

**ePRO**

**EPRO LIMITED**

**易寶有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**THIRD QUARTERLY REPORT  
FOR THE NINE MONTHS ENDED 31 MARCH 2003**

# **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.

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*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

- For the nine months ended 31 March 2003, the Group's turnover decreased by 38% to approximately HK\$100 million.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$1,946,000.
- No payment of an interim dividend for the nine months ended 31 March 2003 is recommended by the Directors.

## UNAUDITED RESULTS

The board of directors (the "Directors") of EPRO LIMITED (the "Company") announced the third quarterly unaudited consolidated results of the Company and its subsidiaries (the "Group") for the nine months ended 31 March 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

## UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the three months ended 31 March		For the nine months ended 31 March	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
TURNOVER	2	<u>33,319</u>	<u>34,931</u>	<u>99,920</u>	<u>160,103</u>
Other revenue		4,344	203	6,219	1,465
Cost of goods sold		(21,167)	(23,587)	(62,067)	(112,460)
Selling and distribution costs		(1,135)	(1,200)	(4,183)	(6,033)
Administrative and other operating expenses		<u>(14,926)</u>	<u>(16,547)</u>	<u>(41,526)</u>	<u>(64,290)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES		435	(6,200)	(1,637)	(21,215)
Finance costs		(302)	(657)	(893)	(2,416)
Share of profits of associates		91	(1,334)	131	886
Share of profits of jointly controlled entity		<u>(1,178)</u>	<u>—</u>	<u>553</u>	<u>—</u>
(LOSS) BEFORE TAX		(954)	(8,191)	(1,846)	(22,745)
Tax	3	<u>(84)</u>	<u>(90)</u>	<u>(246)</u>	<u>(240)</u>
(LOSS) BEFORE MINORITY INTERESTS		(1,038)	(8,281)	(2,092)	(22,985)
Minority interests		<u>41</u>	<u>983</u>	<u>146</u>	<u>4,211</u>
NET (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>(997)</u>	<u>(7,298)</u>	<u>(1,946)</u>	<u>(18,774)</u>
Basic (loss) per share (HK cents)	4	<u>(0.09)</u>	<u>(0.74)</u>	<u>(0.18)</u>	<u>(2.0)</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 GEM since 2 August 2000.

Pursuant to a reorganization 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.

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 third quarterly report for the nine months ended 31 March 2003 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.

	For the three months ended 31 March		For the nine months ended 31 March	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group:				
Provision for the period				
— elsewhere	84	90	246	240
	<u>84</u>	<u>90</u>	<u>246</u>	<u>240</u>

The Group did not have any significant unprovided deferred tax liabilities for the nine months ended 31 March 2003. (2002: Nil)

#### **4. LOSS PER SHARE**

The calculation of basic loss per share for the three months and the nine months ended 31 March 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said periods of approximately HK\$0.99 million and HK\$1.95 million respectively and on the weighted average number of 1,104,000,000 shares in issue during the three months and the nine months ended 31 March 2003.

The calculation of basic loss per share for the three months and the nine months ended 31 March 2002 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said periods of approximately HK\$7.3 million and HK\$18.8 million respectively and on the weighted average number of 981,333,333 shares and 940,444,444 shares in issue during the three months and the nine months ended 31 March 2002 respectively.

No diluted loss per share has been presented for the three months and the nine months ended 31 March 2003 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 and the nine months ended 31 March 2002, as the Company did not have any dilutive potential ordinary shares.

#### **5. RESERVES**

Other than the net loss for the three months ended 31 March 2003 and 31 March 2002, there was no movement to or from reserves during the three months ended 31 March 2003 and 31 March 2002.

### **DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the nine months ended 31 March 2003 (2002: Nil).

### **FINANCIAL REVIEW**

For the nine months ended 31 March 2003, the Group recorded an unaudited consolidated turnover of approximately HK\$100 million, representing a 38% decrease as compared to the corresponding period in 2002. The unaudited net loss from ordinary activities attributable to shareholders for the nine months ended 31 March 2003 amounted to approximately HK\$1,946,000, representing a 90% decrease over the net loss of the corresponding period in 2002. 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**

The continuous global economic slowdown creates a difficult market sentiment for businesses. The decline in demand in the IT market, coupled with deferments in customers' decision-making, has led to cut-throat competition in the industry. The Group will carry on to leverage our experience in the industry and to look for new market expansion opportunity.

## **Systems integration services**

Telecommunication and finance are traditionally lucrative markets for system integrators, however competition has become more and more intense under the economy downturn. Enterprises' spending on IT investment continued to be adversely affected by the current freeze on capital spending. The Group has responded to this highly volatile market by delivering reliable application solutions and quality services, as well as retaining long-term client relationships.

## **IT professional services**

The Group provides comprehensive IT solution services to a number of high-potential solutions, includes a renowned IT management solution that gives companies a comprehensive analysis of their IT infrastructures, and a leading content management solution that is well-adopted by various government entities in the Mainland. In view of the increasing number of players, the Group is keen to expand our services capabilities and aims at clinching the leading position in the market.

## **IT development outsourcing**

Outsourcing in the area of IT applications support is accelerating, and it is expected that it will be the foremost means to offer alternative lower-cost labor in the future. Based on our solid experience in software development, the mutual trust we developed with clients and the growing adoption of outsourcing, the Group believes that it will continue to enjoy a stable development in the long term.

## **Comprehensive logistics solutions**

The overall market demand in logistic IT solutions remains promising. The warehouse management solution is a fast growing market as increasing number of logistics service providers and enterprises recognize the efficiency of warehouse automation. The Group aims to strengthen its market position by offering competitive prices and cost-effective logistics solutions, as well as investing more resources in sales and marketing of the solutions.

## **OUTLOOK**

In light of the weakened business climate at present, there is a tendency for IT initiatives to be put on hold or downsized considerably. Investments will tend to become more strategic and on a smaller scale, and harder to come by. It is believed that the economic recovery will remain uncertain in the foreseeable future. As such, the Group is proactively cultivating business opportunity to provide more sophisticated business and operation support services and solutions for which the demand are high.

In contrast, the Mainland China IT market looks more optimistic. According to a Dataquest research conducted in February 2003, the Chinese IT services market is forecast to reach HK\$4.9 billion in 2003, a 18.1 percent increase from 2002 revenue of HK\$4.2 billion, and is projected to reach HK\$8.9 billion in 2006, a compound annual growth rate of 19.6 percent. With board presence in the Mainland market, the Group looks forward to additional opportunities for further growth.

## DEPLOYMENT OF HUMAN RESOURCES

During the three months ended 31 March 2003, the total headcount of the Group increased from 263 to 269. Human resources were reorganized to align with the current business strategies of the Group. Engineers have continued to attend technical trainings and seminars on adopting the latest technologies.

## 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 nine months ended 31 March 2003.

## FINANCIAL ASSISTANCE AND GUARANTEES TO CERTAIN AFFILIATED COMPANIES AND ADVANCE TO AN ENTITY

As at 31 March 2003 and 31 December 2002, the Group has (a) a gross amount of approximately HK\$3.42 million due from an associated company, namely 2GoTrade.com Limited ("2GoTrade"), and; (b) has contingent liabilities of approximately HK\$1.395 million in respect of corporate guarantees for finance leases granted to 2GoTrade, which was utilized by 2GoTrade for the amount of approximately HK\$0.33 million (31 December 2002: HK\$0.55 million), aggregated to approximately HK\$4.82 million, represented approximately 26.2% of the net asset value ("Net Asset Value") (based on 30 June 2002 audited accounts) of the Group. Full provision has been made in respect of an aggregate amount of approximately HK\$3.42 million. On the other hand, as at 31 March 2003 and 31 December 2002, the Group has an amount of approximately HK\$107,000 due from a jointly-controlled entity, namely, TRS Information Technology Company Limited ("TRS") and an amount of approximately HK\$27,000 due from an associated company, namely Shanghai Harbor eLogistics Software Co. Ltd ("Shanghai Harbor"). The aggregate gross amount due from the above companies were approximately HK\$4.95 million, represented approximately 26.9% of the Net Asset Value.

On the other hand, as at 31 March 2003 and 31 December 2002, the Group had a gross amount of approximately HK\$9.6 million due from an entity - Emproson Limited, represented approximately 52% of the Net Asset Value. Full provision has been made in respect of the total amount of HK\$9.6 million. Please refer to the announcement made by the Company on 30 December 2002 for details.

Details of amount due from, guarantees given for the benefits of, the Company's affiliated companies by the Group as at 31 March 2003 are as follows:

Name of affiliated companies	Percentage of interests held by the Group %	Amounts due from affiliated companies HK\$'000	Provision for amounts due from affiliated companies HK\$'000	Guarantees given for finance leases facilities granted to an affiliated company HK\$'000	Total (after provision) HK\$'000
2GoTrade	32.46	3,423	(3,423)	1,395	1,395
Shanghai Harbor	30	27	—	—	27
TRS	36	107	—	—	107
		<u>3,557</u>	<u>(3,423)</u>	<u>1,395</u>	<u>1,529</u>

The amounts due from 2GoTrade represented amounts advanced since July 2001 in support of its daily working capital purpose and the amounts were unsecured, interest-free and have no fixed terms of repayment. In addition, the amounts due from both TRS and Shanghai Harbor were unsecured, interest-free and have no fixed terms of repayment.

The proforma combined balance sheet of the affiliated companies of the Company as at 31 March 2003, which includes the assets and liabilities of 2GoTrade, Shanghai Harbor, TRS, Connex Networks Limited, and eTradeGo Limited are summarized as below:

	<b>Balance at 31 March 2003 HK\$'000</b>	<b>The Company's attributable interest HK\$'000</b>
Fixed assets	7,434	2,536
Current assets	21,983	7,172
Current liabilities	(11,530)	(3,796)
Net current assets	<u>10,453</u>	<u>3,376</u>
Net assets	<u><u>17,887</u></u>	<u><u>5,912</u></u>

Furthermore, as at 31 March 2003, the financial assistance given to the affiliated companies of the Company remained the same as the amount as at 30 June 2002 and 31 December 2002 while utilisation of the guarantees given for finance leases facilities granted to 2GoTrade has reduced from approximately HK\$0.55 million as at 31 December 2002 to approximately HK\$0.33 million as at 31 March 2003.

## **DIRECTORS' INTERESTS IN SHARE CAPITAL**

As at 31 March 2003, 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**

<b>Director</b>	<b>Note</b>	<b>Nature of interests</b>	<b>Number and percentage of ordinary shares of the Company interested</b>
Mr. Yip Sam Lo	a	Corporate	504,217,300 (45.67%)
Mr. Huang Shaokang	b	Corporate	184,000,000 (16.67%)
		Personal	111,092,000 (10.06%)

*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 52.08% 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.



- b. 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 111,092,000 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	6,176 ordinary shares (30.88%)
Mr. Yip Sam Lo	2	Comlink	Corporate	10,416 ordinary shares (52.08%)
		Araucarea	Personal	1 ordinary share (100%)
Mr. Leung Yiu Chown, Desmond	3	Comlink	Personal	2,884 ordinary shares (14.42%)
Mr. Xu Jie	4	Comlink	Personal	524 ordinary shares (2.62%)

#### Notes:

1. Mr. Kwong Chak Chung is the sole beneficial shareholder of Kenn & K (BVI) Ltd. which, in turn, is interested in 30.88% 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 52.08% of the total issued share capital of Comlink.
3. Mr. Leung Yiu Chown, Desmond is personally interested in 14.42% of the total issued share capital of Comlink.
4. Mr. Xu Jie is personally interested in 2.62% 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 31 March 2003
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
			<u>25,725,752</u>

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 director	Exercise period	Exercise price HK\$	Number of shares subject to the options as at 31 March 2003
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
			<u>4,000,000</u>

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 nine months ended 31 March 2003 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 31 March 2003, 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:

<b>Name</b>	<b>Number of ordinary shares of the Company interested</b>
Comlink ( <i>Note 1</i> )	504,217,300
Araucarea ( <i>Note 1</i> )	504,217,300
China Dynamic ( <i>Note 2</i> )	184,000,000

*Notes:*

1. Comlink owned 504,217,300 ordinary shares of the Company. Araucarea owned 52.08% 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 in the above section headed "Directors' interests in share capital".

2. The above interest of China Dynamic has also been disclosed as corporate interest of Mr. Huang Shaokang 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, neither Kim Eng nor its directors or employees or associates had any interests in the share capital of the Company as at 31 March 2003.

Pursuant to the agreement dated 13 June 2002 entered into between the Company and Kim Eng. Kim Eng has been appointed by the Company to replace Core Pacific-Yamaichi Capital Limited 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 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, Mr. David Egryn Jones and Mr. Li Ming Lun.

The information contained in the Group’s third quarterly report for the nine months ended 31 March 2003 has not been audited but has been reviewed by the Committee, who was of the opinion that such report complied with the applicable requirements and that adequate disclosures had been made.

By order of the Board  
**Yip Sam Lo**  
*Managing Director*

Hong Kong, 13 May 2003