

ePRO

EPRO LIMITED

易 寶 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2001

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (THE “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 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 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 full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to EPRO LIMITED. The directors of EPRO LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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

- During the three months ended 30 September 2001, the Group's turnover decreased by 34% to approximately HK\$64,649,000.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$6,951,000.
- No payment of an interim dividend for the three months ended 30 September 2001 is recommended by the Directors.

UNAUDITED RESULTS

The board of directors (the "Directors") of EPRO LIMITED (the "Company") announced the first quarterly unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 September 2001 together with the comparative unaudited figures for the corresponding period in 2000 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Three months ended 30 September | |
|---|--------------|--|-----------------|
| | <i>Notes</i> | 2001 | 2000 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TURNOVER | 2 | <u>64,649</u> | <u>97,934</u> |
| Other revenue | | 845 | 880 |
| Cost of goods sold | | (46,881) | (75,999) |
| Selling and distribution costs | | (2,230) | (3,672) |
| Administrative and other operating expenses | | <u>(25,367)</u> | <u>(18,546)</u> |
| (LOSS)/PROFIT FROM OPERATING ACTIVITIES | | (8,984) | 597 |
| Finance costs | | (691) | (1,097) |
| Share of profits of associates | | <u>229</u> | <u>27</u> |
| (LOSS) BEFORE TAX | | (9,446) | (473) |
| Tax | 3 | <u>(107)</u> | <u>(60)</u> |
| (LOSS) BEFORE MINORITY INTERESTS | | (9,553) | (533) |
| Minority interests | | <u>2,602</u> | <u>630</u> |
| NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | <u>(6,951)</u> | <u>97</u> |
| Basic (loss)/earnings per share (HK cents) | 4 | <u>(0.76)</u> | <u>0.01</u> |

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 information technology ("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 The Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 2 August 2000.

Pursuant to a reorganisation scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on GEM 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.

The accounting policies applied to the figures in the Group's quarterly report for the three months ended 30 September 2001 are consistent with those applied to the annual accounts of the Group for the year ended 30 June 2001.

2. Turnover

Turnover represents the net invoiced value of goods sold, net of returns and allowances, and the value of professional IT contract services rendered.

3. Tax

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 30 September | |
|--------------------|--|------------------|
| | 2001 | 2000 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The Group: | | |
| Hong Kong taxation | 0 | 0 |
| Overseas taxation | 107 | 60 |
| | <u>107</u> | <u>60</u> |
| | <u><u>107</u></u> | <u><u>60</u></u> |

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 30 September 2001. (2000: Nil)

4. (LOSS)/EARNINGS PER SHARE

The calculation of basic loss per share for the three months ended 30 September 2001 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said period of approximately HK\$6,951,000 and on the weighted average number of 920,000,000 shares in issue during the three months ended 30 September 2001.

The calculation of basic earnings per share for the three months ended 30 September 2000 is based on the unaudited net profit from ordinary activities attributable to shareholders for the said period of approximately HK\$97,000 and on the weighted average number of 880,000,000 shares in issue during the three months ended 30 September 2000.

No diluted loss per share has been presented for the three months ended 30 September 2001 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

No diluted earnings per share has been presented for the three months ended 30 September 2000, as the Company did not have any dilutive potential ordinary shares.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2001 (2000: Nil).

FINANCIAL REVIEW

For the three months ended 30 September 2001, the Group recorded an unaudited consolidated turnover of approximately HK\$64,649,000, representing a 34% decrease as compared to the corresponding period in 2000. The unaudited net loss from ordinary activities attributable to shareholders amounted to approximately HK\$6,951,000. In comparison, the Group recorded an unaudited net profit from ordinary activities attributable to shareholders of approximately HK\$97,000 for the corresponding period in 2000. The decrease in turnover of the Group was mainly due to the cessation of personal computer distribution business in Hong Kong and the general weak demand in goods and services in the IT markets.

BUSINESS OBJECTIVES AND THE IMPLEMENTATION PROGRESS

The Group determines to be one of the leading providers of one-stop e-commerce solutions and IT consulting services for its clients focusing on The People's Republic of China (the "PRC") and Hong Kong markets. By providing proven technologies and professional services, the Group strives to help its clients to enhance their competitiveness.

In order to accomplish this long-term business goal, the Group has set out five core business strategies, which are stated in pages 68 to 71 of the prospectus of the Company dated 27 July 2000 (the "Prospectus"), over the period from 1 July 2000 to 30 June 2002. The actual progress of these objectives over the three months ended 30 September 2001 is summarized as follows:

a) e-Logistics Development

e-Logistics is a comprehensive solution for the logistics and warehousing industry which uses internally developed global positioning system and ratio-frequency based IT solutions. The first module, e-fulfillment, is very close to the final stage of beta testing and be expected to launch to the market later this year. Extensive marketing events will be carried out after all the testing had been completed to ensure quality performance. The Group has begun to identify strategic business partners in the transportation, warehousing and distribution sectors in the PRC. The next module of the e-Logistics product, e-Despatch, is at the early stage of development.

b) e-Billing Development

e-Billing is a billing system which mainly targets to the billing requirements of the telecommunication operators and internet services providers in the Asia Pacific region. The Group, signed a number of prominent contracts with existing and new clients during the period under review. The Group has also been working closely with a renowned public service entity in the PRC since last fiscal year, which is being implemented very smoothly. Initial results are encouraging and more new opportunities for this product are being sought.

c) e-Trading Application Services Provider ("ASP") Development

e-Trading is an end-to-end straight-through ASP system that enables securities firms to conduct online securities dealings on an independent ASP platform. The Group has been continually enhancing the features of this state-of-the-art product, despite the diminishing marketing turnover directly affects the demand for online securities trading mechanism. However, the Company is exploring new markets in the region and has found good opportunities. The Group maintains its support for this product and is now focusing on sales and marketing efforts.

d) Strengthening Research and Development (“R&D”) Capabilities

In addition to the software centers in Guangzhou and Shanghai (aligned with Tongji University), the Group is actively seeking new location for additional software R&D center in the PRC. It is believed that talents from different geographic areas foster synergies and a new team of technical staff will be recruited in the PRC to share technological knowledge with R&D and operations and to support the development of the Group’s projects. The existing two software centers are growing steadily with satisfactory performances. The Group believes these centers provide a solid foundation for the R&D of the Group’s self-developed products.

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

During the three months ended 30 September 2001, the total headcount of the Group remained as 420 of which approximately 60% were technical staff. The Group has taken very tight headcount control measures for the Hong Kong operation. However, headcount in the PRC has been increasing in view of the booming IT market in the PRC to prepare the Group to capture the upcoming opportunities.

PROSPECTS

A research conducted by International Data Corporation estimates that the PRC IT service market will increase at a compound annual growth rate (CAGR) of 50.3% to reach US\$6.48 billion from the year 2000 to 2005, of which the systems integration market accounts for a significant proportion with more than 30%. The Group will sustain its emphasis on the PRC, especially on the systems integration and software market, to seize the business opportunities.

The Group expects a surge in demand of the e-Logistics product in the coming years. The launching of the Tradeport Hong Kong project, the Hong Kong government’s ambition to promote the logistics industry and the evolution of the Pearl River Delta are significant growth accelerators to this product. The Group is well positioned to capitalize on the opportunities stimulated.

This year will continue to be a challenging year to the Group. The deteriorating and uncertain economic environment has caused firms to cut or delay IT budgets. The volatile world technology markets may further consolidate. In these difficult times of hardship, the Group continues to reiterate its commitment to become a major player 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 shareholders value.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 30 September 2001.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 30 September 2001, the interests of the directors of the Company and their associates in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

Interests in the Company

| Director | Note | Nature of interests | Number and percentage of ordinary shares of the Company interested |
|----------------|------|---------------------|--|
| Mr. Yip Sam Lo | a | Corporate | 518,919,250 (56.40%) |

Note:

- a. 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 total issued share capital of Comlink Resources Limited ("Comlink"), an immediate holding company of the Company. Comlink is interested in 518,919,250 ordinary shares of the Company, representing 56.40% of the total issued share capital of the Company.

Interests in associated corporations

| Director | Notes | Name of associated corporation | Nature of interests | Percentage of issued shares of the associated corporation interested |
|------------------------------|-------|--------------------------------|---------------------|--|
| 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% |

Notes:

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 total 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 total issued share capital of Comlink.

3. Mr. Leung Yiu Chown, Desmond is personally interested in 14.44% of the total issued share capital of Comlink.
4. Mr. Xu Jie is personally interested in 3.03% of the total issued share capital of Comlink.

Some directors of the Company are holding shares in the Hong Kong subsidiaries of the Company in a non-beneficial interest to meet the minimum shareholder requirement.

Save as disclosed above, none of the directors or chief executive of the Company or their respective associates had any personal, family, corporate or other interests in the issued share capital of the Company or any of its associated corporations, as defined in the SDI Ordinance, as recorded in the register required to be kept under section 29 of the SDI Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the minimum standards of dealing by directors of listed issuers as referred to in rule 5.40 of the GEM Listing Rules.

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 for subscribing the shares of the Company had been granted to the following directors of the Company on 26 July 2000 as follows:

| Name of grantee | Exercise period | Exercise price HK\$ | Number of shares subject to the options as at 30 September 2001 |
|---------------------------------|------------------------------------|------------------------|--|
| Mr. Kwong Chak Chung | 2 February 2001 to 23 July 2010 | 0.70 | 8,212,041 |
| Mr. Yip Sam Lo | 2 February 2001 to 23 July 2010 | 0.70 | 13,699,083 |
| Mr. Leung Yiu Chown, Desmond | 2 February 2001 to 23 July 2010 | 0.70 | 3,814,628 |
| | | | <hr/> 25,725,752 <hr/> |

No option was exercised under the Pre-IPO Plan up to the date of this report.

Pursuant to the terms of a share option scheme (the “Share Option Scheme”) adopted by the Company on 24 July 2000, the Directors are authorised, at their absolute discretion, to grant options to full-time employees, including any executive directors of any companies in the Group. Options for subscribing the shares of the Company had been granted to the executive directors on 22 November 2000 and 23 March 2001 as follows:-

| Name of grantee | Exercise period | Exercise price HK\$ | Number of shares subject to the options as at 30 September 2001 |
|---------------------------------|---|--------------------------------|--|
| Mr. Leung Yiu Chown, Desmond | 22 November 2000 to 21 November 2003 | 0.38 | 1,000,000 |
| Mr. Xu Jie | 22 November 2000 to 21 November 2003 | 0.38 | 1,000,000 |
| | 23 March 2001 to 22 March 2004 | 0.228 | 2,000,000 |
| | | | <hr/> 4,000,000 <hr/> |

None of the above two directors exercised their share options granted under the Share Option Scheme up to the date of this report.

Save as disclosed in the Pre-IPO Plan and the Share Option Scheme, at no time during the three months ended 30 September 2001 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or chief executive of the Company 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 arrangements to enable the Company’s directors or chief executive or their respective associates to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

At 30 September 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 ordinary shares of the Company interested |
|-----------|--|
| Comlink | 518,919,250 |
| Araucarea | 518,919,250 |

Comlink owned 518,919,250 ordinary shares of the Company. Araucarea owned 51.61% of the issued share capital of Comlink. Accordingly, Araucarea was deemed to be interested in the 518,919,250 shares of the Company owned by Comlink.

The above interests have also been disclosed as corporate interests of Mr. Yip Sam Lo in the above section headed "Directors' interests in share capital".

Save as disclosed above, no person, other than the directors of the Company whose interests are set out above, 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.

COMPETITION AND CONFLICT OF INTEREST

None of the directors, the management shareholders or the substantial shareholders of the Company, or any of their respective associates, have engaged in any business that competes or may compete with the business of the Group or has any other conflict of interests with the Group.

SPONSOR'S INTERESTS

As updated and notified by the Company's sponsor, Core Pacific-Yamaichi Capital Limited ("CPY"), other than the interest held by the employees of CPY of 28,000 shares as at the date of this report, neither CPY nor its directors or employees or associates had any interests in the share capital of the Company as at 30 September 2001 and the date of this report.

Pursuant to the agreement dated 27 July 2000 entered with the Company, CPY 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 primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Group. The Committee comprises Mr. Yip Sam Lo and the two independent non-executive directors, Ms. Tai Kar Ping, Noreen and Mr. David Egryn Jones.

The information contained in the Group’s quarterly report for the three months ended 30 September 2001 has not been audited but has been reviewed by the Committee, who was of the opinion that such report complied with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures had been made.

By order of the Board
Kwong Chak Chung
Chairman

Hong Kong, 13 November 2001