,060)</u>	<u>(815,763)</u>

Notes:

- (a) The following is an analysis of Group's revenue from its major customers which represent 10% 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 and trading of electronic accessories":

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Customer A	480,270	626,656
Customer B	N/A	186,452

Note : Revenue from Customer B contributed less than 10% of the revenue of the Group for the year ended 31 December 2016.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Revenue		
Reportable segment revenue and consolidated revenue	<u>1,141,666</u>	<u>1,444,099</u>
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Profit before income tax		
Reportable segment profit	240,946	226,710
Other income	116,182	77,956
Fair value gain on investment properties	46,274	16,246
Unallocated corporate expenses	(3,335)	(3,341)
Finance costs	(35,986)	(52,678)
Profit before income tax	<u>364,081</u>	<u>264,893</u>
	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Reportable segment assets		
Reportable segment assets	3,389,229	3,051,988
Deferred tax assets	23,025	26,420
Property, plant and equipment	274,599	472,296
Investment properties	1,002,967	665,018
Unallocated corporate assets	4,634	4,759
Consolidated total assets	<u>4,694,454</u>	<u>4,220,481</u>

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i> (Restated)
Reportable segment liabilities		
Reportable segment liabilities	945,984	815,764
Bank borrowings	1,370,000	1,379,000
Deferred tax liabilities	335,718	268,382
Tax payables	24,295	13,226
	<u>2,675,997</u>	<u>2,476,372</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.

4. TURNOVER AND OTHER INCOME

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Turnover		
Sales of Special Computer products	378,290	337,713
Sales of electronic products and accessories	515,425	930,969
Sales of properties	247,951	175,417
	<u>1,141,666</u>	<u>1,444,099</u>
Other income		
Gross rentals from investment properties	124,554	86,550
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants	(20,593)	(21,169)
	<u>103,961</u>	65,381
Bank interest income	2,575	1,382
Value-added tax ("VAT") concessions (<i>note (a)</i>)	10,149	21,170
Reversal of impairment loss on trade receivables	173	104
Government subsidies (<i>note (b)</i>)	53,773	45,274
Repairs and maintenance income	3,915	2,859
Sub-contracting income	170	552
Sundry income	5,388	7,678
	<u>180,104</u>	<u>144,400</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 purchase of specified property, plant and equipment for development of specified project.

5. PROFIT BEFORE INCOME TAX

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Auditor's remuneration	1,690	1,476
Cost of inventories recognised as an expense (<i>note (a)</i>)	748,695	1,099,018
Cost of properties recognised as an expense	189,319	126,030
Depreciation of property, plant and equipment	29,599	28,621
Amortisation of prepaid land lease payments	1,016	1,016
Foreign exchange difference, net	(352)	193
Loss on disposal of property, plant and equipment	8	21
Loss on written off of property, plant and equipment	152	1,126
Reversal of impairment loss on trade receivables	(173)	(104)
Impairment/(reversal of impairment) on inventories	1,564	(2,133)
Minimum lease payments under operating leases	4,248	7,727
Research and development costs (<i>note (b)</i>)	64,096	68,708
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	77,413	69,581
Contributions to retirement benefits schemes	6,771	6,686
	<u>84,184</u>	<u>76,267</u>

Notes:

- (a) Cost of inventories sold includes staff costs and depreciation of RMB19,491,000 (2015: RMB21,497,000) and RMB5,415,000 (2015: RMB5,742,000) respectively, which are also included in the total amounts disclosed above for each of these types of expenses.
- (b) Research and development costs exclude depreciation charge of RMB2,268,000 (2015: RMB2,122,000).

6. INCOME TAX EXPENSE

(a) The amount of income tax in the consolidated statement of comprehensive income represents:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Current tax — the PRC		
Enterprise income tax (“EIT”)		
Current year	21,078	1,065
Over-provision in respect of prior year	—	(131)
Land appreciation tax (“LAT”)		
Current year	5,812	4,885
	<u>26,890</u>	<u>5,819</u>
Deferred taxation		
Origination and reversal of temporary differences, net	68,133	29,353
	<u>68,133</u>	<u>29,353</u>
Income tax expense	<u><u>95,023</u></u>	<u><u>35,172</u></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. One of these subsidiaries is entitled to 50% relief on the income tax (2015: exempted from income tax) while others are subject to income tax rate of 25% (2015: 25%) during the reporting period.

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% (2015: 16.5%) on the estimated assessable profits during the reporting period. No Hong Kong profits tax has been provided for the year ended 31 December 2016 and 2015 as there was no estimated assessable profit.

7. DIVIDENDS

The final dividend for the year ended 31 December 2015 of RMB18,497,000 was approved by shareholders at the annual general meeting on 30 May 2016 and paid on 18 July 2016.

The board of directors do not recommend the payment of final dividend for the year ended 31 December 2016 (2015: RMB0.015 per share).

8. EARNINGS PER SHARE

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

	2016	2015
Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (<i>RMB'000</i>)	<u>269,058</u>	<u>229,721</u>
Weighted average number of domestic and H shares in issue	<u>1,233,144,000</u>	<u>1,233,144,000</u>
Basic earnings per share (<i>RMB</i>)	<u>0.218</u>	<u>0.186</u>

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 both years.

9. TRADE AND BILLS RECEIVABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade receivables	6,465	106,055
Allowance for impairment losses	—	(173)
Trade receivables, net	6,465	105,882
Bills receivable	<u>30,888</u>	<u>26,724</u>
Total	<u>37,353</u>	<u>132,606</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.

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

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0 to 90 days	4,642	14,283
91 to 180 days	175	7,065
181 to 365 days	451	84,322
Over 1 year	<u>1,197</u>	<u>385</u>
Gross trade receivables	<u>6,465</u>	<u>106,055</u>

10. TRADE AND BILLS PAYABLES

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
Trade payables	468,350	382,637
Bills payable	60,000	265
	<u>528,350</u>	<u>382,902</u>

The following is the ageing analysis of trade payables:

	2016 <i>RMB'000</i>	2015 <i>RMB'000</i>
0 to 90 days	434,539	366,930
91 to 180 days	11,399	2,019
181 to 365 days	11,194	3,601
Over 1 year	11,218	10,087
	<u>468,350</u>	<u>382,637</u>

MANAGEMENT DISCUSSION AND ANALYSIS

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, to promote the development of these industries towards the direction of information, intelligence, digitalization and automation at a faster pace, and to improve and enhance the quality of human life. The Company was also engaged in the trading of electronic products and accessories and property development business.

The Company became the world's first premium partner with Microsoft in the embedded technology field since the end of 2011, and possesses the qualification of simultaneous research and development and production of chip products, and thus manages to rapidly provide innovative solutions to foster market development. With the establishment of a strategic cooperative relationship with the Institute of Computing Technology of the Chinese Academy of Sciences on the application of embedded technology, the Company has the dominance in deciding the formulation of national standards for the Chinese Special Computer industry. The Company has been approved to establish "National Research and Develop Center of Special Computer Engineering Technology" (國家特種計算機工程技術研究中心) which is featured with uniqueness and exclusiveness in the industry, meaning that the Company becomes the sole support organization for the National Research and Develop Center of Special Computer Engineering Technology. The "EVOC" trademark of the Company was recognized as "Famous Trademark of China" by the State Administration for Industry and Commerce, which is also the first famous trademark obtained by Special Computer enterprise in China. The trademark enhanced the international influence for the "EVOC" brand of the Company, and the effective protection of its proprietary intellectual property rights and trademark brands, thereby significantly enhanced its overall competitive edges.

Under the background of global economic slowdown and deepening of domestic restructuring, the PRC economy growth has been within a reasonable range, maintaining a trend of overall stability with steady progress. There exists a huge potential with a stably progressing economy, the development of new type of industrialization, information technology, urbanization, modernization of agriculture are deep in progress, and it contains strong demand for increasing domestic demand. The economic development status under the "new norm" has forced manufacturing to transform and upgrade, additionally the Chinese government actively pushes a series of policies such as "Great Ocean Power", "One Belt and One Road", "Made in China 2025". These measures have brought extensive opportunities for the Chinese special computer industry.

In order to capture market opportunities, the Company has increased R&D and market development in the core fields of national economy such as rail transportation, nuclear power, wind-power, robotics, high speed rail and metro, with more rapid development in rail transportation products and human-machine interface products. Our company has maintained the direction of "self-controllable, deep integration with industry" and "high-efficiency, net profit, premium quality", and continues to research and develop industry disciplines such as smart manufacturing, big-data, high-end manufacturing, new energy, rail transportation, ocean and robotics, in order to further enhance the market competitiveness of our products.

The Company launched the development target of "marching towards a bright era by pursuing high profit". The Company intends to enhance profits per capital and corporate profitability through the integration of the sales customer service system, the enhancement of delivery management and control, optimization of operation procedures, reduction in production costs, full implementation of channel

delivery, and deepening of the industrial customization. In response to the changes in market environment, the Company adhered to the strategy of prioritizing quality, continued to invest resources to keep and improve product quality, and satisfied the product quality requirements of market and customers by promoting the “spirit of craftsman” and enhancing the intelligent level of our production system. At the same time, the Company adhered to the diversified sales models including direct sales, agents, online sales and telephone sales, to raise the visibility and reputation of “EVOC” brand so as to enhance our core competitiveness.

Science and Technology Industrial Park Development

During 2016, sales of the real estate projects of the Company created another new record. The total area sold reached about 23,600 sq.m. and the gross sales revenue amounted to approximately RMB248 million, including approximately RMB74 million arising from sales of section A1 of Wuxi SHIOC International Outsourcing Base (無錫深港國際) and approximately RMB174 million as the sales proceeds from Dianshan Lake Property Base project in Kunshan city, Jiangsu. Wuxi SHIOC International Outsourcing Base section A1 now has completed and covers a floor area of approximately 200,000 sq.m., while section A2 with a floor area of approximately 140,000 sq.m. is under construction and expected to be completed by the end of 2017. The first phase of Dianshan Lake Property Base project in Kunshan city, Jiangsu Province has fully completed in 2015 with a total gross floor area of approximately 44,000 sq.m., while the second phase with a floor area of approximately of 126,000 sq.m. is under construction and expected to be completed at the beginning of 2018. The first phase of the high rise office building, Nantong EVOC High Profile Office Park with a floor area of approximately 72,800 sq.m. is under construction and is expected to be completed by the end of 2017.

Property Investment

As of 31 December 2016, gross rentable area of the Company was approximately 240,000 sq.m., and the total revenue from property rent amounted to approximately RMB125 million for the whole year. The main construction project of EVOC City Plaza in Hangzhou has completed in 2016, with the total floor area of approximately 66,000 sq.m.. It is expected to be delivered into use in 2017. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed at the beginning of 2014, and the gross floor area is approximately 245,000 sq.m.. It includes a 22-floor research and development office building, two buildings of research and development plants and one apartment block with a gross floor area of approximately 58,000 sq.m., 92,000 sq.m. and 55,000 sq.m., respectively. Besides, it owns an underground parking lot occupying approximately 40,000 sq.m.. Shenzhen EVOC Technology Building was completed in 2007, with a total floor area of approximately 62,000 sq.m..

RESULT OF THE YEAR

In 2016, the Group recorded a turnover of approximately RMB1,141.7 million, representing an decrease of approximately 20.9% as compared with last year. Of which sales of Special Computer was approximately RMB378.3 million, representing an increase of approximately 12.0%, trading of electronic products and accessories was approximately RMB515.4 million, representing a decrease of approximately 44.6%, while sales of properties was approximately RMB248.0 million, representing an increase of approximately 41.4% as compared to previous year. Profit attributable to owners of the Company was approximately RMB269.1 million. Excluding fair value gains approximately RMB202.0 million, core profit attributable to owner was approximately RMB67.1 million. Core profit margin attributable to owners was approximately 5.9%.

Research & Development and Products

During the period under review, with a focus on hot issues of the industry and key technological breakthroughs, we launched related investigation on the industry and issued reports thereon. The reports served to provide 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. During the period under review, the Company carried out research and analysis on major issues such as intelligent manufacturing, industry 4.0, homemade hardware and software, industrial big data, and marine electronic information. Besides, the Company established specific group for certain technological issues at the R&D center, with the aim of conducting research on the common issues and technologies in relation to product application and industrial application. The Company focused on the research on specific technologies, such as the research on access performance of DOM information in metro industry, technology of remote display and control system, special topic on port redirection terminal technology, E-CLOUD intelligent monitoring and demonstration system, high-density network module card, USB flash disk security certification, PCIE SRIO solution, Linux internet access sorting, and Linux special resolution configuration.

To become a powerful manufacturing country has become a national strategy. The deep integration of informatization and industrialization will be conducted on the important basis of building smart factories. To ensure independence, controllability and safety is the core task in the construction of smart factories. The new mode of smart manufacturing is urgently needed by the domestic enterprises for enhancement of quality, brand, competitiveness in international market, and occupation of intermediate and high end markets and by the special computer system for innovation of industrial chain and industry transform and upgrade. The Company has always closely followed the national strategies and carried out the intellectualized reconstruction by undertaking the MIIT special project on new intelligent manufacturing model. The project aimed to achieve the popularization and application of intelligent manufacturing equipment and systems in intelligent plant of special computer, form the integrated innovation in such key links as R&D, production, supply and sales, establish the new model of automated and intelligent manufacturing, and realize the flexible manufacturing system supporting different varieties and small batches as well as the automated and intelligent manufacturing of high-quality special computer products. The implementation of the project will significantly improve the corporate production efficiency and energy utilisation ratio, reduce operating costs and rate of defective products, and shorten the product research and development cycle.

The Company accelerated the pace of localization strategy by undertaking the key industrial transformation and upgrading project of MIIT. By analyzing the key and core links involving industrial control security architecture, the project centered on the industrial control security and bidding contents to develop the industrial control computer and industrial control safety protection products based on safe and reliable CPU chips. The project aimed to achieve the industrialization and application of industrial control computer based on safe and reliable CPU chips and the industrial control defensive products against the information security threats used in various industrial settings, so as to capture key generic technologies and enhance the technical level of the industry, develop the internationally-advanced safe and reliable industrial control products, form the protection system of independent intellectual property rights, replace the imported technologies and products, fill the domestic void, and promote the safe, independent and controllable development of China.

The Company kept in close step with the Blue Ocean Strategy advocated by China and Shenzhen, and actively promoted the development of marine electronic information industry by cooperating with Shenzhen Ocean Industry Association (SOIA). In response to the construction demands of Great Ocean Power and the fierce international competition, by leveraging the wide coverage of electronic

information industry in Shenzhen, under the direction of “Made in China 2025” and “Great Ocean Power Strategy” and with marine electronic equipment as a starting point, the Company established project demonstration bases through undertaking the SOIA innovative demonstration base project in the electronic information industry (深海電子信息產業創新示範基地項目) of Economy, Trade and Information Commission of Shenzhen Municipality, centering on the major engineering and technological research in marine electronic information industry, and the public services and innovative industry cluster of marine electronic information, and combing, optimizing, refining, integrating the existing basic resources. The demonstration base includes exhibition space, public service space and maker space, and can be used to carry out seminar, innovative entrepreneurship service and communication of science and technology activities. Upon the completion of the project, it would serve over 50 enterprises by popular science exhibition, provision of venues and facilities for makers, creative share, resources docking and entrepreneurship guidance, organize more than 50 industrial activities, and form standard service process system and guarantee mechanism.

New key products of the Company under research and development during 2016 include:

1. *High-performance and multi-function industrial tablet*

The product is a 17” high-performance and multi-function industrial tablet satisfying the market demands on high-end MES, comprehensive monitoring and machine vision equipment. In the brand-new serial interface circuit and software design, the product allows arbitrarily setting the serial interface mode without disassembling the machine. The large vision, high resolution and high performance also help boost the high-end intelligent manufacturing.

2. *Small compact wall-mounted machine*

The product is a small compact wall-mounted machine with compact size, high performance and cost-effective characteristics. Comparable to the non-ventilated machine, it breaks the record of the minimum size of IPC case in the industry. In addition, its unique design makes the maintenance, overhaul, disassembly and assembly convenient and efficient, thus ensuring the stable operation of system in the transportation and vibration. The product can be used in highway, self-service terminals, automatic production, automatic detection and other fields.

3. *Cost-effective single industrial server*

The product is a highly cost-effective industrial server focusing on small and medium-sized applications. The product can be widely used in the mine supporting system of safety supervision and decision-making, GPRS vehicle scheduling and control system, video acquisition and storage system, and enterprise management platform for Internet usage behaviors.

4. *Independent and controllable 2-way industrial server*

The product can be widely applied in the comprehensive monitoring system for (highway/rail) traffic, power data processing/security panel system, corporate network management application platform and other fields.

5. *4-way high-end industrial server*

The product is completely independently developed and designed with strong calculation, rich extensions and other characteristics, and is applicable to virtual application and big data analysis for traffic, real-time data processing of security monitoring system, corporate ERP, data bank, information security and other fields.

6. *Main board with extremely powerful computing capacity*

The product has powerful computing capacity, and can be widely used in communication, automation, medical care and other fields.

7. *Anti-adverse environment rugged laptop*

The product integrates all anti-adverse environment characteristics in respect of robustness, water tightness, dust prevention, vibration resistance, shock resistance, wide temperature, easy-to-carry, five army EMC tests and other indicators. It can meet the requirements on various anti-adverse environment applications including individual combat, military equipment test, polar science research, etc.

8. *Industrial network information security platform*

The product applies a humanized structure and is featured by industrialized design, high stability and reliability, distinct client application characteristics, etc. It applies to “severe environment” and satisfies the requirement of “usability as the first security need”. It is an information security product tailored for industrial control systems.

During the period under review, the Company made outstanding achievement in the informatization construction, the Company passed the evaluation of MIIT and Chinese Quality Association and was rated as a national “quality benchmark” enterprise; the Company was awarded the “Assessment Certificate of Management System for the Integration of Informatization and Industrialization” (兩化融合管理體系評定證書) by the MIIT, and was the first enterprise which obtained the certificate in the special computer industry, which marked remarkable achievement in the promotion of the informatization and industrialization toward deep integration and construction of integrated management systems of the Company.

Marketing and Brands

The Company provides special computer products and solutions specifically for a number of industries. The automation products produced and distributed by the Company are widely applied in rail transit, information security, smart equipment, aviation and aerospace, robot, artificial intelligence, environmental protection, communication, finance, energy, ocean, medical treatment, video control and internet.

The Company adopted the diversified sales models including direct sales, agents, online sales and telephone sales and made fully use of resources online and offline to take advantage of the mobile platform. The Company has integrated brand marketing with product marketing and will improve the visibility and reputation of “EVOC” brand through the seamless joint of online marketing (mainly through search engine promotion and official Wechat operation) and offline marketing (mainly through seminars and exhibitions). In terms of the marketing reform, the Company combined the thematic marketing of key products with the web promotion of conventional products, confirmed the four product line frameworks including intelligent manufacturing, high-end equipment, communication security and machine vision, placed the focus on annual key topics marketing and promotion, actively explored effective promotion measures and channels, paid attention to the marketing psychological changes of audiences in key marketing industry, and continued to increase marketing efforts on rail transit, network security, smart grid, new energy, smart city, high-end equipment and other industries. By closely combining marketing means with the industry, the Company fit closely to the target user base to transmit the “EVOC” brand image and the corporate image of an industry leader.

In terms of online marketing, the Company made full advantage of the fast transmission of the emerging Internet media, continued to optimize the search engine promotion tools, strengthened the accurate promotion efforts of third-party cooperation media, improved the operating efficiency of its official WeChat, and increased the density and frequency of online marketing activities, so as to effectively improve the influence of EVOC brand. During the period under review, the Company updated and conducted comprehensive image upgrade for its official website. The website design capitalized on the “Internet Plus” idea to stress enhancement of user experience and user satisfaction. The mobile version of official website developed by the Company allows users to enquire information anytime and anywhere. The brand new revised official WeChat is added with the function of online customer service to give prompt response to customers’ demands; as well as “online repair application”, “enquiry of warranty period”, “outlet enquiry” and other functions allowing customers to make enquiry and apply for repair on their mobile terminals. The official WeChat fully utilises the advantages of speed, convenient and real-time transmission to enhance user loyalty and operational efficiency of WeChat.

In terms of offline marketing, the Company gave full play to the advantage of leading in the “EVOC” industry in activity marketing, theme planning, exhibition promotion and event marketing by a way of “meetings of distributors + seminars + professional exhibitions”. The meetings of distributors focus on transmitting the latest distributor policy of the Company and analysis of market dynamics to seize the significant position in market with distributors to achieve a win-win situation. In terms of seminars, the Company continued to focus on thematic seminars regarding specific industries and proposed industries covered by specific production line, network seminars and theme planning with the main content of media feature coverage, and capitalized on third-party media transmission platform to achieve the transformation from traditional seminars to seminars on industrial events. Professional exhibitions allowed the Company to display the latest industry solutions and products and achieve direct communication and exchange with industry insiders and customers to significantly increase brand exposure. Also, the Company accurately promoted its new and key products in virtue of web media.

During the period under review, the key measures and achievements realised by the Company in respect of marketing are as follows:

1. The Company increased the investment in the online marketing continually. In addition to Baidu promotion (AD Words auction, Network Alliance, Encyclopedia and Knows), the Company also adopted promotion by 360 search and SM mobile search. Besides, the Company engaged in in-depth cooperation with third-party industry media and website platforms (Control Engineering website, Gongkong website), and opened an account on media platforms including Sohu, Tianya and Toutiao to leverage the communication advantage of video streaming media to comprehensively improve SEM online marketing and SEO search optimization and continuously enhance the exposure and conversion ratio of EVOC brand.
2. The Company put more efforts in the promotion of the “Internet +” platform, planned and organized “The Anniversary (周年慶)”, “Industrial Control Festival on 18 June (6.18工控節)”, “Double 11 (雙11)”, “Double 12 (雙12)”, “Smash Gold Egg (砸金蛋)” and other thematic promotion activities by leveraging search engines, WeChat and network media in conjunction with festival marketing, topic marketing and other promotion measures, so as to enable EVOC Commerce Mall be closely connected with its members, which increased readers and trading volume of EVOC Commerce Mall and stimulated the popularity of EVOC Commerce Mall to make the customer groups expand rapidly. The Company powerfully supported the public praise of “EVOC” brand by virtue of the excellent high-quality and excellent services on the online mall.

3. The Company utilized WeChat promotion, search engine promotion, web promotion, H5 promotion and other micro-marketing activities in light of the application of new products in intelligent manufacturing, high-end equipment, network security, localization and other key fields, as a result of which the Company increased exposure and influence of EVOC's brand effectively.
4. The Company held six "door-to-door seminars" in five provinces of Eastern China to accurately recommend the new homemade products and proposals of EVOC, and shortened the distance with key target customers. The Company also held elite training camps in Shanghai, Beijing, Shenzhen and Jinan to enhance the contribution efforts of marketing channel partners.
5. The Company hosted the second meeting on drafting standards of "Automation System Industrial Embedded Intelligent Controller", at which about 30 experts from National Technical Committee on Industry Process Measurement and Control of SAC presented and reviewed the standard draft which was submitted by EVOC. The draft was highly praised by the experts attending the meeting, which was conducive to enhancing our leadership in the implementation of Made in China 2025 plan.
6. In order to cooperate with the implementation of military and civilian integration, the Company participated in a number of exhibitions including the Second Shenzhen International Intelligent Equipment Industry Exposition and the Fifth Shenzhen International Electronic Equipment Industry Exposition held in July 2016, at which Intelligent Vision visual detection equipment, a LCD TV detection system leading the industry, was displayed; the Thirteenth China Eurasia International Army-civilian Combination Technology Industry Exposition and the Twenty Third China International Electronic Information and National Defense Electronics Exposition in August 2016, and the Second Military and Civilian Integration Exhibition in October 2016, at which the Company exhibited its innovative technological achievements and introduced its latest innovations in respect of military technology and achievements in relevant fields to Xi Jinping, President of the PRC, in details.
7. At the channel partner marketing summit themed by "Setting Sail for Bright, Innovation and Share (揚帆光明，創新共用)" held at Huangshan, Anhui, the discussion centered on the way to ensure sustainable growth in 2016 from the perspectives of "Bright Prospect, Cooperation and Share, Mutual Trust Operation (光明前景、協作共用、互信操作)", with an aim to create a new high of net profit. At the meeting, professional discussions were also conducted on the product advantages and layout of the Company, the hottest "Internet of Things (IOT)" in the market and other topics.
8. On 15 January 2016, the Company attended the second meeting of the council of the National Engineering Laboratory and the joint innovation products exhibition, at which the Company submitted the Product Design of Security Industrial Control System and Its Application in the Power Industry (《安全工業控制系統產品設計及在電力行業的應用》), which was selected in the Collection of Industrial Control Information Security Technology Solutions (《工控信息安全技術解決方案彙編》).

9. At the “2016 Year-end Channel Partner Summit” themed by “Focus on Bright, Intelligence Wins the Future (聚焦光明，智贏未來)” held by Shenzhen, the Company and its distribution partners commenced a period of 2.0 cooperation. At the meeting on “Undertaking”, “Promise”, “Common” and “Win”, the new mode for cooperation with distribution partners and the cooperation policy for the new financial year were detailed, allowing all distribution partners fully understand the Company’s common objective of “Adherence to Original Tenet, Promising Win-Win (不忘初心，承諾共贏)”.

Outlook and Prospects

Looking forward to the future, the Chinese economy is expected to be in a transitional period during which the old growth drivers are undergoing orderly adjustment while the new growth drivers are thriving. With China’s industrial structure, pattern of demand and regional structure continuing to improve and stronger support from the service industry and domestic demand in underpinning stable economic growth, China’s economy development will become more balanced. With the implementation of the national strategy of “Made in China 2025” recently, as one of the key fields of the strategic emerging industries, the roles of intelligent manufacturing in the industrial transformation and upgrading are more and more important. Owing especially to the booming cloud-computing-platform-based service market, the big data will enter into a stage of application. The high-end intelligent equipment market will enter into a period of rapid development due to the higher demand for reliability, safety and independence of the market. Meanwhile, the increasing demand for localization in the Chinese market, local invested infrastructures as well as greater importance being paid to network information security will also present new market opportunities for the Company’s special computer products.

The Company will leverage on its leading edge in terms of brand and quality of special computers, as well as achieve business growth by taking advantage of the opportunities arising from the demand for localization of manufacture and intelligent manufacture. We will remain focusing on electronic equipment, high-speed rail and construction machinery. We will utilize the leading embedded miniature machine and sealing machine products in China to provide various industrial computing solutions for intelligent equipment and manufacturing information systems, which will help to realize the intelligent manufacturing gradually from the equipment automation, plant digitalization and intelligentization of industrial chain.

By offering a full array of high-end network products, the Company will meet the demand for network information security. With a focus on tactic customers, we will target on high-end market. Meanwhile, we will leverage the initiated advantage of industrial server to improve its awareness, and to capture the opportunities arising from the growth of the E-cloud computing/big data market, thus further increasing our market share on the industrial server segment.

The Company will adjust embedded computer and human-machine interface strategies, to better satisfy demand growth in smart-device market, with emphasis being put on industries such as transportation (rail, highway, airport), environmental protection (exhaust, water, de-sulphur) and new energies (wind, nuclear). The Company will also seize the opportunities arising from the growth in demand for automated equipment as a result of industry upgrades, utilizing our advantage of first- in-country machine vision device to win the opportunity brought by automated device demand growth resulted from industry upgrade, with emphasis being put on industrial robots, electronics manufacturing and car manufacturing industry.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2016, the Group's reported a total revenue of approximately RMB1,141.7 million (2015: approximately RMB1,444.1 million) representing a decrease of approximately 20.9%, analysed by product category as follows:

	2016	2015	Change
	<i>RMB'000</i>	<i>RMB'000</i>	<i>percentage</i>
Turnover			
Sales of Special Computer products	378,290	337,713	+12.0%
Sales of electronic products and accessories	515,425	930,969	-44.6%
Sales of properties	247,951	175,417	+41.4%
	<u>1,141,666</u>	<u>1,444,099</u>	<u>-20.9%</u>

Cost of sales and Gross Profit Margin

Cost of sales for the period decreased to approximately RMB938.0 million, represents a decrease of approximately 23.4% as compared to previous year.

Gross profit margin for the period increased to approximately 2.6 percentage points to approximately 17.8%. The increase of gross profit margin was mainly due to decrease in lower profit margin trading business.

Other Income

Other income for the period increased approximately 24.7% from approximately RMB144.4 million in 2015 to approximately RMB180.1 million in 2016. The increase was mainly due to rental income from investment properties.

Selling & Distribution costs

The selling and distribution costs increased 20% from approximately RMB40.2 million in 2015 to approximately RMB48.2 million in 2016. The increase is due to promotional and advertising cost and staff headcounts on property projects.

Administrative Expenses

The administrative expenses increased 17.3% from approximately RMB46.2 million in 2015 to approximately RMB54.2 million in 2016. The increase is due to staff welfare expenses and transportation provided for employees in Guangming plant and office.

Research & Development costs

The research and development costs decreased 6.7% from approximately RMB68.7 million in 2015 to approximately RMB64.1 million in 2016. It is mainly due to decrease in material parts consumables.

Fair value gain

During the period, the Group recorded a fair value gain approximately RMB46.5 million on investment properties and fair value gain approximately RMB155.6 million on transfer of properties held for sale to investment properties.

Finance Costs

Finance costs net of interest capitalized were approximately RMB36.0 million in 2016, compared with approximately RMB52.7 million in 2015, representing a decrease 31.7%.

Income tax expenses

Income tax expenses increased 169.9% from approximately RMB35.2 million in 2015 to RMB95.0 million in 2016. The increase was mainly due to increase in deferred taxes in revaluation of properties.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company increased from approximately RMB229.7 million in 2015 to approximately RMB269.1 million in 2016, representing an increase of approximately 17.2%. The net profit margin has been increase from 15.9% to 23.6%.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group generally finances its operation with internally resourced and banking facilities generally by bankers in the PRC. As at 31 December 2016, the Group's gearing ratio had decreased to approximately 57 % (calculated on the basis of the Group's total liabilities over total assets) from approximately 58.7% as at 31 December 2015. At the year end date the Group's total bank borrowings amounted to approximately RMB1,547 million (2015: approximately RMB1,534 million). The Group's cash and bank balances as at 31 December 2016 has increased to approximately RMB426.6 million (2015: approximately RMB418.7 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to approximately 1.33 as at 31 December 2016 (2015: approximately 1.19).

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 at 31 December 2016.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had authorized but not contracted for and contracted but not provided for were amounting to approximately RMB456 million (2015: RMB395 million) in respect of the construction of buildings and properties under development in Kunshan and Hangzhou.

PLEDGE OF ASSETS

At 31 December 2016, 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 approximately RMB1,638.0 million (2015: approximately RMB1,524.7 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 2016, the Group had total workforce of 906 (2015: 954). Employee benefit during the year were approximately RMB84.2 million.

The Group recognizes 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 2016 to 31 December 2016.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Yu Tat Chi, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Yu Tat Chi 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 auditors, 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 2016.

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.

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

This 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 2016 will also be published on the aforesaid websites in due course.

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, Mr. Wen Bing, Mr. Dong Li Xin and Mr. Zhang Da Ming.

APPRECIATION

The Board would like to thank our shareholders, customers, suppliers, bankers and professional advisers for their support of the Group and to extend our appreciation to all our staff for their dedication and contributions throughout the year.

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

Shenzhen, the PRC, 30 March 2017

* *For identification purpose only*