

ePRO
ePRO LIMITED

易寶有限公司

(incorporated in the Cayman Islands with limited liability)

THIRD QUARTER REPORT
2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on the GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report for which the directors of ePRO Limited collectively and individually accept responsibility includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange for the purpose of giving information with regard to ePRO Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

- For the nine months ended 31 March 2001, the Group's turnover increased by 40% to approximately HK\$361 million.
- The Group recorded a net profit attributable to shareholders of approximately HK\$2 million, representing a 77% decrease over the corresponding period of the previous year.
- Earnings per share was approximately HK0.22 cents.
- The Board does not recommend payment of an interim dividend.

QUARTERLY RESULTS (UNAUDITED)

The board of directors (the "Board") of ePRO Limited ("the Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months and the nine months ended 31 March 2001, together with the comparative unaudited figures for the corresponding periods in 2000, as follows:

	<i>Notes</i>	Three months ended 31 March		Nine months ended 31 March	
		2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>	<i>(Note 1)</i>
TURNOVER	2	<u>129,809</u>	<u>112,594</u>	<u>361,091</u>	<u>258,553</u>
Other revenue		1,082	320	3,332	505
Cost of sales		(108,624)	(84,828)	(291,535)	(190,857)
Distribution costs		(3,336)	(3,391)	(9,899)	(9,773)
Administrative and operating expenses		<u>(22,396)</u>	<u>(17,775)</u>	<u>(59,743)</u>	<u>(44,708)</u>
(LOSS)/PROFIT FROM OPERATING ACTIVITIES		(3,465)	6,920	3,246	13,720
Finance costs		(728)	(1,118)	(2,849)	(2,276)
Share of Profit of Associates		<u>423</u>	<u>47</u>	<u>635</u>	<u>16</u>
(LOSS)/PROFIT BEFORE TAX		(3,770)	5,849	1,032	11,460
Tax	3	<u>(82)</u>	<u>(1,393)</u>	<u>(592)</u>	<u>(1,634)</u>
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(3,852)	4,456	440	9,826
Minority Interests		<u>1,569</u>	<u>147</u>	<u>1,579</u>	<u>(1,214)</u>
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(2,283)</u>	<u>4,603</u>	<u>2,019</u>	<u>8,612</u>
Basic (Loss)/Earnings Per Share (HK Cents)	4	<u>(0.25)</u>	<u>0.58</u>	<u>0.22</u>	<u>1.08</u>

Notes:

1. Basis of preparation of the financial statements

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 15 March 2000 under the Companies Law (2000 Revision) of the Cayman Islands. The Company is an investment holding company for the Group with its principal activities being the development and implementation of e-commerce enabling software products and the provision of system integration and IT related services to commercial enterprises and government entities in Asia. In addition, the Group distributes computer hardware and related peripherals. The shares of the Company have been listed on GEM since 2 August 2000.

Pursuant to a reorganization scheme to rationalize the structure of the Group in preparation for the public listing of its shares in August 2000, the Company became the holding company of the companies now comprising the Group in July 2000.

The unaudited consolidated profit and loss account of the Group has been prepared on a merger accounting basis as if the Company has always been the holding company of the respective subsidiaries now comprising the Group.

All significant transactions and balances among the companies comprising the Group have been eliminated on consolidation.

2. Turnover

Turnover represents the net invoiced value of goods sold, net of returns and allowances, and the value of professional information technology ("IT") contract services rendered.

3. Taxation

Hong Kong profits tax has not been provided for as the Group companies either did not generate any assessable profits in Hong Kong, or had available tax losses brought forward to offset the assessable profits generated during the period.

Tax on profits in respect of Group companies operating elsewhere have been calculated at the rates of tax prevailing in the respective tax jurisdiction in which they operate, based on existing legislation, interpretations and practices in respect thereof.

	Three months ended		Nine months ended	
	31 March		31 March	
	2001	2000	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The Group:				
Hong Kong taxation	0	0	0	0
Overseas taxation	82	1,393	592	1,634
	<u>82</u>	<u>1,393</u>	<u>592</u>	<u>1,634</u>

The Group did not have any significant unprovided deferred tax liabilities for the period.

4. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the three months and the nine months ended 31 March 2001 is based on the net unaudited (loss)/profit attributable to shareholders of approximately (HK\$2.3 million) and HK\$2 million respectively (three months and nine months ended 31 March 2000: HK\$4.6 million and HK\$8.6 million respectively) and the weighted average number of 920,000,000 shares and 906,666,666 shares in issue respectively (three months and nine months ended 31 March 2000: 800,000,000 shares).

No diluted earnings per share has been presented for the three months and the nine months ended 31 March 2001 as the exercise price of the Company's outstanding share options was higher than the average market price for the periods.

No diluted earning per share has been presented for the three months and the nine months ended 31 March 2000, as the Company did not have any dilutive potential ordinary shares.

DIVIDEND

The Board does not recommend the payment of an interim dividend for the nine months ended 31 March 2001 (2000: Nil).

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

FINANCIAL REVIEW

For the nine months ended 31 March 2001, the Group achieved an unaudited consolidated turnover of approximately HK\$361 million representing a 40% increase as compared to the corresponding nine-month period in 2000. The unaudited net profit attributable to shareholders amounted to approximately HK\$2 million representing a 77% decrease over the corresponding period last year.

The Group achieved significant revenue growth in the period. However the Group's profit margins decreased due to the investments in incremental human resources (mainly R&D and sales), set-up costs of two software centers and the development expenses of e-Trading ASP.

The focus on human resources recruitment and set up of two software centers is expected to provide a solid base for future business growth.

USE OF PROCEEDS

As a result of the listing of the Company's shares on GEM in Hong Kong and the share placement, the Company obtained net proceeds of approximately HK\$71 million. The Company intends to continue utilizing these proceeds in the four areas, which are stated in the prospectus of the Company dated 27 July 2000 ("the Prospectus"), as follows:

1. Research and development of existing and new software products and solution;
2. Establishment of software centres, co-operation with academic institutions and other related IT companies;
3. Marketing and promotion activities for new software products and solutions; and
4. Repayment of an independent third party loan.

During the period, the Company made a loan repayment of approximately HK\$5 million to an independent third party, spent approximately HK\$1 million on marketing activities and invested approximately HK\$7.5 million in setting up two software centres and several research and development projects out of the net proceeds from share placement.

BUSINESS OBJECTIVES AND THE IMPLEMENTATION PROGRESS

The Group remains committed to becoming one of the leading providers of one-stop e-commerce solution and IT consulting services for its customers, in particular the PRC and Hong Kong market.

To achieve this goal, the Group set out five strategies, on pages 68 to 71 of the Prospectus, for the period from 1 July 2000 to 30 June 2002. The actual progress of these strategic initiatives for the nine months ended 31 March 2001 is summarized as follows:

a) e-Logistics Development

e-Logistics is a standard overall solution for the logistics and warehousing industry which uses internally developed global positioning system ("GPS") and radio frequency ("RF") based IT solutions. The Group completed construction of the e-Fulfillment Module structure and customized functionality of the system. The Group has been moving towards identifying new strategic business alliances. Additional programmers at the Guangzhou software center have been employed for development and implementation.

b) e-Billing Development

A comprehensive billing system is important to telecommunication network operators for the development of e-commerce activities in Asia Pacific. In addition to customers in the wireless telecommunication sector, the Group successfully penetrated into the fixed line telecommunication sector. Development of an e-Billing application and different modules for usage management has been ongoing as planned.

c) e-Trading ASP Development

All the Beta tests on various applications were conducted with satisfactory results and the testing of e-Trading ASP with the Stock Exchange has been completed. The Group has lined up with several brokerage houses and will launch services in May 2001. The end-to-end straight through ASP system enables securities firms to conduct online share trading, placing orders within a second, on an independent ASP platform. The need for developing an e-Trading ASP for the PRC market is being monitored. Talented and experienced technical staff have been recruited to maintain competitiveness. Discussions to strengthen collaborative ties with strategic business partners are ongoing.

d) Strengthening Research and Development Capabilities

The software center in Shanghai (aligned with Tongji University) focused on the migration of software applications from main frame system architecture to open system architecture. The other software center in Guangzhou conducted a wide range of research to support the Group's Intelligent Transportation System, e-Billing and e-Logistics initiatives. The two centers are manned by skilled individuals and continue to serve as a training platform for the latest technological expertise and for new developments in the industry.

e) Strategic Investments, Acquisitions and Collaboration

The Company continued to identify strategic partners both in Hong Kong and the PRC, seeking synergistic acquisition and merger opportunities to further extend its services and markets.

DEPLOYMENT OF HUMAN RESOURCES

The total headcount of the Group increased by 104 from 286 to 390 during the period from 1 July 2000 to 31 March 2001. New teams of technical engineers were recruited for software projects in Guangzhou and Shanghai. Manpower is sufficient for the existing level of operations and the current headcount will be maintained in the near term. As at 31 March 2001, the Group had a total work force of 390 of which approximately 60% were technical staff.

PROSPECTS

2001 has been a difficult year and competition has been fierce amongst all IT service providers. Many competitors are battling against shakeout and stagnation of the volatile technology market. However the Group is still optimistic about the general outlook.

According to IDC, the PRC will account for approximately 32% of the total IT market in Asia Pacific excluding Japan, with a compound annual growth rate of approximately 26% from 1999 to 2004 in the PRC IT market. The burgeoning Internet market, increasing number of Internet users and ongoing development of e-commerce activities in Hong Kong and the PRC are some of the key drivers for the growth of Internet applications and deployment, and the outsourcing of IT services.

In the challenging economic environment, the Board reiterates the Group's commitment to becoming a major players in the industry by revamping its marketing strategies, investing in product development, streamlining operations, providing value-oriented services to customers and maintaining steady business growth to improve profitability and enhance shareholder value.

DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 31 March 2001, the particulars of the directors' interests in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of Hong Kong Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance") were as follows:

Interests in the Company

Name of director	Notes	Number of issued shares		
		Personal interests	Corporate interests	Total
Mr. Yip Sam Lo	1	—	524,866,255	524,866,255
Mr. Lee Sai Yeung	2	8,577,615	71,865,099	80,442,714

1. Mr. Yip Sam Lo is the sole beneficial shareholder of Araucarea Holdings Ltd. ("Araucarea"), the ultimate holding company of the Company which, in turn, is interested in 51.61% of the issued share capital of Comlink Resources Limited ("Comlink"), an immediate holding company of the Company. Comlink is interested in 57.05% of the issued share capital of the Company.
2. Mr. Lee Sai Yeung is the sole beneficial shareholder of Mendoza Enterprises Limited which, in turn, is interested in 7.81% of the issued share capital of the Company.

Interests in associated corporations

Name of director	Notes	Name of associated corporation	Nature of interests	Approximate percentage of interests
Mr. Kwong Chak Chung	1	Comlink	Corporate	30.92
Mr. Yip Sam Lo	2	Comlink	Corporate	51.61
Mr. Leung Yiu Chown, Desmond	3	Comlink	Personal	14.44
Mr. Xu Jie	4	Comlink	Personal	3.03

1. Mr. Kwong Chak Chung is the sole beneficial shareholder of Kenn & K (BVI) Ltd. which, in turn, is interested in 30.92% of the issued share capital of Comlink.
2. Mr. Yip Sam Lo is the sole beneficial shareholder of Araucarea which, in turn, is interested in 51.61% of the issued share capital of Comlink.
3. Mr. Leung Yiu Chown, Desmond is personally interested in 14.44% of the issued share capital of Comlink.
4. Mr. Xu Jie is personally interested in 3.03% of the issued share capital of Comlink.

Save as disclosed above, as at 31 March 2001, none of the directors or any of their associates had any interests in the issued share capital of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Pursuant to the terms of a Pre-IPO share option plan (the "Pre-IPO Plan") adopted by the Company on 24 July 2000, options have been granted on 26 July 2000 to certain directors to subscribe for shares of the Company. Details of which are as follows:

Name of grantee	Exercise price	Number of shares subject to the options
Mr. Kwong Chak Chung	HK\$0.70	8,212,041
Mr. Yip Sam Lo	HK\$0.70	13,699,083
Mr. Leung Yiu Chown, Desmond	HK\$0.70	3,814,628
		<u>25,725,752</u>

Pursuant to the terms of the Pre-IPO Plan, 25,725,752 options to subscribe for shares of the Company were granted to the above three directors of the Company, at an exercise price of HK\$0.70, with a vesting period starting from 6 months after 2 August 2000 until 23 July 2010. No option was exercised under the scheme up to the date of this report.

EMPLOYEE SHARE OPTION SCHEME

Options to subscribe for an aggregate 25,816,000 shares are granted (including 4,000,000 shares to 2 directors), breakdown of which are set out below.

No. of shares	No. of employees	Subscription	Option Period
		price per shares HK\$	
12,896,000	49	0.38	22 November 2000 to 21 November 2003
12,920,000	81	0.228	23 March 2001 to 22 March 2004

Details of the option granted to the 2 directors are as follow:

No. of shares	Name of directors	Subscription	Option Period
		price per shares HK\$	
1,000,000	Mr. Leung Yiu Chown, Desmond	0.38	22 November 2000 to 21 November 2003
1,000,000	Mr. Xu Jie	0.38	22 November 2000 to 21 November 2003
2,000,000	Mr. Xu Jie	0.228	23 March 2001 to 22 March 2004

As at 11 May 2001, none of the Company's directors or employees exercised any share options and no allotment or issue of shares was made pursuant to the Employee Share Option Scheme. The total number of shares underlying the options granted is unchanged at 25,816,000 shares.

Save as disclosed in the Pre-IPO Plan and the Employee Share Option Scheme, at no time during the period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, or any of its holding companies and subsidiaries a party to any arrangement to enable the Company's directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2001, shareholders with an interest of 10% or more in the issued share capital of the Company, recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance, were as follows:

Name	Number of shares
Comlink	524,866,255
Araucarea	524,866,255
Mr. Yip Sam Lo	524,866,255

The above shareholdings of Comlink, Araucarea, and Mr. Yip Sam Lo refer to the same shares.

Save as disclosed above, no person, had registered an interest in the share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

COMPETING INTERESTS

During the period under review, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company had an interest in a business which competed with the Group or might compete with the business of the Group.

SPONSOR'S INTERESTS

As updated and notified by Core Pacific-Yamaichi Capital Limited (the "Sponsor"), as at 10 May 2001, an employee of the Sponsor held a total of 28,000 shares in the Company.

Save as disclosed above, neither the Sponsor nor its directors nor employees nor any of their associates had any interest in the share capital of the Company.

Pursuant to the agreement dated 27 July 2000 entered with the Company, the Sponsor received, and will receive, fees for acting as the Company's retained sponsor for the period from 1 July 2000 to 30 June 2003 or until the sponsor agreement is terminated upon the terms and conditions set out therein.

AUDIT COMMITTEE

The Company set up an audit committee (the "Committee") on 10 July 2000 with written terms of reference in compliance with the requirements as set out in Rule 5.23 and 5.24 of the GEM Listing Rules. The Committee comprises Mr. Yip Sam Lo and the two independent non-executive directors, Mr. David Egryn Jones and Ms. Tai Kar Ping, Noreen. The primary duties of the Committee are to review and supervise the financial reporting process and internal control procedures of the Group.

By order of the Board
Yip Sam Lo
Managing Director

Hong Kong, 11 May 2001