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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 2018**

FINANCIAL HIGHLIGHTS

	Year ended 31 December		Change
	2018	2017	
	RMB'000	RMB'000	%
Turnover	1,423,139	1,305,200	9.0%
Gross profit	216,026	177,332	21.8%
Other income	329,215	199,599	64.9%
Profit attributable to owners of the Company	156,940	35,481	342.3%
Earnings per share (Basic and diluted)	0.127	0.029	337.9%
Gross profit margin percentage	15.2%	13.6%	1.6%
	As at 31 December		
	2018	2017	
Net asset value per share	RMB1.83	RMB1.68	8.9%

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 2018 together with the comparative figures for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

		Year ended 31 December	
		2018	2017
	Notes	RMB'000	RMB'000
Turnover	4	1,423,139	1,305,200
Cost of sales		<u>(1,207,113)</u>	<u>(1,127,868)</u>
Gross profit		216,026	177,332
Other income	4	329,215	199,599
Selling and distribution costs		(42,322)	(43,871)
Administrative expenses		(91,160)	(59,952)
Other operating expenses		(134,087)	(114,031)
Fair value gain/(loss) on investment properties		11,408	(93,740)
Fair value gain on transfer of properties held for sale to investment properties		17,167	14,458
Finance costs		<u>(98,599)</u>	<u>(40,078)</u>
Profit before income tax	5	207,648	39,717
Income tax expense	6	<u>(50,708)</u>	<u>(4,236)</u>
Profit for the year attributable to owners of the Company		<u>156,940</u>	<u>35,481</u>
Other comprehensive income, after tax			
Items that will not be reclassified subsequently to profit or loss			
Surplus on revaluation of land and buildings		33,947	15,013
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations		<u>98</u>	<u>(592)</u>
Other comprehensive income for the year, net of tax		<u>34,045</u>	<u>14,421</u>
Total comprehensive income for the year attributable to owners of the Company		<u>190,985</u>	<u>49,902</u>
Earnings per share — Basic and diluted (RMB)	8	<u>0.127</u>	<u>0.029</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 RMB'000	2017 <i>RMB'000</i>
Non-current assets			
Property, plant and equipment		760,954	870,921
Investment properties		2,044,931	1,708,894
Prepaid land lease payments		42,521	43,537
Deferred tax assets		24,387	23,207
		<hr/>	<hr/>
Total non-current assets		2,872,793	2,646,559
Current assets			
Inventories		37,301	31,874
Properties under development		863,600	1,325,966
Properties held for sale		964,455	353,761
Prepaid land lease payments		1,016	1,016
Trade receivables	9	131,211	149,570
Bills receivable	9	34,115	51,714
Other receivables, deposits and prepayments		259,632	348,516
Contract cost		3,170	—
Due from related companies		5,028	—
Income tax recoverable		3,416	1,632
Cash and bank balances		1,079,953	681,100
		<hr/>	<hr/>
Total current assets		3,382,897	2,945,149
Current liabilities			
Trade payables	10	740,185	729,996
Bills payable	10	1,500	1,277
Contract liabilities		195,034	—
Other payables, accruals and receipts in advance		305,370	336,293
Due to a related company		397	—
Bank borrowings		1,268,081	1,300,880
Income tax payable		17,585	26,323
		<hr/>	<hr/>
Total current liabilities		2,528,152	2,394,769
Net current assets		854,745	550,380
		<hr/>	<hr/>
Total assets less current liabilities		3,727,538	3,196,939
		<hr/> <hr/>	<hr/> <hr/>

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Non-current liabilities		
Bank borrowings	1,109,496	795,172
Deferred tax liabilities	358,698	333,408
	<hr/>	<hr/>
Total non-current liabilities	1,468,194	1,128,580
	<hr/>	<hr/>
NET ASSETS	2,259,344	2,068,359
	<hr/> <hr/>	<hr/> <hr/>
CAPITAL AND RESERVES		
Share capital	123,314	123,314
Reserves	2,136,030	1,945,045
	<hr/>	<hr/>
TOTAL EQUITY	2,259,344	2,068,359
	<hr/> <hr/>	<hr/> <hr/>

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 2018

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

(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.

HKFRS 16	Leases ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ¹
Amendments to HKAS 1 (Revised)	Presentation of Financial statements ²
Amendments to HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors ²
Amendments to HKAS 19	Employee Benefits ¹
Amendments to HKFRS 3 (Revised)	Business Combinations ²
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, Business Combinations ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 12, Income Taxes ¹
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKAS 23, Borrowing Costs ¹

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

² 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 2018

	Special computer products and electronic products and accessories <i>RMB’000</i>	Property development <i>RMB’000</i>	Total <i>RMB’000</i>
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
Other income	162,466	—	162,466
Research and development costs	(104,781)	—	(104,781)
Depreciation and amortisation	(30,040)	(7,645)	(37,685)
Reversal of impairment loss 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>

For the year ended 31 December 2017

	Special computer products and electronic products and accessories <i>RMB'000</i>	Property development <i>RMB'000</i>	Total <i>RMB'000</i>
External revenue	<u>1,264,188</u>	<u>41,012</u>	<u>1,305,200</u>
Reportable segment profit/(loss)	<u>68,276</u>	<u>(96,911)</u>	<u>(28,635)</u>
Interest income	2,953	—	2,953
Other income	53,578	—	53,578
Research and development costs	(85,394)	—	(85,394)
Depreciation and amortisation	(29,429)	(7,406)	(36,835)
Impairment loss on inventories	(1,023)	—	(1,023)
Fair value loss on investment properties	—	(64,851)	(64,851)
Fair value gain on transfer of properties held for sale to investment properties	—	14,458	14,458
Reportable segment assets	1,344,668	2,963,582	4,308,250
Additions to non-current assets	18,153	71,388	89,541
Reportable segment liabilities	<u>(546,592)</u>	<u>(747,026)</u>	<u>(1,293,618)</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, assembling and trading of electronic products and accessories":

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Customer A	558,367	238,193
Customer B	<u>266,144</u>	<u>523,079</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Revenue		
Total of reportable segments' revenue and consolidated revenue	<u>1,423,139</u>	<u>1,305,200</u>

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Profit before income tax		
Total of reportable segments' profit/(loss)	151,254	(28,635)
Other income	166,749	143,068
Fair value loss on investment properties	(4,425)	(28,889)
Unallocated corporate expenses	(7,331)	(5,749)
Finance costs	(98,599)	(40,078)
	<u>207,648</u>	<u>39,717</u>
Profit before income tax	<u>207,648</u>	<u>39,717</u>
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Total of reportable segments' assets		
Reportable segment assets	4,719,709	4,308,250
Deferred tax assets	24,387	23,207
Property, plant and equipment	254,768	253,259
Investment properties	1,239,971	1,002,484
Unallocated corporate assets	16,855	4,508
	<u>6,255,690</u>	<u>5,591,708</u>
Consolidated total assets	<u>6,255,690</u>	<u>5,591,708</u>
	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Total of reportable segments' liabilities		
Reportable segment liabilities	1,350,401	1,293,618
Bank borrowings	2,269,662	1,870,000
Deferred tax liabilities	358,698	333,408
Income tax payable	17,585	26,323
	<u>3,996,346</u>	<u>3,523,349</u>
Consolidated total liabilities	<u>3,996,346</u>	<u>3,523,349</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		Total	
	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Primary geographical markets						
PRC	<u>1,338,759</u>	<u>1,264,188</u>	<u>84,380</u>	<u>41,012</u>	<u>1,423,139</u>	<u>1,305,200</u>
Major products and services						
Sales of special computer products	404,157	360,072	—	—	404,157	360,072
Sales of mobile phones and accessories	595,570	372,615	—	—	595,570	372,615
Sales of computer components	339,032	531,501	—	—	339,032	531,501
Sales of properties	<u>—</u>	<u>—</u>	<u>84,380</u>	<u>41,012</u>	<u>84,380</u>	<u>41,012</u>
	<u>1,338,759</u>	<u>1,264,188</u>	<u>84,380</u>	<u>41,012</u>	<u>1,423,139</u>	<u>1,305,200</u>
Timing of revenue recognition						
At a point in time	<u>1,338,759</u>	<u>1,264,188</u>	<u>84,380</u>	<u>41,012</u>	<u>1,423,139</u>	<u>1,305,200</u>

4. TURNOVER AND OTHER INCOME

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Turnover		
Sales of special computer products	404,157	360,072
Sales of electronic products and accessories		
— Computer components	339,032	531,501
— Mobile phones and accessories	595,570	372,615
Sales of properties	84,380	41,012
	1,423,139	1,305,200

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

	31 December 2018 <i>RMB'000</i>	1 January 2018 <i>RMB'000</i>
Receivables	131,211	149,570
Contract liabilities	195,034	66,449

The contract liabilities mainly relate to the advance consideration received from customers. RMB47,764,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue for the year ended 31 December 2018 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, the above information does not include 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.

	2018	2017
	RMB'000	RMB'000
Other income		
Gross rentals from investment properties	158,022	153,789
Less: direct operating expenses (including repairs and maintenance) arising from leasing of investment properties reimbursed from tenants	(2,524)	(24,081)
	155,498	129,708
Bank interest income	3,164	2,953
VAT concessions (<i>Note (a)</i>)	9,137	10,408
Government subsidies (<i>Note (b)</i>)	131,451	45,726
Repairs and maintenance income	2,257	2,811
Sub-contracting income	39	208
Sundry income	27,669	7,785
	329,215	199,599

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. Included in the amount of government grants recognised as other income for the year ended 31 December 2018, RMB20,478,000 (2017: RMB16,510,000) 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, RMB68,914,000 (2017: RMB17,235,000) and RMB31,291,000 (2017: Nil) 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 RMB10,768,000 (2017: RMB11,981,000) related to grants that were 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 is arrived at after charging/(crediting):

	2018	2017
	RMB'000	RMB'000
Auditor's remuneration	2,159	2,076
Cost of inventories recognised as an expense (<i>Note (a)</i>)	1,151,357	1,089,705
Cost of sales of properties recognised as an expense	55,756	38,163
Depreciation of property, plant and equipment	36,669	36,001
Amortisation of prepaid land lease payments	1,016	1,016
Foreign exchange difference, net	285	151
Loss on disposal of property, plant and equipment	98	184
Loss on written off of property, plant and equipment	3,706	58
(Reversal of impairment)/impairment on inventories	(1,092)	1,023
Minimum lease payments under operating leases	3,821	4,948
Research and development costs (<i>Note (b)</i>)	104,781	85,394
Staff costs (including directors' emoluments):		
Wages, salaries, bonus and allowances	87,357	86,629
Contributions to retirement benefits schemes	8,930	6,348
	96,287	92,977

Notes:

- (a) Cost of inventories sold includes but not limited to the staff costs of RMB23,855,000 (2017: RMB19,958,000), depreciation of RMB4,374,000 (2017: RMB5,288,000), costs of raw materials and parts used in assembling of mobiles phones of RMB554,104,000 (2017: RMB431,150,000) and subcontracting fee in assembling of mobile phones of RMB7,621,000 (2017: RMB3,410,000).
- (b) Research and development costs are included in other operating expenses which mainly consists of depreciation charge of RMB2,470,000 (2017: RMB2,278,000), consumable and material expenses amounting to RMB48,303,000 (2017: RMB41,201,000), staff costs amounting to RMB28,957,000 (2017: RMB28,008,000) and inspection fee amounting to RMB4,781,000 (2017: RMB4,206,000)

6. INCOME TAX EXPENSE

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current tax — the PRC		
Enterprise income tax (“EIT”)		
Current year	22,414	11,252
Land appreciation tax (“LAT”)		
Current year	<u>15,500</u>	<u>481</u>
	<u>37,914</u>	<u>11,733</u>
Deferred taxation		
Origination and reversal of temporary differences, net	<u>12,794</u>	<u>(7,497)</u>
Income tax expense	<u><u>50,708</u></u>	<u><u>4,236</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 (2017: 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 expires on 1 December 2020.

Other subsidiaries are subject to income tax rate of 25% (2017: 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 at a rate of 16.5% (2017: 16.5%) on the estimated assessable profits during the reporting period. No Hong Kong profits tax has been provided for the years ended 31 December 2018 and 2017 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 2018 (2017: 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:

	2018	2017
Profit for the year attributable to the owners of the Company for the purpose of earnings per share calculation (<i>RMB'000</i>)	156,940	35,481
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>0.127</u>	<u>0.029</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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables, net (<i>Note</i>)	131,211	149,570
Bills receivable	<u>34,115</u>	<u>51,714</u>
Total	<u>165,326</u>	<u>201,284</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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
0 to 90 days	123,235	149,392
91 to 180 days	7,199	86
181 to 365 days	682	—
Over 1 year	<u>95</u>	<u>92</u>
Gross trade receivables	<u>131,211</u>	<u>149,570</u>

The ageing analysis of trade receivables (net of impairment losses) which are past due but not impaired of the Group as at the end of reporting period is as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Neither past due nor impaired	<u>116,452</u>	<u>91,886</u>
Within 90 days past due	13,849	57,504
91 to 180 days past due	131	75
181 to 365 days past due	671	—
Over 365 days past due	<u>108</u>	<u>105</u>
Amount past due but not impaired	<u>14,759</u>	<u>57,684</u>
	<u>131,211</u>	<u>149,570</u>

10. TRADE AND BILLS PAYABLES

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade payables	740,185	729,996
Bills payable	<u>1,500</u>	<u>1,277</u>
	<u>741,685</u>	<u>731,273</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
0 to 90 days	636,568	671,351
91 to 180 days	35,693	1,846
181 to 365 days	13,441	2,814
Over 1 year	<u>54,483</u>	<u>53,985</u>
	<u>740,185</u>	<u>729,996</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 enhance and transform 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.

In the past year, the overall business of the Company continued steady growth. However, the labour costs increased a result of the corporate social insurance and provident fund payment systems. With the intensification of the trade protectionism in Western countries and the lasting time and outcome of Sino-US trade frictions remaining unclear, risks and uncertainties for the Company's future business may increase.

In response to the independently controllable policies advocated by the Chinese government, the Company has simultaneously developed and launched independently controllable products, seeking to tap the localized markets. With its independent domestic brand and the advantages of the independent intellectual property rights, the Company has seized the localized and independent controllable blue ocean market. To meet the new market change, the Company actively adjusted its marketing strategy and organizational structure, as well as optimizing its product offerings so as to creates products that truly satisfy the customer demands. The Company adhered to the "quality first" principle and gathered market refinement areas with high quality and high reliability requirements, maintaining its reputation as a high-end brand. Meanwhile, the Company has also fostered the intelligent manufacturing and increased its investment in intelligent equipment, along with the introduction of the advanced automatic production and testing equipment. This reduced the number of staff member in the production line and enhanced production efficiency, thereby addressing the constantly growing of the costs of human resources. At the same time, the Company still adheres to the diversified sales models including direct sales, agents, online sales and telephone sales to identify market and customers which better fit and are more willing to pay for quality.

Development of Science and Technology Industrial Park and Other Properties

In 2018, the gross sales revenue from the real estate projects amounted to approximate RMB84.4 million for the year. The presales in Wuxi project is approximate RMB124 million. Section A1 of Wuxi SHIOC International Outsourcing Base ("Wuxi") has completed and covers a gross floor area of approximate 260,000 sq.m. which is consisted of 12 office buildings, commercial apartments and shops that are currently in sale; Section A2 of Wuxi has completed and covers a gross floor area of approximate 143,000 sq.m. which is consisted of 84 office buildings that are currently in sale; phase 2 of Homer's International Garden which is located at Dianshan Lake in Kunshan has completed and covers a gross floor area of approximate 56,000 sq.m. which is consisted

of 86 mansions and is expected to be completed in 2019; the first phase of the Nantong EVOC High Profile Office Park project has completed and covers a gross floor area of approximate 72,800 sq.m. which is consisted of 39 office buildings, most parts of the project is completed and the interior decoration will be completed in 2019; Huaqiao EVOC International Finance Center in Kunshan has been designed as a 56-floor high-rise building which is 250-meter high and is expected to be completed in 2022.

Revenue from Leased Properties

As at the end of 2018, the total leased area of the Group reached 270,000 sq.m., and achieved total revenue from property rent amounting to approximate RMB158 million for the whole year. The EVOC City Plaza in Hangzhou had completed in 2017, with the total gross floor area of approximate 66,000 sq.m. have been rented. EVOC High Profile Office Park in Guangming Hi-tech Park of Shenzhen was completed in 2014, and the gross floor area is approximate 245,000 sq.m. The project includes a research and development office building, two buildings of plants and one apartment block with a gross floor area of approximate 58,000 sq.m., approximate 92,000 sq.m. and approximate 55,000 sq.m., respectively. Besides, it owns an underground parking lot occupying approximate 40,000 sq.m. The area being rented in the Park reached 90%. Shenzhen EVOC Technology Building was completed in 2007, with a total gross floor area of approximate 62,000 sq.m. Other than a small portion of the area is occupied for self-used, all the units in the building were rented. A gross floor area of approximate 50,000 sq.m. at the offices of section A1 of Wuxi SHIOC International Outsourcing Base (“Wuxi”) as well as a gross floor area of 54,000 sq.m. of shops have been available for rent. There was a gross floor area of approximate 53,000 sq.m. at the offices of phase 1 and 2 of Homer’s International Garden which is located at Dianshan Lake in Kunshan and part of it was currently rented.

RESULT OF THE YEAR

In 2018, the Group recorded a turnover of approximate RMB1,423.1 million, representing an increase of approximate 9.0% as compared with last year, of which sales of special computer products was approximate RMB404.2 million, trading of electronic products and accessories was approximate RMB339.0 million, sales of mobile phones and accessories was approximate RMB595.5 million and sales of properties were approximate RMB84.4 million. Profit attributable to owners of the Company was approximate RMB156.9 million. Excluding fair value changes on investment properties and transfer of properties held for sale to investment properties of approximate RMB28.6 million, core profit attributable to owners was approximate RMB128.3 million. Core profit margin attributable to owners was approximate 9.0%.

Research & Development and Products

During the period under review, the Company had been committed to independent innovation and continued to develop the research and applications of special computers. The Company continued to promote the cooperation among industry, academia and the research sector, setting up industry alliances with domestic first-class research institutes, application units, and partners from upstream and downstream industries and forming strategic partnerships. The Company also carried out close collaboration in the development, application and industrialisation of products of intelligent manufacturing, deepening the co-operation of development of application and development of software and hardware technology of intelligent manufactured products and launching industrial system solutions for the sake of professional development.

In the past year, the Company carried out update and upgrade on special computer platform products, following the upgrade of the main CPU (“central processing unit”). Meanwhile, product iterations were also launched in response to the demand for improving user experience such as request for products of smaller size, lower power consumption, and easier maintenance. The Company has also commissioned tracking and pre-researching the hottest technologies such as intelligent manufacturing, information security, and independent control; and accumulated and preserved design techniques on special computers in regarding to some cableless (WireLess) design technologies, identification technologies that based on facial and fingerprint recognition and homemade CPU.

Marketing and Brands

The Company continued to adopt the diversified sales models including direct sales, agents, online sales and telephone sales and closely linked our marketing channels with the industry, making full use of the online and offline resources for the full integration of marketing. We also targeted promotion in key customers of the key industries, focusing on industrial areas of localization and self-controllable, intelligent manufacturing, machine vision, railroad iron, network security, Internet of Things and other industries; and commenced collaboration with upstream and downstream partners.

In terms of online marketing, the Company adopted the integrated marketing communication method in the form of PC and mobile terminals combination. The complement of the private media and public media continuously spread the information of the newest products and industry solutions of “EVOC” in accordance to the usage habits and interaction scenarios of the target audience. In terms of the private media, the Company activated its official WeChat account and EVOC official Weibo account, develop Mini Program and operate WeChat customer service platform to strengthen real-time interaction and online communication with new and old customers.

The Company established a multi-dimensional training system, which targeted distributors, partners and internal employees and centered on the EVOC Intelligence Valley Institute (研祥智谷學院). By utilising the Internet training platform or technologies and conducting nationwide thematic cyclic training, centralised teaching and training, online course training and other training, a series of themed training on the sales systems and the technical systems were provided as well as training on industry solutions and market application system so as to help the rapid growth of the trainees and achieve a win-win situation.

Outlook and Prospect

Currently, under the growing trend of Western trade protectionism, the economic situation in China and the world is becoming more complex and uncertain. In the special computer sector, the domestic manufacturers continue to heavily rely on the import of upstream ICs from the U.S with increasing risks pertaining to the availability of raw materials and the rise in prices. Still in the initial development stage of investment, domestic ICs are far from having mature and large-scale application. Special computers using domestic ICs have not yet been tested by the market. Meanwhile, China is facing a gradual loss of demographic dividend and the environmental protection regulations are becoming more stringent with rise in the costs of corporate labour as a result of the more optimized corporate social insurance and provident fund system. A large number of manufacturing enterprises have moved to Southeast Asia or inland cities of PRC where exists both suppliers and a large number of customers. The costs for turnover of special computers and raw materials has an obvious upward trend. Under this context, the other developing countries captured the Chinese market with lower cost in labour, intensifying the fierce competition in the special computer market. With greater challenge in the China special computer market, we are cautiously optimistic about the development prospect.

Looking forward, the Company will continue to focus on the areas of the special computers striving to foster the strength of product and the brand reputation. The Company will also put emphasis on product development and application of homemade CPU and technical breakthrough in the frontier areas of intelligent manufacturing, artificial intelligence and information security by researching consumer demand in advance, properly dealing with product layout and market cultivation. The Company will make adjustments on the traditional products in accordance with the competition trends, without precluding the reduction in the research and production of the unprofitable products.

FINANCIAL REVIEW

Turnover

For the year ended 31 December 2018, the Group reported a total revenue of approximate RMB1,423.1 million (2017: approximate RMB1,305.2 million) representing an increase of approximate 9.0%, analysed by product category as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>	Change <i>percentage</i>
Turnover			
Sales of special computer products	404,157	360,072	+12.2%
Sales of electronic products and accessories			
— Computer components	339,032	531,501	-36.2%
— Mobile phones and accessories	595,570	372,615	+59.8%
Sales of properties	84,380	41,012	+105.7%
	<u>1,423,139</u>	<u>1,305,200</u>	<u>+9.0%</u>

Cost of Sales and Gross Profit Margin

Cost of sales for the period increased to approximate RMB1,207.1 million, represents an increase of approximate 7.0% as compared to previous year.

Gross profit margin for the period increased by approximate 1.6 percentage points to approximate 15.2%.

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 increased by 64.9% from approximate RMB199.6 million in 2017 to approximate RMB329.2 million in 2018. The increase was mainly due to government subsidies in high-technology products development.

Selling & Distribution Costs

The selling and distribution costs decreased by 3.5% from approximate RMB43.9 million in 2017 to approximate RMB42.3 million in 2018. It was due to the decrease of promotional and advertising cost.

Administrative Expenses

The administrative expenses increased by 52.1% from approximate RMB60.0 million in 2017 to approximate RMB91.2 million in 2018. It is mainly due to increase of staff benefit cost and amortization of renovation.

Research & Development Costs

The research and development costs increased by 22.7% from approximate RMB85.4 million in 2017 to approximate RMB104.8 million in 2018. The increase is mainly due to the material parts consumables.

Fair Value Changes

During the period, the Group recorded a fair value gain of approximate RMB11.4 million on investment properties and fair value gain of approximate RMB17.2 million on transfer of properties held for sale to investment properties.

Finance Costs

Finance costs net of interest capitalised were approximate RMB98.6 million in 2018, compared with approximate RMB40.1 million in 2017, representing an increase of 146.0%.

Income Tax Expenses

Income tax expenses increased by approximate 11 times from approximate RMB4.2 million in 2017 to approximate RMB51.0 million in 2018. It was mainly due to increase in sales of properties and trading results improvement.

Profit Attributable to Owners of the Company

The Group's profit attributable to owners of the Company increased from approximate RMB35.5 million in 2017 to approximate RMB156.9 million in 2018, representing an increase of approximate 342.3%. The net profit margin has been increase from 2.7% to 11.0%.

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 2018, the Group's gearing ratio had slightly increased to approximate 63.9% (calculated on the basis of the Group's total liabilities over total assets) from approximate 63.0% as at 31 December 2017. At the year end date the Group's total bank borrowings amounted to approximate RMB2,377.6 million (2017: approximate RMB2,096.1 million). The Group's cash and bank balances as at 31 December 2018 has increased to approximate RMB1,080.0 million (2017: approximate

RMB681.1 million). The current ratio (calculated on the basis of the Group's current assets over current liabilities) has increased to approximate 1.34 as at 31 December 2018 (2017: approximate 1.23).

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 2018.

CAPITAL COMMITMENTS

As at 31 December 2018, the Group had contracted but not provided for amounting to approximate RMB420.0 million (2017: RMB207.6 million) in respect of the construction of buildings and properties under development in Kunshan and Hangzhou.

PLEDGE OF ASSETS

At 31 December 2018, 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 RMB3,441.6 million (2017: approximate RMB2,949.0 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 2018, the Group had total workforce of 821 (2017: 838). Employee benefit during the year were 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 2018 to 31 December 2018.

AUDIT COMMITTEE

The Company has established an audit committee which comprises three independent non-executive Directors, including Mr. Yu Tat Chi, Michael, Mr. Dong Li Xin and Mr. Zhang Da Ming. Mr. Yu Tat Chi, Michael is the Chairman of the audit committee. Written terms of reference of the audit committee which comply with the code provisions set out in the Code has been adopted by the Board. The audit committee is responsible for reviewing and supervising the Group's financial reporting process and internal control system and providing advice and recommendations to the Board of Directors. The committee met 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 2018.

REMUNERATION AND REVIEW COMMITTEE

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

SCOPE OF WORK OF MESSRS. BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

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 2018 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. Wen Bing, Mr. Dong Li Xin and Mr. Zhang Da Ming and Mr. Yu Tat Chi, Michael.

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, 29 March 2019

* *For identification purpose only*