

**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 2002**

## **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.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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 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 2002, the Group's turnover decreased by 39% to approximately HK\$39,398,000.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$1,179,000, representing a 83% decrease over the net loss of the corresponding period in 2001.
- No payment of an interim dividend for the three months ended 30 September 2002 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 2002 together with the comparative unaudited figures for the corresponding period in 2001 as follows:

## UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	<b>Three months ended 30 September</b>	
		<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
TURNOVER	2	<u>39,398</u>	<u>64,649</u>
Other revenue		1,816	845
Cost of goods sold		(25,882)	(46,881)
Selling and distribution costs		(1,591)	(2,230)
Administrative and other operating expenses		<u>(15,250)</u>	<u>(25,367)</u>
(LOSS) FROM OPERATING ACTIVITIES		(1,509)	(8,984)
Finance costs		(297)	(691)
Share of profits of associates		19	229
Share of profits of jointly controlled entity		<u>592</u>	<u>—</u>
(LOSS) BEFORE TAX		(1,195)	(9,446)
Tax	3	<u>(82)</u>	<u>(107)</u>
(LOSS) BEFORE MINORITY INTERESTS		(1,277)	(9,553)
Minority interests		<u>98</u>	<u>2,602</u>
NET (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(1,179)</u>	<u>(6,951)</u>
Basic (loss) per share (HK cents)	4	<u>(0.11)</u>	<u>(0.76)</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 first quarterly report for the three months ended 30 September 2002 are consistent with those applied to the annual accounts of the Group for the year ended 30 June 2002.

# 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	
	2002	2001
	HK\$'000	HK\$'000
The Group:		
Hong Kong taxation	0	0
Overseas taxation	82	107
	<u>82</u>	<u>107</u>

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 30 September 2002. (2001: Nil)

#### **4. Loss per Share**

The calculation of basic loss per share for the three months ended 30 September 2002 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said period of approximately HK\$1,179,000 and on the weighted average number of 1,104,000,000 shares in issue during the three months ended 30 September 2002.

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.

No diluted loss per share has been presented for the three months ended 30 September 2002 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

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.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2002 (2001: Nil).

### **MOVEMENT IN RESERVES**

There is no movement in reserves for the three months ended 30 September 2002 (2001: Nil).

### **FINANCIAL REVIEW**

For the three months ended 30 September 2002, the Group recorded an unaudited consolidated turnover of approximately HK\$39,398,000, representing a 39% decrease as compared to the corresponding period in 2001. The unaudited net loss from ordinary activities attributable to shareholders amounted to approximately HK\$1,179,000, representing a 83% decrease over the net loss of the corresponding period in 2001. The decrease in turnover of the Group was mainly due to the general weak demand in goods and services in the IT markets.

### **BUSINESS REVIEW**

In view of the gloomy business environment of Hong Kong while speedy recovery still remains questionable, the Group has moved on its business reengineering process throughout the last financial year to solid its foundation for further development in future. The Group are pleased to see the steady and healthy progress in different aspects in the Group's business. In the coming year, the Group will continue to keep a close eye on various opportunities in information technology, research and development as well as our relationship with all existing and potential business partners.

## **Systems integration services**

With a mission to provide best quality services to customers, the Group always dedicates to meet and outclass industry standards. Our efforts has been proven with the accreditation of Level 2 Computer Information Systems Integrator Qualification from the Ministry of Information Industry of the People Republic of China (“PRC”) to our Guangzhou office, signifying our promise to obtaining and exceeding customer satisfaction.

## **IT professional services**

Based on the solid experiences gained from IT infrastructure technologies, the Group will continue to provide professional services for IT management solutions, which are now in relatively high demand in the PRC market. The Group had signed contracts with government entities and corporations to reengineer, upgrade and construct their IT platforms, as well as integrate their current IT resources and maximize their utilization.

## **IT development outsourcing**

The Group has positioned to be one of the leading IT development outsourcing service providers, offering systems migration as well as software development to enterprise customers in the region. With the development of software shifted from mainframes to servers, middleware development for building the open-type mission-critical systems and software development have continued to show steady growth.

## **Comprehensive logistics solutions**

Although business environment remains sluggish, the overall demand in logistic IT solutions is still promising. Sales and marketing resources had been attributed to the promotion of the Group’s logistic solutions, especially in the PRC market.

## **OUTLOOK**

According to an IDG article issued on May 2002, top IT research houses IDC and Gartner both expected a recovery in IT spending as the Asian IT industry will pick up from the second half of this year. IDC pointed out a recovery in the second half of 2002, with further improvement in 2003 and 2004: “The Asian IT market is expected to grow by 9.8 percent this year, and by 17 percent over the next two years”, whereas Gartner, though, more cautious, expressed a “mild recovery” in IT spending growth rates by the end of the third quarter of 2002.

Despite a slowdown in other areas of spending, these analysts predict a continued growth in demand for IT outsourcing by firms. IDC estimates that the sector will grow at a compound annual growth rate of 30 percent.

As such, the Group is confident that the IT industry will keep a positive growth in the near future. The reorganization completed in the last financial year ensures that we are well prepared to capture any opportunities arising in the market. The Group will at the same time dedicate to continuous growth to gain support and trusts from our shareholders.

## 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 2002.

## DIRECTORS' INTERESTS IN SHARE CAPITAL

As at 30 September 2002, the interests of the Directors 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	504,217,300 (45.67%)
Mr. Huang Shaokang	b	Corporate	184,000,000 (16.67%)
		Personal	71,092,000 (6.44%)

#### Note:

- Mr. Yip Sam Lo is the sole beneficial shareholder of Araucarea Holdings Ltd. ("Araucarea"), 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 504,217,300 ordinary shares of the Company, representing 45.67% of the total issued share capital of the Company.
- Mr. Huang Shaokang is the sole beneficial shareholder of China Dynamic Enterprises Limited ("China Dynamic") which, in turn, is interested in 16.67% of the total issued share capital of the Company. Mr. Huang Shaokang personally holds 71,092,000 shares of the Company.

### Interests in associated corporations

Director	Notes	Name of associated corporation	Nature of interests	Number and class of shares held in the associated corporation and the relevant percentage of the entire issued capital
Mr. Kwong Chak Chung	1	Comlink	Corporate	6,184 ordinary shares (30.92%)
Mr. Yip Sam Lo	2	Comlink	Corporate	10,322 ordinary shares (51.61%)
		Araucarea	Personal	1 ordinary share (100%)
Mr. Leung Yiu Chown, Desmond	3	Comlink	Personal	2,888 ordinary shares (14.44%)
Mr. Xu Jie	4	Comlink	Personal	606 ordinary shares (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 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 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 2002
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:

<b>Name of director</b>	<b>Exercise period</b>	<b>Exercise price HK\$</b>	<b>Number of shares subject to the options as at 30 September 2002</b>
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 2002 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**

As at 30 September 2002, shareholders of the Company 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:

<b>Name</b>	<b>Number of ordinary shares of the Company interested</b>
Comlink	504,217,300
Araucarea	504,217,300
China Dynamic	184,000,000

Comlink owned 504,217,300 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 504,217,300 shares of the Company owned by Comlink.

The above interests have also been disclosed as corporate interests of Mr. Yip Sam Lo and Mr. Huang Shaokang respectively 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 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 Kim Eng Capital (Hong Kong) Limited (“Kim Eng”), the Company’s sponsor that, to its best knowledge, neither Kim Eng nor its directors or employees or associates had any interests in the share capital of the Company as at 30 September 2002.

Pursuant to an agreement dated 27 July 2000 entered with the Company, Core Pacific-Yamaichi Capital Limited (“CPY”) receives fees for acting as the Company’s retained sponsor for the period from 1 July 2001 to 15 July 2002. On 15 July 2002, the sponsor agreement was terminated.

Pursuant to an agreement dated 13 June 2002 entered into between the Company and Kim Eng, Kim Eng has been appointed by the Company to replace CPY as the Company’s continuing sponsor and receives fees for the period from 15 July 2002 to 30 June 2003.

## **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 Rules 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, Mr. David Egryn Jones and Mr. Li Ming Lun.

The information contained in the Group’s first quarterly report for the three months ended 30 September 2002 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  
**Yip Sam Lo**  
*Managing Director*

Hong Kong, 13 November 2002