

*e*PRO

EPRO LIMITED

(Incorporated in the Cayman Islands with limited liability)

2003 *Annual Report*

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 of the Stock Exchange 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 at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

CONTENTS

CHAIRMAN'S STATEMENT	1
REVIEW OF OPERATIONS	3
CORPORATE INFORMATION	7
DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES	8
NOTICE OF ANNUAL GENERAL MEETING	11
REPORT OF THE DIRECTORS	14
REPORT OF THE AUDITORS	28
CONSOLIDATED	
PROFIT AND LOSS ACCOUNT	29
BALANCE SHEET	30
STATEMENT OF CHANGES IN EQUITY	32
CASH FLOW STATEMENT	34
COMPANY	
BALANCE SHEET	37
NOTES TO FINANCIAL STATEMENTS	38

CHAIRMAN'S STATEMENT

The fiscal year ended 30 June 2003 remains a challenging one for the Group. We and our counterparts are still suffering from the stagnant economic circumstances. However, our team is proud to report to our shareholders that we have been able to overcome the challenges and are confident of charting the right course for our business. Over the year, our cost management has been significantly improved and the scope of our business has been expanded into areas of high potential growth. Our determination was made to focus on the Mainland of China market and solidify the strategic direction in the IT industry. Although a full revival of the industry is still yet to come, we believe we are in the right direction to set our business back to a path of positive return for our shareholders.

BUSINESS REVIEW

Systems integration services

With an effort to enhance our customer-oriented systems integration services and long term customer relationships, the Group is dedicated to reinforce solutions quality. One of our major achievements is the accreditation of Level 2 Computer Information Systems Integrator Qualification from the Ministry of Information Industry of the People's Republic of China to our Guangzhou operation, signifying our guaranteed quality of solutions on an increasingly complex technology projects.

Professional IT services

Based on the experiences gained from IT infrastructure technologies, the Group provides professional service for IT management solutions, which are now in accelerating demand in the Mainland of China market. The Group has signed contracts with government entities and corporation to reengineer, upgrade and construct their IT platforms, as well as to integrate their current IT resources and maximize their utilization.

IT development outsourcing services

Leveraging the Group's investment and dedication in the past for the expansion of the IT development outsourcing services business, the division has been well-recognized as a local contender for IT development outsourcing projects by Japanese patrons. This uplift will certainly open more opportunities for the Group in the future.

Due to the high development cost in Japan, the Group expects the market demand of offshore outsourcing will flourish, especially to Mainland of China where IT professionals provide quality services and labour costs is relatively low.

Comprehensive logistics solutions

Building on top of its market leadership in logistics solutions and related services, our logistics application solutions business has established a strong market position as a reliable solutions provider. We foresee the forthcoming demand in these markets will gradually enable our logistics solutions and services to achieve an even better performance.

Prospect

With the lack of positive signs in the industry and continuous crisis of confidence, the Directors remain prudent on the business environment and hence the IT industry in general in the coming year. However, based on the improving market sentiment in Hong Kong and the strong GDP growth of the Mainland of China, the Directors believe that there is a higher visibility for the Group to achieve improved performance in the near term.

The Group has set up branches in the major cities of China including Guangzhou, Shanghai and Beijing for over a decade. With synergy effect, these offices are well recognized by local customers and have shown satisfying performance throughout the years. To capitalize on the growing trend and tremendous business opportunities in the Mainland of China, we will be more focused and will commit further resources to this region. The forthcoming years are expected to be continuously promising and fruitful ones.

Leveraging on management's experience and in-dept knowledge of the market, we remain confident and conservatively optimistic in the Group's long-term development. Looking forward, the Group is committed to become a major player in the industry by revamping its marketing strategies, investing in product research and development, asserting prudent cost control, providing value-oriented services to customers and maintaining steady business growth to improve profitability and enhance shareholder value.

Appreciation

On behalf of the Directors, I would like to take this opportunity to thank our business partners, customers and shareholders for their continuous support, and extend my appreciation to our management team and all valued staff members for their contribution and dedication in the past.

On behalf of the Board

Huang Shaokang

Chairman

19 September 2003

REVIEW OF OPERATIONS

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the financial year ended 30 June 2003, the Group recorded a turnover of HK\$126,494,000, representing a decrease of 38% from last year. The decrease in turnover resulted from the general weak demand in goods and services in the IT markets.

The gross profit margin for the Group increased from 25% in 2002 to 38% in 2003, as more value-added services were provided to the customers with less hardware product resale.

The total operating expenses were HK\$54,719,000 for 2003 (2002: HK\$136,078,000), representing a decrease of 60% compared to previous year primarily as a result of the recovery of doubtful debts of HK\$10,868,000 provided in the previous year, while the aggregate of other provision of HK\$7,670,000 (2002: HK\$47,567,000) was made in the current year. Under the difficult operating environment, the Group had exercised tight measures on cost control policies.

The audited net profit from ordinary activities attributable to shareholders amounted to approximately HK\$3,290,000 for the year ended 30 June 2003. In comparison, the Group recorded an audited net loss from ordinary activities attributable to shareholders of approximately HK\$71,871,000 for the year ended 30 June 2002.

Comments on Segment Information

In accordance with the Group's internal financial reporting, the Group has chosen business and geographical segments information as the reporting formats.

Segment turnover and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Approximately 45% and 52% (2002: 41% and 57%) of the Group's turnover were derived from Hong Kong and Mainland of China respectively. Whereas provision of professional IT contract represented 100% (2002: 95%) and distribution of computer equipment represented nil (2002: 5%) of the profit (2002: loss) from operating activities of the Group for the year ended 30 June 2003.

Capital Structure

During the year, the Group generally finances its operations with internally generated cashflows, finance leases, banking facilities and loans from director and related company. The Group continued to exert stringent control over treasury policies. The Company intends to finance the Group's future operations, capital expenditure and the capital requirement with the existing banking and finance lease facilities.

During the year ended 30 June 2003, the interest rate of banking and finance leases facilities was charged at the range of Hong Kong prime rate +/- 1% (2002: the interest rate of banking and finance leases facilities was charged at the range of Hong Kong prime rate +/- 1%).

As at 30 June 2003, the amount of short term bank and other borrowings of the Group which will be repayable within a year was HK\$20,278,000 (2002: HK\$31,181,000) and the amount of long term bank and other borrowings of the Group which will be repayable more than a year was HK\$4,679,000 (2002: HK\$6,019,000).

For the year ended 30 June 2003, there was no material change in the capital structure of the Company.

Charges on Group Assets

The banking facilities of the Group are secured by:

- (i) mortgages over the Group's land and buildings situated in Hong Kong, which have an aggregate carrying value at 30 June 2003 of HK\$9,400,000 (2002: HK\$9,400,000) ; and
- (ii) pledged deposits in the aggregate amount of HK\$9,719,000 (2002: HK\$7,850,000).

Material Acquisitions/Disposals

On 27 March 2003, the Group entered into an agreement with Beijing Xinke Interactive Technology Development Limited ("Beijing Xinke"). Beijing Xinke agreed to acquire and the Group agreed to dispose of 36% of the total registered capital of TRS Information Technology Company Limited ("TRS") representing the Group's entire equity interest in TRS for a cash consideration of RMB12.5 million (approximately HK\$11.7 million), resulting in a net gain on disposal of HK\$8,994,000 for the year.

On 25 June 2003, the Group entered into an agreement with Shanghai Port Container (Macau) Company Limited ("Shanghai Port Container") pursuant to which Shanghai Port Container agreed to acquire and the Group agreed to dispose of 30% of the total registered capital of Shanghai Harbor e-Logistics Software Company Limited ("Shanghai Harbor") representing the Group's entire equity interest in Shanghai Harbor for a cash consideration of approximately RMB3 million (approximately HK\$2.82 million), which generated a net gain of HK\$14,000 for the year.

The Group had no material acquisitions during the year under review.

REVIEW OF OPERATIONS (CONTINUED)

Significant Investment

The Group has not held any significant investment as at 30 June 2003.

Final Dividend

The Directors do not recommend the payment of a final dividend by the Company for the financial year ended 30 June 2003 (2002: Nil).

Liquidity, Financial Resources and Gearing Ratio

During the year under review, the Group financed its operations by internally generated cash flow, banking facilities and finance leases provided by banks and finance companies, and loans from a related company and a director.

As at 30 June 2003, the Group's consolidated shareholders' funds, current assets and net current assets were HK\$19,133,000 (2002: HK\$17,506,000), HK\$75,961,000 (2002: HK\$89,038,000) and HK\$9,895,000 (2002: HK\$5,617,000) respectively. The increase in net current assets was mainly due to the profit for the year.

In respect of the Group's current assets of HK\$75,961,000 as at 30 June 2003, trade receivable (net of provision for doubtful debts) accounted for 28% whilst pledged deposit, cash and cash equivalents accounted for about 41%.

As at 30 June 2003, the Group's consolidated bank overdrafts and short-term loans (interest-bearing bank loans and other borrowings) were HK\$5,260,000 (2002: HK\$8,962,000) and HK\$15,018,000 (2002: HK\$22,219,000) respectively.

As at 30 June 2003, the Group's long term borrowings loans (interest-bearing bank and other borrowings) totalled HK\$4,679,000 (2002: HK\$6,019,000) of which HK\$1,250,000 matures in 2004 and HK\$2,919,000 is due for repayment in 2005 to 2007.

As at 30 June 2003, the Group's pledged deposit and cash and cash equivalents amounted to HK\$31,500,000 (2002: HK\$43,770,000).

As at 30 June 2003, the Group's gearing ratio (basis: total liabilities over total assets) was 79% (2002: 82%).

All of the Group's pledged deposit, cash and cash equivalents, bank debts, other borrowings and obligation under finance leases were denominated in Hong Kong dollars, United States dollars and Renminbi.

Although the gearing ratio is high at 79%, the Directors believe the Group has sufficient resources to discharge its debts and to satisfy its commitments and working capital requirements.

Foreign Exchange Exposure

The Group mainly earns revenue and incurs costs in Hong Kong dollars and Renminbi. The Directors consider the impact of foreign exchange exposure of the Group is minimal. As at 30 June 2003, no related hedges were made by the Group.

Contingent Liabilities

- (a) The Company had contingent liabilities in respect of corporate guarantees for banking and finance lease facilities granted to certain subsidiaries in the aggregate amount of HK\$28,300,000 (2002: HK\$31,300,000). At the balance sheet date, such facilities were utilised by the subsidiaries to the extent of HK\$10,648,000 (2002: HK\$13,055,000).
- (b) The Group had contingent liabilities in respect of corporate guarantees for finance lease facilities granted to an associate in the aggregate amount of HK\$1,395,000 as at 30 June 2003.
- (c) At the balance sheet date, the Group had executed performance bonds of HK\$8,880,000 (2002: HK\$7,536,000) in respect of certain services provided by the Group.

Employees and Remuneration Policies

As at 30 June 2003, the total number of full time employees of the Group was 260 (2002: 200). The increase in employees was mainly due to the expansion of outsourcing services in Shanghai. Employees are remunerated according to their performance and working experience. In addition to basic salaries and participation in the mandatory provident fund scheme, staff benefits include medical scheme and share options. Share options may be granted to employees based on performance valuation in order to provide incentive and reward to them.

Purchase, Sale or Redemption of the Company's Listed Securities

For the year ended 30 June 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries of the Company's listed securities.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Director

HUANG Shaokang (*Chairman*)
YIP Sam Lo (*Managing Director*)
LEUNG Yiu Chown, Desmond
XIN Yi

Non-executive Director

KWONG Chak Chung

Independent Non-executive Directors

David Egryn JONES
LI Ming Lun

COMPANY SECRETARY

WONG Huk Yung, Hudson, AHKSA

QUALIFIED ACCOUNTANT

WONG Huk Yung, Hudson, AHKSA

COMPLIANCE OFFICER

YIP Sam Lo

AUTHORISED REPRESENTATIVES

YIP Sam Lo
LEUNG Yiu Chown, Desmond

AUDIT COMMITTEE

YIP Sam Lo
LI Ming Lun (*Chairperson*)
David Egryn JONES

LEGAL ADVISERS TO THE COMPANY

Koo And Partners

AUDITORS

Ernst & Young
Certified Public Accountants

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
British West Indies
Cayman Islands

PLACE OF BUSINESS

1608, 16th Floor, Nanyang Plaza
57 Hung To Road
Kwun Tong
Kowloon
Hong Kong

COMPANY WEBSITE

<http://www.epro.com.hk>

SHARE REGISTRARS AND TRANSFER OFFICES

Principal registrar

Bank of Butterfield International (Cayman) Limited
P.O. Box 705 Butterfield House
Fort Street
George Town
Grand Cayman
British West Indies
Cayman Islands

Branch registrar

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank
The Shanghai Commercial Bank
The Hong Kong and Shanghai Banking Corporation Limited

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and of the senior management of the Group are set out below.

DIRECTORS

Executive Directors

Mr. HUANG Shaokang (黃少康), aged 38, is the chairman of the Group. He joined the Group in 2002 and is responsible for overall strategy and planning of the Group. Mr. Huang has over 12 years of experience in the management of various companies which invest mainly on the IT and electronic industry. He has solid experiences in trade and business in the People's Republic of China, Singapore and Hong Kong. Mr. Huang studies in the Physics Department in the University of Hui Zhou, the People's Republic of China from 1983 to 1986.

Mr. YIP Sam Lo (葉三閏), aged 56, is the managing director and president of the Group. He joined the Group in 1992 and is responsible for the overall management and development of the Group. Mr. Yip has over 21 years of experience in the IT industry. Prior to joining the Group, he was the regional manager of a major U.S. computer company. Mr. Yip graduated from the University of Texas, the US with a Bachelor's degree in Mathematics and from the Texas A & M University, the US with a Master's degree in Computing Science.

Mr. LEUNG Yiu Chown, Desmond (梁耀燦), aged 50, joined the Group in 1995 and has over 19 years of experience in the IT industry, and he was the head of the software consultancy in the Far East division of a major US computer company before joining the Group. Mr. Leung graduated from the University of Washington, the US with a Bachelor's degree in Electrical Engineering.

Mr. XIN Yi (辛毅), aged 32, is a vice president and the director of IT development outsourcing services of the Group. Mr. Xin has 10 years of experience in engineering and management, and he was previously a general manager of one of the PRC offices of Legend Holdings Limited. He holds a Bachelor's degree in Computer Science from Shan Dong University, the People's Republic of China.

Non-executive Director

Mr. KWONG Chak Chung (鄺澤松), aged 53, joined the Group in 1993 and has over 28 years of experience in the IT industry. Prior to joining the Group, he worked for the Hong Kong and China division of a major US computer company for 10 years. Mr. Kwong graduated from the University of Iowa State, the US with a Bachelor's degree in Electrical Engineering and a Master's degree in Computing Science. He also holds a Master's degree in Business Administration from the Chinese University of Hong Kong.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

DIRECTORS *(Continued)*

Independent Non-executive Directors

Mr. David Egryn JONES, aged 59, has more than 26 years of experience in the IT industry, including 18 years as a senior design engineer for a multinational corporation. He is an expert in Data Communications and has extensive experience in the design and implementation of large-scale information systems in the US, Canada, UK and Middle Eastern countries. Mr. Jones holds a Bachelor's degree in Physics (honors) from the University of Wales, United Kingdom.

Mr. LI Ming Lun (李名麟), aged 55, is the executive vice president of a private IT company, and has held several key positions in technology development companies which are affiliated to companies listed on the New York Stock Exchange, including Nortel Networks and Digital Equipment Corporation. Mr. Li holds a Bachelor's degree in Mathematics from the Chinese University of Hong Kong and a Master's degree in Computer Science from Indiana University, USA. Mr. Li is also a member of the IT Committee of the HKSAR Government's Innovative Technology Committee.

SENIOR MANAGEMENT

Mr. LIU Lin (柳林), aged 33, is the general manager of the Group's Shanghai operation. He joined the company in 2002 and had taken up various senior positions in IT companies in the People's Republic of China and the United States before joining the Group. Mr. Liu holds a Bachelor of Science in Computer Science from the Beijing University of Posts & Telecommunications and a Mater of Science degree in Computer Science from Columbia University, the United States.

Mr. CHIU Sin Ping, Patrick (趙善平), aged 45, is the general manager of the Hong Kong operation. He joined the Group in 2001. Prior to joining the Group, Mr. Chiu worked in a renowned multinational consulting firm and was responsible for project management and enterprise transformation for various business sectors. Mr. Chiu has over 20 years of experience in the IT field of the Asia-Pacific market. He holds a Master's degree in Applied Science, Information Science from the University of Technology, Australia.

Mr. WONG Tak, Lawrence (黃德), aged 45, is the general manager of the logistics solutions of the Group. He joined the Group in 1996 and is responsible for the business development and management of the Group's logistics solutions business. He has over 20 years of experience in the IT industry. Prior to joining the Group, Mr. Wong operated his own business in the development of radio frequency data communication systems, and had also worked in the technical departments of several major IT companies in Hong Kong.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES (CONTINUED)

SENIOR MANAGEMENT *(Continued)*

Mr. HE Hua Guang (何華光), age 37, is the general manager of professional services of the Group. He joined the Group in 1997 and is responsible for the development and management of the Group's provision of IT professional services business. Mr. He has over 11 years of experience in the IT field. He graduated from the Harbin Institute of Technology, the People's Republic of China, with a Bachelor's degree in Mechanical & Electronic Engineering and a Master's degree in Engineering Management.

Mr. CHOW Siu Kwong, Daniel (周兆光), aged 33, is the general manager of IT development outsourcing services of the Group. He joined the Group in 2000 and is responsible for development of Group's software technology and methodology. Mr. Chow has 11 years of experience in the IT industry and has worked for key IT solution providers before joining the Group. He graduated from Victoria University of Technology, Australia, with a Bachelor's degree and a Master's degree in Computer Science.

Mr. WONG Huk Yung, Hudson (王克戎), aged 37, is the financial controller of the Group. He joined the Group in 2000 and is responsible for the accounting and finance of the Group. He worked in a multinational corporate before joining the Group and has solid experience in auditing, finance and business management. Mr. Wong holds a Bachelor's degree in Economics and Accounting from the University of Reading, England.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the Members of EPRO LIMITED (the “Company”) will be held at Fung Shui Room II, 6/F, The Marco Polo Hongkong Hotel, Harbour City, 3 Canton Road, Kowloon, Hong Kong on Monday, 27 October 2003 at 10:00 a.m. for the following purposes:

1. To receive and consider the audited consolidated financial statements of the Company and its subsidiaries and reports of the directors and of the auditors for the year ended 30 June 2003;
2. To elect directors and to authorise the Board of Directors to fix directors’ remuneration;
3. To re-appoint auditors and to authorise the Board of Directors to fix auditors’ remuneration;
4. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (b) below, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all powers of the Company to purchase shares of HK\$0.01 each in the capital of the Company on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or any other stock exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for such purpose, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the total nominal amount of shares which the Directors are authorised to purchase pursuant to the approval in paragraph (a) above shall not exceed 10% of the total nominal amount of the shares in issue as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (c) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meetings; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held”;

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

5. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT:

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company (the “Directors”) during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares of HK\$0.01 each in the capital of the Company and to make or grant offers, agreements and options which would or might require the exercise of such powers be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) above shall authorise the Directors during the Relevant Period (as hereinafter defined) to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period (as hereinafter defined);
- (c) the total nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to options or otherwise) and issued by the Directors pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) an issue of shares as scrip dividend pursuant to the Articles of Association of the Company from time to time; or (iii) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company, shall not in total exceed 20% of the total nominal amount of the issued share capital of the Company as at the date of passing of this Resolution and the said approval shall be limited accordingly; and
- (d) for the purpose of this Resolution, “Relevant Period” means the period from the date of the passing of this Resolution until whichever is the earliest of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders of the Company in general meetings; and
 - (iii) the expiration of the period within which the next annual general meeting of the Company is required by the Articles of Association of the Company or any applicable laws to be held; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors to the holders of shares of the Company whose names appear on the register of members on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient

NOTICE OF ANNUAL GENERAL MEETING (CONTINUED)

in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of any relevant jurisdiction, or the requirements of any recognised regulatory body or any stock exchange in any territory outside Hong Kong applicable to the Company).”; and

6. To consider as Special Business and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“**THAT** subject to the passing of the Resolutions numbered 4 and 5 set out in the notice of this meeting, the general mandate granted to the Directors pursuant to Resolution numbered 5 set out in the notice of this meeting and for the time being in force to exercise the powers of the Company to allot shares and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby extended by the addition thereto of the total nominal amount of shares in the capital of the Company repurchased by the Company under the authority granted pursuant to Resolution numbered 4 set out in the notice of this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the total nominal amount of the issued share capital of the Company as at the date of passing of this Resolution.”.

By order of the Board

YIP Sam Lo

Managing Director

Hong Kong, 24 September 2003

Notes:

1. A member of the Company entitled to attend and vote at the above-mentioned Annual General Meeting may appoint more than one proxy to attend and vote on his behalf. A proxy need not be a member of the Company. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
2. In order to be valid, the form of proxy must be deposited together with a power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, with the share registrar of the Company in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time fixed for holding the meeting.
3. The register of members of the Company will be closed from Wednesday, 22 October 2003 to Monday, 27 October 2003, both days inclusive, during which period no transfer of shares of the Company will be effected. All transfer document accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 21 October 2003.
4. The Annual Report containing this notice together with a circular setting out further information regarding Resolutions numbered 4 to 6 above will be despatched to the shareholders of the Company as soon as practicable.

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS

The Group's profit for the year ended 30 June 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 29 to 85.

SUMMARY FINANCIAL INFORMATION

The Company was incorporated in the Cayman Islands on 15 March 2000 and became the holding company of the companies now comprising the Group as a result of the Group reorganisation (the "Reorganisation"), on 8 July 2000. Further details of the Reorganisation are set out in the prospectus of the Company dated 27 July 2000.

To ensure consistency of presentation and for comparison purposes, the consolidated results for the four years ended 30 June 2002 and the assets and liabilities and minority interests of the Group as at 30 June 2002, 2001, 2000 and 1999 are presented below on the basis that the current Group structure had been in existence throughout the said period. The summary financial information as at 30 June 2002, 2001, 2000 and 1999 and for the four years then ended has been extracted from the Company's annual reports for the respective years ended 30 June 2002, 2001 and 2000 and its prospectus dated 27 July 2000, respectively, and reclassified as appropriate.

The amounts for each year in the five year summary have been adjusted for the effects of the retrospective changes in accounting policies affecting employee benefits and discontinuing operations, as detailed in note 2 to the financial statements.

REPORT OF THE DIRECTORS (CONTINUED)

SUMMARY FINANCIAL INFORMATION (Continued)

RESULTS

		Year ended 30 June			
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)		(Restated)
TURNOVER					
Continuing operations	126,494	177,129	348,532	297,525	218,346
Discontinued operations	—	25,359	82,106	71,897	43,019
	<u>126,494</u>	<u>202,488</u>	<u>430,638</u>	<u>369,422</u>	<u>261,365</u>
Other revenue and gains	9,485	11,872	4,218	712	591
Cost of goods sold	(78,472)	(151,130)	(349,498)	(275,885)	(185,038)
Selling and distribution costs	(2,591)	(7,365)	(28,090)	(17,583)	(8,106)
Technical expenses	(22,892)	(23,795)	(26,926)	(23,738)	(22,779)
Administrative expenses	(31,201)	(57,830)	(66,227)	(33,745)	(35,369)
Other operating income/(expenses), net	<u>1,965</u>	<u>(47,088)</u>	<u>(8,508)</u>	<u>(338)</u>	<u>(1,443)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES					
	2,788	(72,848)	(44,393)	18,845	9,221
Deficit on revaluation of leasehold land and buildings	—	(820)	(1,020)	(3,286)	—
Finance costs	(1,237)	(2,933)	(3,931)	(3,328)	(2,887)
Share of profits/(losses) of:					
A jointly-controlled entity	3,779	(1,378)	—	—	—
Associates	<u>(138)</u>	<u>366</u>	<u>164</u>	<u>55</u>	<u>18</u>
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	5,192	(73,032)	(26,990)	10,880	7,200
Discontinued operations	—	(4,581)	(22,190)	1,406	(848)
	<u>5,192</u>	<u>(77,613)</u>	<u>(49,180)</u>	<u>12,286</u>	<u>6,352</u>
Tax					
Continuing operations	(2,044)	(430)	(1,080)	(2,430)	(1,175)
Discontinued operations	—	—	—	—	—
	<u>(2,044)</u>	<u>(430)</u>	<u>(1,080)</u>	<u>(2,430)</u>	<u>(1,175)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS					
	3,148	(78,043)	(50,260)	9,856	5,177
Minority interests	<u>142</u>	<u>6,172</u>	<u>4,029</u>	<u>(1,262)</u>	<u>(1,059)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS					
	<u><u>3,290</u></u>	<u><u>(71,871)</u></u>	<u><u>(46,231)</u></u>	<u><u>8,594</u></u>	<u><u>4,118</u></u>

REPORT OF THE DIRECTORS (CONTINUED)

SUMMARY FINANCIAL INFORMATION *(Continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 June				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Total assets	89,878	108,876	229,161	189,812	137,261
Total liabilities	(70,745)	(89,440)	(150,679)	(135,539)	(100,649)
Minority interests	—	(1,930)	(8,505)	(9,486)	(4,224)
	19,133	17,506	69,977	44,787	32,388

FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefore, are set out in notes 27 and 28 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity set out on pages 32 to 33 of this annual report, respectively.

REPORT OF THE DIRECTORS (CONTINUED)

DISTRIBUTABLE RESERVES

The Company's share premium account, in accordance with the Companies Law (2000 Revision) of the Cayman Islands, is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares. At 30 June 2003, the Company did not have any reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 31% of the total sales for the year and the largest customer included therein amounted to 7%.

Purchases from the Group's five largest suppliers accounted for approximately 37% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 15%.

None of the Directors of the Company or any of their associates or any shareholders, which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive directors:

Mr. Huang Shaokang (*Chairman*)

Mr. Yip Sam Lo (*Managing Director*)

Mr. Leung Yiu Chown, Desmond

Mr. Xin Yi

Mr. Xu Jie

Non-executive directors:

Mr. Kwong Chak Chung

Mr. David Egryn Jones*

Mr. Li Ming Lun* (appointed on 9 September 2002)

Ms. Tai Kar Ping, Noreen* (resigned on 9 September 2002)

* *Independent non-executive directors*

Subsequent to the balance sheet date, on 25 August 2003, Mr. Xu Jie resigned as a director of the Company.

DIRECTORS *(Continued)*

In accordance with article 87 of the Company's articles of association, Mr. David Egryn Jones will retire and, being eligible, will offer himself for re-election at the Company's forthcoming annual general meeting.

The independent non-executive Directors are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's articles of association.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 10 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Messrs. Kwong Chak Chung, Yip Sam Lo, Leung Yiu Chown, Desmond and Xu Jie entered into service contracts with the Company for a terms of three years commencing on 1 July 2000 which are subject to termination by either party giving not less than six months' written notice to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 33 to the financial statements, no Director had a material interest, in any contract of significance to the business of the Group to which the Company, or any of its holding companies and subsidiaries was a party during the year.

REPORT OF THE DIRECTORS (CONTINUED)

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE

A. DIRECTORS AND CHIEF EXECUTIVES

As at 30 June 2003, the interests or short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) disclosed in accordance with the GEM Listing Rules were as follows:-

I. DIRECTORS

1. Aggregate long position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares and in debentures of the Company and its associated corporation(s)
 - (a) Interests in shares (other than pursuant to equity derivatives such as share options, warrants or convertible bonds)
 - (i) the Company

Name of director	Capacity	Number of ordinary shares interested	Notes	Percentage of issued share capital
Mr. Huang Shaokang	Beneficial owner	111,092,000	1	10.06%
	Interest in corporation	184,000,000	1	16.67%
Mr. Yip Sam Lo	Interest in corporation	262,577,201	2	23.78%
Mr. Kwong Chak Chung	Interest in corporation	101,168,489	3	9.16%
Mr. Leung Yiu Chown, Desmond	Beneficial owner	47,251,809		4.28%
Mr. Xu Jie	Beneficial owner	13,219,801		1.19%

Notes:

1. Mr. Huang Shaokang was deemed to be interested in 184,000,000 shares of the Company which were held through China Dynamic Enterprises Limited (“China Dynamic”), a corporation wholly-owned by Mr. Huang. Apart from the above, Mr. Huang personally held 111,092,000 shares of the Company.
2. Mr. Yip Sam Lo was deemed to be interested in 262,577,201 shares of the Company which were held through Araucarea Holdings Ltd. (“Araucarea”), a corporation wholly-owned by Mr. Yip.
3. Mr. Kwong Chak Chung was deemed to be interested in 101,168,489 shares of the Company which were held through Kenn & K (BVI) Limited, a corporation wholly-owned by Mr Kwong.

REPORT OF THE DIRECTORS (CONTINUED)

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE (Continued)

- (ii) Associated corporation - EPRO Systems Limited (an indirect wholly-owned subsidiary of the Company)

Name of director	Capacity	Number of non-voting deferred shares interested in associated corporation	Notes	Percentage of total issued non-voting deferred shares
Mr. Yip Sam Lo	Interest in corporation	5,112,991	1	33.86%
Mr. Kwong Chak Chung	Interest in corporation	3,063,191	2	20.28%
Mr. Leung Yiu Chown, Desmond	Beneficial owner	1,430,517		9.47%
Mr. Xu Jie	Beneficial owner	300,000		1.98%

Notes:

- Mr. Yip Sam Lo was deemed to be interested in 5,112,991 non-voting deferred shares of EPRO Systems Limited which were held through Araucarea, a corporation wholly-owned by Mr. Yip.
- Mr. Kwong Chak Chung was deemed to be interested in 3,063,191 non-voting deferred shares of EPRO Systems Limited which were held through Kenn & K Investments Limited, a corporation wholly-owned by Mr. Kwong.

- (b) Interests in debentures

The Company or its associated corporations had not issued any debentures.

- (c) Interests in underlying shares (in respect of positions held pursuant to equity derivatives)

- (i) the Company (physically settled equity derivatives)

Name of director	Capacity	Number of underlying ordinary shares interested	Percentage of issued share capital
Mr. Kwong Chak Chung	Beneficial owner	8,212,041	0.74%
Mr. Yip Sam Lo	Beneficial owner	13,699,083	1.24%
Mr. Leung Yiu Chown, Desmond	Beneficial owner	4,814,628	0.43%
Mr. Xu Jie	Beneficial owner	3,000,000	0.27%

REPORT OF THE DIRECTORS (CONTINUED)

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE (Continued)

The following information of share options granted to the Directors, pursuant to the share option schemes under Chapter 23 of the GEM Listing Rules is required to be disclosed pursuant to Rule 18.17A(1) of the GEM Listing Rules:-

(1) Pre-IPO share option plan

Name of grantee	Number of outstanding share options as at 1 July 2002	Date of grant*	Exercise period	Exercise price per share HK\$	Number of outstanding share options as at 30 June 2003
Mr. Kwong Chak Chung	8,212,041	26 July 2000	2 February 2001 to 23 July 2010	0.70	8,212,041
Mr. Yip Sam Lo	13,699,083	26 July 2000	2 February 2001 to 23 July 2010	0.70	13,699,083
Mr. Leung Yiu Chown, Desmond	3,814,628	26 July 2000	2 February 2001 to 23 July 2010	0.70	3,814,628
	<u>25,725,752</u>				<u>25,725,752</u>

(2) Share option scheme

Name of grantee	Number of outstanding share options as at 1 July 2002	Date of grant*	Exercise period	Exercise price per share HK\$	Number of outstanding share options as at 30 June 2003
Mr. Leung Yiu Chown, Desmond	1,000,000	22 November 2000	22 November 2000 to 21 November 2003	0.38	1,000,000
Mr. Xu Jie	1,000,000	22 November 2000	22 November 2000 to 21 November 2003	0.38	1,000,000
	2,000,000	23 March 2001	23 March 2001 to 22 March 2004	0.228	2,000,000
	<u>3,000,000</u>				<u>3,000,000</u>

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE *(Continued)*

(ii) Associated Corporation

No such interest was reported by the Directors.

2. Aggregate short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares and in debentures of the Company and its associated corporation(s)

No such short position was reported by the Directors.

II. CHIEF EXECUTIVES

1. Aggregate long position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares and in debentures of the Company and its associated corporation(s)

No such interest was reported by any chief executive of the Company.

2. Aggregate short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares and in debentures of the Company and its associated corporation(s)

No such short position was reported by any chief executive of the Company.

In addition to the above, some Directors are holding shares in the Hong Kong subsidiaries of the Company in a non-beneficial interest to meet the minimum shareholder requirement.

Saved as disclosed above, as at 30 June 2003, none of the Directors or the chief executives of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interests which are required to be 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.

REPORT OF THE DIRECTORS (CONTINUED)

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE (Continued)

B. SUBSTANTIAL SHAREHOLDERS

As at 30 June 2003, the interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

1. Aggregate long position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company
 - (a) Interests in shares (other than pursuant to equity derivatives such as share options, warrants or convertible bonds)

Name	Capacity	Number of ordinary shares interested	Notes	Percentage of issued share capital
China Dynamic	Beneficial owner	184,000,000	1	16.67%
Ms. Yip Chi Yu	Interest of spouse	295,092,000	2	26.73%
Araucarea	Beneficial owner	262,577,201	3	23.78%
Ms. Tai Fung	Interest of spouse	262,577,201	4	23.78%
Kenn & K (BVI) Limited	Beneficial owner	101,168,489	5	9.16%
Ms. Lau King Sau, Kenzie	Interest of spouse	101,168,489	6	9.16%

Notes:

1. The interest of China Dynamic has also been disclosed as interests of Mr. Huang Shaokang in the above paragraph under “Disclosure of interests under Part XV of the Securities and Futures Ordinance - Directors and Chief Executives”.
2. Ms. Yip Chi Yu was deemed to be interested in the 295,092,000 shares through interests of her spouse, Mr. Huang Shaokang.
3. The interest of Araucarea has also been disclosed as interests of Mr. Yip Sam Lo in the above paragraph under “Disclosure of interests under Part XV of the Securities and Futures Ordinance - Directors and Chief Executives”.
4. Ms. Tai Fung was deemed to be interested in the 262,577,201 shares through interests of her spouse, Mr. Yip Sam Lo.
5. The interest of Kenn & K (BVI) Limited has also been disclosed as interests of Mr. Kwong Chak Chung in the above paragraph under “Disclosure of interests under Part XV of the Securities and Futures Ordinance - Directors and Chief Executives”.
6. Ms. Lau King Sau, Kenzie was deemed to be interested in the 101,168,489 shares through interests of her spouse, Mr. Kwong Chak Chung.

DISCLOSURE OF INTERESTS UNDER PART XV OF THE SECURITIES AND FUTURES ORDINANCE *(Continued)*

- (b) Interests in underlying shares (in respect of positions held pursuant to equity derivatives)

No such interest was reported to the Company.

2. Aggregate short position in shares and (in respect of positions held pursuant to equity derivatives) underlying shares of the Company

No such interest was reported to the Company.

Saved as disclosed above, no person, other than the Directors whose interests are set out in the above paragraph under “Disclosure of interests under Part XV of the Securities and Futures Ordinance - Directors and Chief Executives”, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Apart from as disclosed in the share option scheme in note 28 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debenture 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 directors of the Company to acquire such rights in any other body corporate.

SHARE OPTION SCHEMES

Due to the adoption of Statement of Standard Accounting Practice No. 34 “Employee benefits” during the year, most of the detailed disclosures relating to the Company’s share option schemes have been moved to note 28 to the financial statements.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, none of the Directors who are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the GEM Listing Rules.

REPORT OF THE DIRECTORS (CONTINUED)

ADVANCES TO ENTITIES

As at 30 June 2003, the Group had a trade receivable balance and a loan advance of approximately HK\$6,512,000 and HK\$4,288,000, respectively, due from an entity – Emproson Limited (“Emproson”). The total receivable balances from Emproson of HK\$10,800,000, in aggregate, represented approximately 56.4% of the Group’s net asset value as at 30 June 2003. The trade receivable balance of HK\$6,512,000 is unsecured, interest-free and has a credit term of 45 days while the loan advance of HK\$4,288,000 is unsecured, interest-free and has no fixed terms of repayment. A full provision of HK\$10,800,000 for these receivable balances has been made as, in the opinion of the directors, the recoverability of the advances was in doubt as a result of an assessment of past payment history and knowledge of the financial position of Emproson.

In addition, as at 30 June 2003, the Group had a non-trade receivable balance of approximately HK\$8,920,000, due from an entity – Beijing Xinke Interactive Technology Development Limited (“Beijing Xinke”). The non-trade receivable balance from Beijing Xinke of HK\$8,920,000 represented approximately 46.6% of the Group’s net asset value as at 30 June 2003. The non-trade receivable balance of HK\$8,920,000 is unsecured, interest-free and is repayable within one year. Subsequent to the balance sheet date, HK\$4,900,000 has been repaid.

FINANCIAL ASSISTANCE AND GUARANTEES TO AN AFFILIATED COMPANY

As at 30 June 2003, the Group had (a) a gross amount of approximately HK\$3,423,000 due from 2GoTrade.com Limited (“2GoTrade”); and (b) contingent liabilities of approximately HK\$1,395,000 in respect of corporate guarantees for finance leases granted to 2GoTrade, which were utilised by 2GoTrade to the amount of approximately HK\$216,000. The aggregate amount of approximately HK\$4,818,000 represented approximately 25.2% of the net asset value of the Group as at 30 June 2003.

			Guarantees given for finance leases facilities granted to the affiliated company	Total (after provision)
Percentage of interests held by the Group	Amount due from the affiliated company	Provision for an amount due from the affiliated company		
%	HK\$'000	HK\$'000	HK\$'000	HK\$'000
2GoTrade.com Limited	30	3,423	(3,423)	1,395

The amount due from 2GoTrade represented amounts advanced during 1 July 2001 to 30 June 2002 in support of its daily working capital purposes and the amounts are unsecured, interest-free and have no fixed terms of repayment. A full provision of HK\$3,423,000 was made in respect of the amount due from 2GoTrade during the year ended 30 June 2002.

REPORT OF THE DIRECTORS (CONTINUED)

FINANCIAL ASSISTANCE AND GUARANTEES TO AN AFFILIATED COMPANY *(Continued)*

The balance sheet of 2GoTrade as at 30 June 2003 is set out below:

	Balance at 30 June 2003 HK\$'000	Group's attributable interest HK\$'000
Fixed assets	—	—
Current assets	764	229
Current liabilities	(19,993)	(5,998)
Net liabilities	<u>(19,229)</u>	<u>(5,769)</u>

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in notes 27 and 34 to the financial statements.

SPONSORS' INTERESTS

Pursuant to an agreement dated 27 July 2000 entered into between the Company and Core Pacific-Yamaichi Capital Limited ("CPY"), the Company's sponsor, CPY received 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 Capital (Hong Kong) Limited ("Kim Eng"), Kim Eng was appointed by the Company to replace CPY as the Company's continuing sponsor and received fees for the period from 15 July 2002 to 30 June 2003.

As updated and notified by Kim Eng, neither Kim Eng, nor its directors or employees had any interests in the issued share capital of the Company as at 30 June 2003 and at the date of this report.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

The Company has complied with the board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the year ended 30 June 2003.

REPORT OF THE DIRECTORS (CONTINUED)

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 controls of the Group. The Committee comprises Mr. Yip Sam Lo and the two independent non-executive directors, Mr. Li Ming Lun, and Mr. David Egryn Jones. The Group's financial statements for the year ended 30 June 2003 have been reviewed by the Committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures had been made. The audit committee has held four meetings since July 2002.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Huang Shaokang

Chairman

Hong Kong

19 September 2003



安永會計師事務所

To the members

ePRO Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 29 to 85 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

19 September 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	5		
Continuing operations		126,494	177,129
Discontinued operations		—	25,359
		<u>126,494</u>	<u>202,488</u>
Other revenue and gains	5	9,485	11,872
Cost of goods sold		(78,472)	(151,130)
Selling and distribution costs		(2,591)	(7,365)
Technical expenses		(22,892)	(23,795)
Administrative expenses		(31,201)	(57,830)
Other operating income/(expenses), net		<u>1,965</u>	<u>(47,088)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	2,788	(72,848)
Deficit on revaluation of leasehold land and buildings		—	(820)
Finance costs	10	(1,237)	(2,933)
Share of profits/(losses) of:			
A jointly-controlled entity		3,779	(1,378)
Associates		<u>(138)</u>	<u>366</u>
PROFIT/(LOSS) BEFORE TAX			
Continuing operations		5,192	(73,032)
Discontinued operations		<u>—</u>	<u>(4,581)</u>
		5,192	(77,613)
Tax	11		
Continuing operations		(2,044)	(430)
Discontinued operations		<u>—</u>	<u>—</u>
		(2,044)	(430)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		3,148	(78,043)
Minority interests		<u>142</u>	<u>6,172</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES			
ATTRIBUTABLE TO SHAREHOLDERS	12	<u>3,290</u>	<u>(71,871)</u>
Earnings/(loss) per share (HK cents):	13		
Basic		0.30	(7.39)
Diluted		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	14	13,600	15,199
Goodwill	15	—	—
Interest in a jointly-controlled entity	17	—	110
Interests in associates	18	—	4,212
Other assets		317	317
		13,917	19,838
CURRENT ASSETS			
Due from a jointly-controlled entity	17	—	107
Due from associates	18	—	27
Inventories	19	6,931	12,912
Trade receivables	20	21,041	25,388
Prepayments, deposits and other receivables		16,208	6,553
Tax recoverable		281	281
Pledged deposits	21	9,719	7,850
Cash and cash equivalents	21	21,781	35,920
		75,961	89,038
CURRENT LIABILITIES			
Due to associates	18	—	589
Amount due to contract customers	19	496	—
Trade payables	22	11,205	14,434
Other payables and accruals	23	21,990	22,367
Deposits received		2,833	6,505
Deferred revenue		2,093	2,990
Tax payable		7,171	5,355
Interest-bearing bank and other borrowings	24	20,278	31,181
		66,066	83,421
NET CURRENT ASSETS		9,895	5,617
TOTAL ASSETS LESS CURRENT LIABILITIES		23,812	25,455

CONSOLIDATED BALANCE SHEET (CONTINUED)

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	24	4,679	6,019
MINORITY INTERESTS			
		—	1,930
		19,133	17,506
CAPITAL AND RESERVES			
Issued capital	27	110,400	110,400
Reserves	29(a)	(91,267)	(92,894)
		19,133	17,506

Huang Shaokang

Director

Yip Sam Lo

Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2003

	Notes	Issued share capital HK\$'000	Share premium account HK\$'000*	Capital reserve HK\$'000*	Accumulated losses HK\$'000*	Reserve fund HK\$'000*	Expansion reserve HK\$'000*	Exchange fluctuation reserve HK\$'000*	Total HK\$'000
At 1 July 2001 (as previously reported)		92,000	7,025	479	(29,165)	320	320	(330)	70,649
Prior year adjustments:									
SSAP 34 "Employee benefits"	2, 23	—	—	—	(757)	—	—	—	(757)
As restated		92,000	7,025	479	(29,922)	320	320	(330)	69,892
Foreign exchange adjustments		—	—	—	—	—	—	757	757
Net gains not recognised in the profit and loss account		—	—	—	—	—	—	757	757
Issue of shares	27	18,400	—	—	—	—	—	—	18,400
Transfer from/(to) reserves		—	—	—	(263)	263	—	—	—
Release upon disposal of subsidiaries		—	—	—	—	(98)	(98)	524	328
Net loss for the year (as restated)		—	—	—	(71,871)	—	—	—	(71,871)
At 30 June 2002		<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(102,056)</u>	<u>485</u>	<u>222</u>	<u>951</u>	<u>17,506</u>
At 1 July 2002 (as previously reported)		110,400	7,025	479	(101,168)	485	222	951	18,394
Prior year adjustments:									
SSAP 34 "Employee benefits"	2, 23	—	—	—	(888)	—	—	—	(888)
As restated		110,400	7,025	479	(102,056)	485	222	951	17,506
Foreign exchange adjustments		—	—	—	—	—	—	(629)	(629)
Net losses not recognised in the profit and loss account		—	—	—	—	—	—	(629)	(629)
Transfer from/(to) reserves		—	—	—	(327)	117	210	—	—
Release upon disposal of a jointly-controlled entity and an associate		—	—	—	—	(602)	(432)	—	(1,034)
Net profit for the year		—	—	—	3,290	—	—	—	3,290
At 30 June 2003		<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(99,093)</u>	<u>—</u>	<u>—</u>	<u>322</u>	<u>19,133</u>
Reserves retained by Company and subsidiaries at 30 June 2003		<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(99,093)</u>	<u>—</u>	<u>—</u>	<u>322</u>	<u>19,133</u>
Reserves retained by:									
Company and subsidiaries		110,400	7,025	479	(100,926)	—	—	951	17,929
A jointly-controlled entity		—	—	—	(1,271)	351	222	—	(698)
Associates		—	—	—	141	134	—	—	275
At 30 June 2002 (as restated)		<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(102,056)</u>	<u>485</u>	<u>222</u>	<u>951</u>	<u>17,506</u>

* These reserve accounts comprise the consolidated reserves in aggregate in the deficit of HK\$91,267,000 (2002: HK\$92,894,000 (as restated)) in the consolidated balance sheet.



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Year ended 30 June 2003

The share premium account of the Group includes (i) the premium arising from the new issue of the shares in the prior year; and (ii) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the Reorganisation upon listing over the nominal value of the share capital of the Company issued in exchange therefor.

The capital reserve represents negative goodwill arising on acquisition of subsidiaries which remains credited to the capital reserve (note 15).

The appropriations to the reserve fund and the expansion reserve were determined by the respective board of directors of the Group's PRC subsidiaries, jointly-controlled entity and associates pursuant to the relevant laws and regulations applicable in the PRC. They are non-distributable in nature.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		5,192	(77,613)
Adjustments for:			
Finance costs	10	1,237	2,933
Share of profit/(loss) of a jointly-controlled entity		(3,779)	1,378
Share of profits/(losses) of associates		138	(366)
Deficit on revaluation of leasehold land and buildings		—	820
Interest income	5	(136)	(868)
Dividend income from an associate	5	(101)	—
Gain on disposal of a jointly-controlled entity	5	(8,994)	—
Gain on disposal of an associate	5	(14)	—
Gain on disposal of subsidiaries	5	—	(11,004)
Depreciation	6	2,868	8,389
Loss on disposal of fixed assets	6	56	1,494
Provision for impairment of fixed assets	6	—	6,272
Amortisation of goodwill	6	227	—
Impairment of goodwill	6	1,011	—
Provision for impairment in interests in associates	6	101	15,763
Write back of provision for impairment in interest in an associate	6	(5)	—
Provision for amount due from an associate	6	27	—
Provision for inventories	6	73	2,251
Provision for other receivables	6	402	4,711
Provision for doubtful debts	6	7,067	18,570
Write back of provision for doubtful debts	6	(10,868)	—
Operating loss before working capital changes		(5,498)	(27,270)
Decrease/(increase) in inventories		5,908	(427)
Decrease in trade receivables		11,033	48,900
Decrease/(increase) in prepayments, deposits and other receivables		3,023	(2,088)
Decrease in trade payables		(3,229)	(42,629)
Decrease in other payables and accruals		(5,843)	(6,516)
Increase/(decrease) in deposits received		(3,672)	4,449
Increase in amount due to contract customers		496	—
Increase/(decrease) in deferred revenue		(897)	1,025

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
Increase/(decrease) in balance with a jointly-controlled entity		107	(107)
Increase in balances with associates		(122)	(5,307)
Increase in balance with a shareholder		—	(2,556)
Increase in balances with related companies		—	3,995
Foreign exchange adjustments		(609)	212
Cash generated from/(used in) operations		697	(28,319)
Hong Kong profits tax paid		—	(281)
Overseas profits taxes refunded		—	780
Net cash inflow/(outflow) from operating activities			
Continuing operations		697	(13,877)
Discontinued operations		—	(13,943)
Total		697	(27,820)
Net cash inflow/(outflow) from operating activities		697	(27,820)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		136	868
Dividend received from an associate		101	—
Purchases of fixed assets	14	(1,687)	(1,812)
Proceeds from disposal of fixed assets		780	286
Acquisition of subsidiaries	30(b)	(1,634)	—
Disposal of subsidiaries	30(c)	—	(2,963)
Proceeds from disposal of a jointly-controlled entity		2,817	—
Increase in investment in an associate		—	(2,830)
Increase in pledged deposits		(1,869)	(7,850)
Net cash outflow from investing activities			
Continuing operations		(1,356)	(14,301)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on loans and overdrafts	10	(1,228)	(2,810)
Interest element on finance lease payments	10	(9)	(123)
Issue of share capital		—	18,400
New other loan		8,000	9,000
Repayment of long term bank and other loans		(15,656)	(1,072)
Decrease in trust receipt loans		(673)	(16,907)
Capital element of finance lease rental payments		(212)	(819)
Contribution from minority shareholders		—	4,856
Net cash inflow/(outflow) from financing activities			
Continuing operations		(9,778)	11,088
Discontinued operations		—	(563)
Total		(9,778)	10,525
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		26,958	58,554
CASH AND CASH EQUIVALENTS AT END OF YEAR		16,521	26,958
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	21	15,474	15,193
Time deposits with original maturity of less than three months when acquired	21	6,307	20,727
Bank overdrafts, secured	24	(5,260)	(8,962)
		16,521	26,958

BALANCE SHEET

30 June 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interest in subsidiaries	16	—	—
CURRENT ASSETS			
Due from subsidiaries	16	4,224	—
Other receivables		5	32
Pledged deposits	21	6,497	7,850
Cash and cash equivalents	21	10,377	20,754
		21,103	28,636
CURRENT LIABILITIES			
Due to a subsidiary	16	140	—
Other payables and accruals	23	1,104	250
Bank overdrafts		—	74
		1,244	324
NET CURRENT ASSETS		19,859	28,312
		19,859	28,312
CAPITAL AND RESERVES			
Issued capital	27	110,400	110,400
Reserves	29(b)	(90,541)	(82,088)
		19,859	28,312

Huang Shaokang

Director

Yip Sam Lo

Director

1. CORPORATE INFORMATION

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 shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 2 August 2000.

During the year, the Group was involved in the provision of professional information technology (“IT”) contract services.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following new and revised SSAPs are effective for the first time for the current year’s financial statements:

- SSAP 1 (Revised): “Presentation of financial statements”
- SSAP 11 (Revised): “Foreign currency translation”
- SSAP 15 (Revised): “Cash flow statements”
- SSAP 33: “Discontinuing operations”
- SSAP 34: “Employee benefits”
- SSAP 35: “Government grants and disclosure of government assistance”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 prescribes the basis for the presentation of financial statements and set out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision of this SSAP is that a consolidated statement of changes in equity is now presented on pages 32 to 33 of this annual report in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group’s reserves note.

SSAP 11 prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entity and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the years, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for “Foreign currencies” in note 3 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”) *(Continued)*

SSAP 15 prescribes the revised format for the consolidated cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for “Cash and cash equivalents” and “Foreign currencies” in note 3 and note 30(a) to the financial statements.

SSAP 33 replaces the existing disclosure requirements for discontinuing operations, which were previously included in SSAP 2. The SSAP defines a discontinuing operation and prescribes when an enterprise should commence including discontinuing operation disclosures in its financial statements and the disclosures required. The principal impact of the SSAP is that more extensive disclosures concerning the Group’s discontinuing operations are now included in the consolidated profit and loss account, consolidated cash flow statement and note 7 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in the recognition of an accrual for paid holiday carried forward by the Group’s employees as at the balance sheet date. The recognition of this accrual has resulted in a prior year adjustment, further details of which are included under the heading “Employee benefits” in note 3 and in note 23 to the financial statements. In addition, disclosures are now required in respect of the Company’s share option schemes, as detailed in note 28 to the financial statements. These share option schemes disclosures are similar to the GEM Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

SSAP 35 prescribes the accounting and disclosure requirements for government grants and other forms of government assistance. The adopting of this SSAP has had no significant effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of leasehold land and buildings which are stated at professional valuation, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary, other than a jointly-controlled entity and associates, is a company, whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of five years.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill *(continued)*

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

SSAP 30 "Business combinations" was adopted as at 1 July 2001. Prior to that date, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to 1 July 2001 is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land	Over the lease terms
Buildings	2% - 5%
Leasehold improvements	20% - 50%
Furniture, fixtures and equipment	20%
Computer equipment and software	18% - 33 $\frac{1}{3}$ %
Motor vehicles	20%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Other assets

Other assets represent corporate memberships held for long term purpose and are stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the project are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. Rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories represent trading merchandise and direct costs incurred for IT contract work in progress and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less estimated costs expected to be incurred to disposal.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Contract accounting

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments arising from professional IT contract services. Contract costs incurred comprise equipment and material costs, subcontracting costs, direct labour and an appropriate proportion of variable and fixed overheads.

Revenue from fixed price contracts is recognised on the percentage of completion method, measured by reference to the proportion of work completed to date to the estimated total work of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers.

Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans, further details of which are included in note 30(a) to the financial statements.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Deferred revenue

Deferred revenue represents service fees received in advance. Revenue is recognised and deferred revenue is released to the profit and loss account when the corresponding services are rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the provision of professional IT contract services, based on the stage of completion of the respective IT contracts, which is determined with reference to the terms of the contracts;
- (b) from the distribution of computer equipment, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- (d) dividend income, when the shareholders' right to receive payment has been established.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entity and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, the jointly-controlled entity and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(continued)*

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, the jointly-controlled entity and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. The adoption of the revised SSAP 15 resulted in certain prior year adjustments, further details of which are included in note 30(a) to the financial statements.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has resulted in a prior year adjustment due to the initial recognition of the accrual, further details of which are included in note 23 to the financial statements.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)***Employee benefits** *(continued)**Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees’ basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operate in Mainland of China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option schemes

The Company operates a share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. The financial impact of share options granted under the share option schemes is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the provision of professional IT contract services; and
- (b) the distribution of computer equipment (these activities were discontinued during the year ended 30 June 2002, as detailed in note 7 to the financial statements).

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

The Group's intersegment sales and transfers are transacted with reference to terms and conditions as used for such transactions similar to those with third parties.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present turnover, profit or loss and certain asset, liability and expenditure information for the Group's business segments.

Group

	Provision of professional IT contract services (Continuing)		Distribution of computer equipment (Discontinued)		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment revenue:								
External customers	126,494	177,129	—	25,359	—	—	126,494	202,488
Intersegment sales	—	—	—	6,276	—	(6,276)	—	—
Total	126,494	177,129	—	31,635	—	(6,276)	126,494	202,488
Segment results	2,652	(69,698)	—	(4,018)	—	—	2,652	(73,716)
Interest income							136	868
Profit/(loss) from operating activities							2,788	(72,848)
Deficit on revaluation of leasehold land and buildings							—	(820)
Finance costs							(1,237)	(2,933)
Share of profits/(losses) of:								
A jointly-controlled entity	3,779	(1,378)					3,779	(1,378)
Associates	(138)	366					(138)	366
Profit/(loss) before tax								
Continuing operations							5,192	(73,032)
Discontinued operations							—	(4,581)
							5,192	(77,613)
Tax								
Continuing operations							(2,044)	(430)
Discontinued operations							—	—
							(2,044)	(430)
Profit/(loss) before minority interests							3,148	(78,043)
Minority interests							142	6,172
Net profit/(loss) from ordinary activities attributable to shareholders							3,290	(71,871)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

4. SEGMENT INFORMATION (Continued)

(a) Business segments (continued)

Group

	Provision of professional IT contract services (Continuing)		Distribution of computer equipment (Discontinued)		Eliminations		Consolidated	
	2003 HK\$'000	2002 HK\$'000 (Restated)	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000 (Restated)
Segment assets	41,572	52,414	—	1,218	—	—	41,572	53,632
Interest in a jointly-controlled entity	—	110	—	—	—	—	—	110
Interests in associates	—	4,212	—	—	—	—	—	4,212
Unallocated assets							48,306	50,922
Total assets	<u>41,572</u>	<u>52,414</u>	<u>—</u>	<u>1,218</u>	<u>—</u>	<u>—</u>	<u>89,878</u>	<u>108,876</u>
Segment liabilities	45,788	51,475	—	765	—	—	45,788	52,240
Bank overdrafts	5,260	8,962	—	—	—	—	5,260	8,962
Bank and other borrowings							19,697	28,238
Total liabilities	<u>45,788</u>	<u>51,475</u>	<u>—</u>	<u>765</u>	<u>—</u>	<u>—</u>	<u>70,745</u>	<u>89,440</u>
Other segment information:								
Depreciation	2,868	8,294	—	95	—	—	2,868	8,389
Loss on disposal of fixed assets	56	1,494	—	—	—	—	56	1,494
Amortisation of goodwill	227	—	—	—	—	—	227	—
Impairment of goodwill	1,011	—	—	—	—	—	1,011	—
Provision for amount due from an associate	27	—	—	—	—	—	27	—
Provision for other receivables	402	4,711	—	—	—	—	402	4,711
Provision for impairment in interests in associates	101	15,763	—	—	—	—	101	15,763
Provision for doubtful debts	7,067	18,570	—	—	—	—	7,067	18,570
Write back of provision for doubtful debts	(10,868)	—	—	—	—	—	(10,868)	—
Provision for inventories	73	660	—	1,591	—	—	73	2,251
Provision for impairment of fixed assets	—	6,272	—	—	—	—	—	6,272
Capital expenditure	<u>1,687</u>	<u>2,237</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,687</u>	<u>2,237</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

4. SEGMENT INFORMATION (Continued)

(b) Geographical segments

The following table presents turnover, certain asset, liability and expenditure information for the Group's geographical segments.

	Hong Kong		Mainland of China		Singapore		Eliminations		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover:										
Sales to external customers	<u>57,962</u>	83,495	<u>65,893</u>	114,848	<u>3,634</u>	4,145	<u>(995)</u>	—	<u>126,494</u>	202,488
Other segment information:										
Segment assets	<u>75,880</u>	91,219	<u>65,584</u>	75,003	<u>979</u>	932	<u>(52,565)</u>	(58,278)	<u>89,878</u>	108,876
Capital expenditure	<u>524</u>	931	<u>1,162</u>	1,292	<u>1</u>	14	<u>—</u>	—	<u>1,687</u>	2,237

5. TURNOVER, REVENUE AND GAINS

Turnover represents the value of professional IT contract services rendered and the net invoiced value of goods sold, net of value-added tax, returns and allowances. An analysis of turnover and revenue is as follows:

		Group	
	Notes	2003	2002
		HK\$'000	HK\$'000
Continuing operations:			
Professional IT contract services		<u>126,494</u>	177,129
Discontinued operations:			
Distribution of computer equipment		<u>—</u>	25,359
Turnover		<u><u>126,494</u></u>	<u><u>202,488</u></u>
Interest income		<u>136</u>	868
Management fee income		<u>240</u>	—
Dividend income from an associate		<u>101</u>	—
Gain on disposal of a jointly-controlled entity	17	<u>8,994</u>	—
Gain on disposal of an associate	18	<u>14</u>	—
Gain on disposal of subsidiaries	30(c)	<u>—</u>	11,004
Other revenue and gains		<u><u>9,485</u></u>	<u><u>11,872</u></u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

		Group	
		2003	2002
	Notes	HK\$'000	HK\$'000
Depreciation	14	2,868	8,389
Amortisation of goodwill*	15	227	—
Impairment of goodwill arising during the year*	15	1,011	—
Minimum lease payments under operating leases		2,356	3,637
Provision for impairment in interests in associates*	18	101	15,763
Write back of provision for impairment in interest in an associate*		(5)	—
Provision for amount due from an associate*	18	27	—
Provision for other receivables*		402	4,711
Provision for inventories*		73	2,251
Provision for impairment of fixed assets*		—	6,272
Research and development costs		3,834	7,711
Auditors' remuneration		580	650
Staff costs (including directors' remuneration in note 8):			
Wages and salaries		34,334	48,466
Pension scheme contributions		1,676	1,025
Less: Forfeited contributions		(129)	(601)
Net pension contributions**		1,547	424
Loss on disposal of fixed assets		56	1,494
Exchange gains, net		(508)	(2,015)
Provision for doubtful debts*		7,067	18,570
Write back of provision for doubtful debts*		(10,868)	—

* Included in other operating income/(expenses) in the consolidated profit and loss account.

** At 30 June 2003, no forfeited contributions were available to the Group to reduce its contributions to the pension scheme in future years (2002: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

7. DISCONTINUED OPERATIONS

From 1 December 2001, the Group ceased to operate its distribution of computer equipment business. The discontinuance of distribution of computer equipment business is consistent with the Group's long term strategy to concentrate on its more profitable businesses by focusing on the operations of the professional IT contract services.

The turnover, other revenue and gains, expenses, loss before tax and net loss for the year ended 30 June 2002 attributable to the discontinued operations are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Turnover	—	25,359
Other revenue	—	146
Cost of goods sold	—	(27,786)
Administrative expenses	—	(145)
Other operating expenses	—	(1,592)
	<hr/>	<hr/>
Loss from operating activities	—	(4,018)
Finance costs	—	(563)
	<hr/>	<hr/>
Loss before tax	—	(4,581)
Tax	—	—
	<hr/>	<hr/>
Net loss for the year	—	(4,581)
	<hr/>	<hr/>

The carrying amounts of the total assets and liabilities of the discontinued operations at the balance sheet date are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Total assets	—	1,218
Total liabilities	—	(765)
	<hr/>	<hr/>
Net assets	—	453
	<hr/>	<hr/>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

7. DISCONTINUED OPERATIONS *(Continued)*

The net cash flows attributable to the discontinued operations are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Operating activities	—	(13,943)
Financing activities	—	(563)
	<hr/>	<hr/>
Net cash outflows	—	(14,506)
	<hr/> <hr/>	<hr/> <hr/>

8. DIRECTORS' REMUNERATION

Directors' remuneration, disclosed pursuant to the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and Section 161 of the Companies Ordinance, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	—	—
Other emoluments:		
Executive directors:		
Basic salaries, other allowances and benefits in kind	934	1,676
Pension scheme contributions	27	41
	<hr/>	<hr/>
	961	1,717
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

8. DIRECTORS' REMUNERATION (Continued)

The emoluments of all the executive directors and non-executive directors fell within the band of nil to HK\$1,000,000 is five and four, respectively.

	2003 HK\$'000	2002 HK\$'000
Executive director A	388	772
Executive director B*	573	672
Executive director C	—	273
Executive director D	—	—
Executive director E	—	—
Independent non-executive director A	—	—
Independent non-executive director B**	—	—
Independent non-executive director C***	—	—
Non-executive director A	—	—
	<u>961</u>	<u>1,717</u>

* resigned subsequent to the balance sheet date

** newly appointed in the current year

*** resigned during the year

No further emoluments were paid by the Group to the executive and non-executive directors, either as an inducement upon joining or to join the Group, or as compensation for loss of office. There were no arrangements under which a director waived or agreed to waive any remuneration during the year.

During the year, there were no share options granted to the directors in respect of their services to the Group.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

9. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included nil directors (2002: one director), details of whose emoluments are set out in note 8 above. The details of the emoluments of the remaining five (2002: four) non-director, highest paid employees are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, other allowances and benefits	3,854	3,487
Pension scheme contributions	98	119
	3,952	3,606

The number of non-director, highest paid employees whose emoluments fell within the following bands is as follows:

	2003	2002
	Number of employees	Number of employees
Nil - HK\$1,000,000	4	3
HK\$1,000,001 - HK\$1,500,000	1	1

10. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest expenses on bank loans and overdrafts	872	1,642
Interest expenses on other loans	356	1,168
	1,228	2,810
Interest expenses on finance lease payments	9	123
Total finance costs	1,237	2,933

11. TAX

No Hong Kong profits tax has been provided as the Group did not generate any assessable profits arising in Hong Kong during the year (2002: Nil).

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Group:		
Provision for the year:		
PRC:		
Mainland of China	1,816	314
Underprovision in the prior year:		
PRC:		
Mainland of China	—	9
A jointly-controlled entity:		
PRC:		
Mainland of China	228	107
Tax charge for the year	2,044	430

12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 June 2003 dealt with in the financial statements of the Company is HK\$8,453,000 (2002: HK\$68,740,000).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$3,290,000 (2002: net loss for the year of HK\$71,871,000 (as restated)) and the weighted average number of 1,104,000,000 (2002: 972,427,397) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 30 June 2003 and 2002 have not been disclosed, as the share options outstanding during these years had an anti-dilutive effect on the basic earnings/(loss) per share for these years.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

14. FIXED ASSETS

Group

		Leasehold land and buildings	Leasehold improvements	Furniture, fixtures and equipment	Computer equipment and software	Motor vehicles	Total
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation:							
At beginning of year		9,715	4,327	3,838	23,653	1,929	43,462
Additions		—	608	253	652	174	1,687
Additions on acquisition							
of subsidiaries	30(b)	—	—	36	307	126	469
Disposals		—	(275)	(518)	(473)	(1,061)	(2,327)
Exchange adjustments		3	7	4	17	8	39
At 30 June 2003		9,718	4,667	3,613	24,156	1,176	43,330
Analysis of cost or valuation:							
At cost		—	4,667	3,613	24,156	1,176	33,612
At 31 May 2000 valuation		318	—	—	—	—	318
At 30 June 2003 valuation		9,400	—	—	—	—	9,400
		9,718	4,667	3,613	24,156	1,176	43,330
Accumulated depreciation							
and impairment:							
At beginning of year		44	3,488	2,867	20,492	1,372	28,263
Additions on acquisition							
of subsidiaries	30(b)	—	—	16	25	17	58
Provided during the year		21	364	383	1,995	105	2,868
Disposals		—	(118)	(481)	(336)	(556)	(1,491)
Exchange adjustments		1	6	4	15	6	32
At 30 June 2003		66	3,740	2,789	22,191	944	29,730
Net book value:							
At 30 June 2003		9,652	927	824	1,965	232	13,600
At 30 June 2002		9,671	839	971	3,161	557	15,199

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

14. FIXED ASSETS (Continued)

The valuation of the Group's leasehold land and buildings is analysed as follows:

	Hong Kong	PRC	Total
	HK\$'000	HK\$'000	HK\$'000
Long term lease	—	318	318
Medium term lease	9,400	—	9,400
	<u>9,400</u>	<u>318</u>	<u>9,718</u>

The Group's leasehold land and buildings in Hong Kong are stated at valuation, on an open market, existing use basis performed by China Hong Kong Auctioneers Valuers Ltd., independent property consultants, at 30 June 2003.

The Group's leasehold land and buildings in the PRC are stated at valuation at 31 May 2000 performed by Chesterton Petty Limited, international property consultants, on an open market, existing use basis less accumulated depreciation provided up to 30 June 2003. No revaluation was performed as at 30 June 2003 as, in the opinion of the directors, there was no material fluctuation between the valuation at 31 May 2000 and the net book value of the leasehold land and buildings at 30 June 2003.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation and impairment losses, their carrying values would have been approximately HK\$9,652,000 (2002: HK\$9,671,000) as at 30 June 2003.

At 30 June 2003, the Group's land and buildings in Hong Kong with an aggregate carrying value of HK\$9,400,000 (2002: HK\$9,400,000) were pledged to secure banking facilities granted to the Group (note 24(a)).

Included in the total amount of fixed assets at 30 June 2002 was the net book value of assets held under finance leases of HK\$230,000.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

15. GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

	Group
	2003
	HK\$'000
Cost:	
Acquisition of a subsidiary and at 30 June 2003 (<i>note 30(b)</i>)	1,238
Accumulated amortisation and impairment:	
Amortisation provided during the year	227
Impairment provided during the year	1,011
At 30 June 2003	1,238
Net book value at 30 June 2003	—

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group has applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to 1 July 2001, to remain credited to the capital reserve. The amount of the negative goodwill remaining in consolidated reserves, arising from acquisition of subsidiaries prior to 1 July 2001 is HK\$479,000 as at 1 July 2002 and 30 June 2003.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	45,459	45,459
Provision for impairment	(45,459)	(45,459)
	—	—
Due from subsidiaries	73,470	62,129
Provision for amounts due from subsidiaries	(69,246)	(62,129)
	4,224	—
Due to a subsidiary	(140)	—
	4,084	—

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered share capital	Percentage of issued capital/ registered capital held by the Company		Principal activities
			Direct	Indirect	
ePRO (BVI) Limited	British Virgin Islands	Nil	100	—	Investment holding
EPRO Systems Limited	Hong Kong	Ordinary HK\$2; Non-voting deferred HK\$15,099,769	—	100	Investment holding and provision of management services
EPRO Systems (HK) Limited	Hong Kong	HK\$100,000	—	100	Investment holding and provision of professional IT contract services
EPRO Systems (China) Limited	Hong Kong	HK\$925,000	—	100	Investment holding and provision of professional IT contract services
EPRO Technology Limited	Hong Kong	HK\$1,000,000	—	100	Provision of professional IT contract services
EPRO Computer Systems (Shanghai) Company Limited (<i>note a</i>)	Mainland of China	US\$200,000	—	100	Provision of professional IT contract services

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and fully paid share capital/ registered share capital	Percentage of issued capital/ registered capital held by the Company		Principal activities
			Direct	Indirect	
EPRO Computer Systems (Guangzhou) Company Limited <i>(note a)</i>	Mainland of China	HK\$10,000,000	—	100	Provision of professional IT contract services
EPRO Computer Systems (Beijing) Company Limited <i>(note a)</i>	Mainland of China	US\$700,000	—	100	Provision of professional IT contract services
EPRO Systems (S) Pte. Limited <i>(note a)</i>	Republic of Singapore	S\$400,000	—	90	Provision of professional IT contract services
ePROgistics Limited <i>(note b)</i> (formerly EPRO AS&T Limited)	Hong Kong	HK\$10,000	—	100	Provision of logistic IT contract services
Dillion Enterprises Corp.	British Virgin Islands	US\$1	—	100	Provision of professional IT contract services
Shanghai EPRO Software Company Limited <i>(notes a & c)</i> (formerly Tongji EPRO Information Technology Company Limited)	Mainland of China	US\$200,000	—	90	Provision of software development and distribution
EPRO Sistemas Informaticos (Macau), Limitada	Macau	MOP300,000	—	100	Dormant
EPRO Guangzhou Software Technology Limited <i>(note a)</i>	Mainland of China	HK\$4,000,000	—	100	In deregistration

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

16. INTERESTS IN SUBSIDIARIES (Continued)

Notes:

- (a) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
- (b) EPRO AS&T Limited ("AS&T") was an 46% associate of the Group as at 30 June 2002 (see note 18). During the year, the Group further acquired the remaining 54% equity interest in AS&T from the other shareholder of AS&T and the company name was changed to ePROgistics Limited ("ePROgistics") subsequently (see also note 18).
- (c) Tongji EPRO Information Technology Company Limited ("Tongji") was an 49% associate of the Group as at 30 June 2002 (see note 18). During the year, the Group further acquired the 41% equity interest in Tongji from a shareholder and the company name was changed to Shanghai EPRO Software Company Limited subsequently.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	—	110
Due from a jointly-controlled entity	—	107
	<u>—</u>	<u>217</u>

The balance with the jointly-controlled entity was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the jointly-controlled entity were as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
TRS Information Technology Company Limited* ("TRS")	Corporate	Mainland of China	—	36	Software development and distribution

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

On 15 April 2003, the Group disposed of its 36% equity interest in TRS to an independent third party at a consideration of HK\$11,737,000 which resulted in a net gain on disposal of HK\$8,994,000 to the Group (note 5).

The Group's interest in the jointly-controlled entity was indirectly held through a wholly-owned subsidiary. The Group was entitled to 33.3% of its voting power and 36% profit sharing of the jointly-controlled entity in the prior year.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

18. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Share of net assets	101	4,212
Less: Provision for impairment	(101)	—
	—	4,212
Due from associates	3,450	3,450
Less: Provision for amount due from associates	(3,450)	(3,423)
	—	27
Due to associates	—	(589)
	—	(562)
	—	3,650

The balances with the associates are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

18. INTERESTS IN ASSOCIATES (Continued)

Particulars of the associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group		Principal activities
			2003	2002	
Shanghai EPRO Software Company Limited* (note 16 (c)) (formerly Tongji EPRO Information Technology Company Limited)	Corporate	Mainland of China	—	49	Provision of professional IT contract services
eTradeGo Limited*	Corporate	British Virgin Islands	30	47.49	Investment holding
2GoTrade.com Limited*	Corporate	Hong Kong	30	47.49	Provision of Application Services Provider services
Shanghai Harbor eLogistics Software Co. Ltd.*^ ("Shanghai Harbor")	Corporate	Mainland of China	—	30	Software development and distribution
Connex Networks Limited*	Corporate	Hong Kong	33 $\frac{1}{3}$	33 $\frac{1}{3}$	In liquidation
EPRO AS&T Limited (note 16(b))	Corporate	Hong Kong	—	46	Dormant

The Group's interests in the associates are indirectly held through wholly-owned subsidiaries. The Group is entitled to the same percentage of voting power and profit sharing as denoted in the ownership percentage.

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

^ On 1 January 2003, the Group disposed of its 30% equity interest in Shanghai Harbor to an independent third party which resulted in a net gain of HK\$14,000 to the Group (note 5).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

19. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Contract work in progress	6,849	—
Merchandise for sale	82	12,912
	<u>6,931</u>	<u>12,912</u>
Contract work in progress		
Gross amount due from contract customers	6,849	—
Gross amount due to contract customers	(496)	—
	<u>6,353</u>	<u>—</u>
Contract costs incurred plus recognised profits less recognised losses to date	25,176	8,259
Less:Progress billings	(18,823)	(8,259)
	<u>6,353</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

20. TRADE RECEIVABLES

An aged analysis of trade receivables, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current to 3 months	21,131	23,208
4 to 6 months	2,364	3,534
7 to 9 months	39	2,144
10 to 12 months	2,803	2,623
Over 1 year	10,843	14,776
	37,180	46,285
Less: Provision for doubtful debts	(16,139)	(20,897)
	21,041	25,388

The credit terms given to the customers vary, and are generally around three months and granted based on the financial strength of the individual customers. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically by management.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	15,474	15,193	4,622	27
Time deposits	16,026	28,577	12,252	28,577
	31,500	43,770	16,874	28,604
Less: Pledged deposits	(9,719)	(7,850)	(6,497)	(7,850)
Cash and cash equivalents	21,781	35,920	10,377	20,754

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK\$8,499,000 (2002: HK\$11,975,000). The RMB is not freely convertible into other currencies, however, under Mainland of China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

22. TRADE PAYABLES

An aged analysis of trade payables, based on invoice date, is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within 3 months	7,887	9,615
4 to 6 months	1,107	581
7 to 12 months	442	1,908
Over 1 year	1,769	2,330
	11,205	14,434

23. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(Restated)		
Other payables	5,388	4,289	—	—
Accruals	16,602	18,078	1,104	250
	21,990	22,367	1,104	250

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, an accrual is now made at the balance sheet date for the expected future cost of paid annual leave earned during the year by employees, which remains untaken by the employees at the balance sheet date and is permitted to be carried forward and utilised in the following year.

This change in accounting policy has resulted in HK\$746,000 and HK\$888,000 being included in the balance of the Group's accruals in respect of paid leave carried forward as at 30 June 2003 and 2002, respectively. As a consequence, the consolidated net profit attributable to shareholders for the year ended 30 June 2003 has been increased by HK\$142,000 and the net loss attributable to shareholders for the year ended 30 June 2002 has been increased by HK\$131,000, and the consolidated accumulated losses at 1 July 2002 and 1 July 2001 have been increased by HK\$888,000 and HK\$757,000, respectively, as detailed in the consolidated statement of changes in equity on pages 32 to 33 of this annual report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

24. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
	Notes	2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	(a)	5,260	8,962
Bank loans, secured	(a)	5,878	7,034
Trust receipt loans, secured	(a)	2,819	3,492
Loans from related companies, unsecured	(b)	3,000	8,500
Loan from a director	(c)	8,000	—
Other loan, secured	(d)	—	9,000
Finance lease payables (<i>note 25</i>)		—	212
		24,957	37,200
Wholly repayable within one year:			
Bank loans, overdrafts and trust receipt loans		9,278	13,681
Loans from related companies		3,000	8,500
Loan from a director		8,000	—
Other loan		—	9,000
		20,278	31,181
Repayable in the second year		1,250	1,279
Repayable in the third to fifth years, inclusive		2,919	3,831
Repayable beyond five years		510	909
		24,957	37,200
Less: Portion classified as current liabilities		(20,278)	(31,181)
Long term portion		4,679	6,019

Notes:

(a) The banking facilities of the Group are secured by:

- (i) mortgages over the Group's land and buildings situated in Hong Kong, which have an aggregate carrying value at 30 June 2003 of HK\$9,400,000 (2002: HK\$9,400,000) (*note 14*); and
- (ii) corporate guarantees from the Company and certain subsidiaries in the aggregate amount of HK\$28,300,000 (2002: HK\$31,300,000).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

24. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

- (b) The loans from related companies are unsecured, bear interest at Hong Kong dollar prime rate per annum, and is not repayable until the Group has sufficient resources to meet its current liabilities.
- (c) The loan from a director is unsecured, bears interest at Hong Kong dollar prime rate per annum, and is not repayable until the Group has sufficient resources to meet its current liabilities.
- (d) The other loan borrowed from an independent third party was guaranteed by the Company and bore interest at Hong Kong dollar prime rate per annum and was fully repaid during the year.

25. FINANCE LEASE PAYABLES

The Group leased certain of its computer equipment and software for its provision of professional IT contract services. These leases were classified as finance leases. The average discount rates implicit in the leases ranged from 7.3% to 16.7%.

At the balance sheet date, the total future minimum lease payments under finance leases and their present values were as follows:

	Group			
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	2003	2003	2002	2002
Amounts payable:				
Within one year	—	—	88	76
In the second year	—	—	88	80
In the third to fifth years, inclusive	—	—	58	56
	<hr/>	<hr/>	<hr/>	<hr/>
Total minimum finance lease payments	—	—	234	212
		<hr/> <hr/>		<hr/> <hr/>
Future finance charges	—	—	(22)	—
	<hr/>	<hr/>	<hr/>	<hr/>
Total net finance lease payables	—	—	212	—
Portion classified as current liabilities	—	—	(76)	—
	<hr/>	<hr/>	<hr/>	<hr/>
Long term portion	—	—	136	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

26. DEFERRED TAX

No provision for deferred tax has been made by the Company and the Group as the net timing differences did not give rise to deferred tax liabilities at the balance sheet date (2002: Nil).

The principal components of the Group's and Company's deferred tax assets/(liabilities) not provided for, calculated at 17.5% (2002: 16%) on the cumulative timing differences at the balance sheet date, are as follows:

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accelerated				
depreciation allowances	(189)	(218)	—	—
Tax losses	13,485	10,643	743	301
Others	—	(77)	—	—
	<u>13,296</u>	<u>10,348</u>	<u>743</u>	<u>301</u>

The potential tax benefits attributable to tax losses of certain subsidiaries have not been recognised as they are not expected to be utilised in the foreseeable future (2002: Nil).

27. SHARE CAPITAL

Shares

	Company	
	2003	2002
	HK\$'000	HK\$'000
<i>Authorised:</i>		
10,000,000,000 shares of HK\$0.10 each	<u>1,000,000</u>	<u>1,000,000</u>
<i>Issued and fully paid:</i>		
1,104,000,000 shares of HK\$0.10 each	<u>110,400</u>	<u>110,400</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

27. SHARE CAPITAL (Continued)

Shares (continued)

A summary of the transactions in the Company's issued share capital during the year is as follows:

	Number of shares in issue	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
At 1 July 2001	920,000,000	92,000	7,025	99,025
New issue of shares	184,000,000	18,400	—	18,400
At 30 June 2002 and 2003	<u>1,104,000,000</u>	<u>110,400</u>	<u>7,025</u>	<u>117,425</u>

On 18 March 2002, 184,000,000 shares of HK\$0.10 each were allotted and issued for cash of HK\$18,400,000.

Pursuant to a special resolution passed on 30 May 2003, the nominal value of all issued and unissued shares in the share capital of the Company was reduced from HK\$0.10 to HK\$0.01 per share (the "Capital Reduction"). Subsequent to the balance sheet date on 28 August 2003, the Capital Reduction became unconditional and effective. The authorised share capital of the Company of HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.1 each has then been reduced to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each. The issued share capital of the Company of HK\$110,400,000 has also been reduced to HK\$11,040,000 as a result of the change in par value of shares in issue and the credit of HK\$99,360,000 arising from the Capital Reduction has also been eliminated against the accumulated losses of the Company as at 30 June 2004.

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 28 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

28. SHARE OPTION SCHEMES

SSAP 34 was adopted during the year, as explained in note 2 and under the heading “Employee benefits” in note 3 to the financial statements. As a result, the following detailed disclosures relating to the Company’s share option schemes are now included in the note to the financial statements. In prior years, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the GEM Listing Rules.

(a) Pre-IPO share option plan

In recognising the contribution of certain directors of the Group to the growth of the Group and/or the listing of the shares of the Company on the GEM of the Stock Exchange, the shareholders adopted a Pre-IPO share option plan (the “Pre-IPO Plan”) on 24 July 2000. Pursuant to the terms of the Pre-IPO Plan, 25,725,752 options to subscribe for shares of the Company were granted to three executive directors of the Company on 26 July 2000, at an exercise price of HK\$0.70, with a vesting period starting from six months after 2 August 2000 until 23 July 2010. However, each of the grantees is not allowed to exercise in aggregate in excess of 25% of all the options granted within any six-month period. The Pre-IPO Plan expired on 2 August 2000, but the granted options remain exercisable.

The following share options were outstanding under the Pre-IPO Plan during the year:

Name of grantee	Number of	Exercise period	Date of grant*	Exercise price
	share options at			per share
	30 June 2003			HK\$
Directors				
Mr. Kwong Chak Chung	8,212,041	2 February 2001 to 23 July 2010	26 July 2000	0.70
Mr. Yip Sam Lo	13,699,083	2 February 2001 to 23 July 2010	26 July 2000	0.70
Mr. Leung Yiu Chown, Desmond	3,814,628	2 February 2001 to 23 July 2010	26 July 2000	0.70
	<hr/> 25,725,752			

* The resting period of the share option is from the date of grant until the commencement of the exercise period.

No options were exercised under the Pre-IPO Plan up to the date of this report.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

28. SHARE OPTION SCHEMES *(Continued)*

(b) Share option scheme

The Company adopted a share option scheme (the “Scheme”) on 24 July 2000 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group’s operations. Pursuant to the Scheme, the Board of Directors of the Company is authorised, at its absolute discretion, to invite any employees, including any executive Directors of the Company or any of its subsidiaries, to take up options to subscribe for shares of the Company. The Scheme became effective for a period of ten years commencing on the listing of the Company’s shares on 2 August 2000. Further details of the Scheme are also set out in the Prospectus dated 27 July 2000.

The maximum number of shares in respect of which options may be granted under the Scheme, together with the 25,725,752 options so granted under the Pre-IPO Plan, may not exceed 10% of the issued share capital of the Company or to a maximum of 30% should the shareholder renew the 10% limit from time to time which have been duly allotted and issued. At 30 June 2003, the number of shares issuable under the share options granted under the Scheme was 42,804,000, together with the options granted under the Pre-IPO Plan, the total number of shares issuable under the Company’s share option schemes amounted to 68,529,752, which represented 6.2% of the Company’s shares in issue as at that date.

The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 25% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting of the Company.

The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than five years from the date of the offer of the share options or the expiry date of the Scheme, whichever is earlier.

The exercise price of the share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company’s shares on the date of the offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of the offer.

The Directors are aware that some of the terms of the Scheme do not comply with the requirements of Chapter 23 of the GEM Listing Rules which became effective on 1 October 2001. If the Company intends to grant options under the Scheme, the Directors will ensure that any of such grant of options complies with the requirements of the said Chapter 23 of the GEM Listing Rules.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

28. SHARE OPTION SCHEMES (Continued)

(b) Share option scheme (continued)

At the beginning of the year, there were 42,804,000 options outstanding under the Scheme, of which, 25,816,000 share options entitled the holders thereof to subscribe in cash for fully paid ordinary shares of HK\$0.10 each in the Company at subscription prices ranging from HK\$0.228 to HK\$0.38 per share (subject to adjustment) during various periods between 22 November 2000 and 22 March 2004 (both dates inclusive). 16,988,000 share options entitled the holders thereof to subscribe for shares of the Company at an exercise price of HK\$0.115 at any time during periods between 19 December 2003 and 18 December 2004 (both days inclusive).

The following information on share options is required to be disclosed pursuant to the GEM Listing Rules:

Name or category of participant	Number of share options outstanding at 30 June 2002 and 2003	Date of grant*	Exercise period of share options	Exercise price per share** HK\$
Directors				
Mr. Leung Yiu Chown, Desmond	1,000,000	22 November 2000	22 November 2000 to 21 November 2003	0.38
Mr. Xu Jie	1,000,000	22 November 2000	22 November 2000 to 21 November 2003	0.38
	2,000,000	23 March 2001	23 March 2001 to 22 March 2004	0.228
	3,000,000			
Other employees				
In aggregate	10,896,000	22 November 2000	22 November 2000 to 21 November 2003	0.38
	10,920,000	23 March 2001	23 March 2001 to 22 March 2004	0.228
	16,988,000	19 December 2001	19 December 2001 to 18 December 2004	0.115
	42,804,000			

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

28. SHARE OPTION SCHEMES (Continued)

(b) Share option scheme (continued)

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

No share options were granted or exercised during the year and there were 42,804,000 share options outstanding at the balance sheet date.

There were 68,529,752 share options outstanding at the balance sheet date. The exercise in full of such share options would, under the present capital structure of the Company, will result in the issue of 68,529,752 additional shares of HK\$0.10 each, with aggregate proceeds before related issue expenses of approximately HK\$27,808,000.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 32 to 33 of this annual report.

(b) Company

	Share premium HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 July 2001	24,999	(38,347)	(13,348)
Net loss for the year	—	(68,740)	(68,740)
At 30 June 2002 and 1 July 2002	24,999	(107,087)	(82,088)
Net loss for the year	—	(8,453)	(8,453)
At 30 June 2003	24,999	(115,540)	(90,541)

29. RESERVES *(Continued)*

The share premium account of the Company includes (i) premium arising from the new issue of shares in the prior year; and (ii) the difference between the then consolidated net assets of the subsidiaries acquired pursuant to the Reorganisation over the nominal value of the share capital of the Company issued in exchange therefor.

In accordance with the Companies Law (2000 Revision) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cashflows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid and refunded are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities and interest paid are now included in cash flows from financing activities. The presentation of the 2002 comparative cash flow statement has been changed to accord with the new layout.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 30 June 2002 has been adjusted to remove trust receipt loans amounting to HK\$3,492,000, previously included at that date. The year's movement in trust receipt loans is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries

During the year, the Group further acquired 54% and 41% equity interests in ePROgistics Limited and Shanghai EPRO Software Company Limited, respectively (see note 16). The aggregate fair values of the assets acquired and liabilities assumed of these subsidiaries as at the respective dates of acquisition were:

	Total
	HK\$'000
Net assets acquired:	
Fixed assets	411
Cash and bank balances	330
Trade receivables	2,885
Prepayments and other receivables	1,343
Accruals	(3,538)
Minority interests	(142)
	<hr/>
	1,289
Goodwill on acquisition (note 15)	1,238
	<hr/>
	2,527
	<hr/> <hr/>
Satisfied by:	
Cash	1,964
Reclassification to interests in subsidiaries	
from interests in associates	563
	<hr/>
	2,527
	<hr/> <hr/>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2003 HK\$'000	2002 HK\$'000
Cash consideration	1,964	—
Cash and bank balances acquired	(330)	—
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	1,634	—

Since its acquisition, ePROgistics Limited and Shanghai EPRO Software Company Limited contributed HK\$12,482,000 to the Group's turnover and loss of HK\$3,174,000 to the consolidated profit after tax and before minority interests for the year ended 30 June 2003.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries

	2003 HK\$'000	2002 HK\$'000
Net assets disposed of:		
Fixed assets	—	3,679
Inventories	—	12
Trade receivables	—	2,479
Prepayments, deposits and other receivables	—	3,204
Amount due from a shareholder	—	2,556
Cash and bank balances	—	3,837
Trade payables	—	(17)
Accrued liabilities	—	(2,277)
Amount due to a related company	—	(3,995)
Bank overdrafts	—	(468)
Finance lease payables	—	(982)
Minority interests	—	(5,259)
	—	2,769
Reserves released upon disposal	—	328
Gain on disposal of subsidiaries	—	11,004
	—	14,101
Satisfied by:		
Cash	—	406
Interest in a jointly-controlled entity	—	1,595
Interests in associates	—	12,100
	—	14,101

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(c) Disposal of subsidiaries (continued)

An analysis of the net outflow of cash and cash equivalents in respect of disposal of subsidiaries was as follows:

	2003 HK\$'000	2002 HK\$'000
Cash and bank balances disposed of	—	(3,837)
Bank overdrafts acquired	—	468
Cash consideration	—	406
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	—	(2,963)
	<hr/>	<hr/>

The subsidiaries disposed of contributed turnover of HK\$13,259,000, and net loss after tax of HK\$7,758,000 to the Group's consolidated results for the year ended 30 June 2002.

(d) Disposal of a jointly-controlled entity and an associate

As further detailed in notes 17 and 18 to the financial statements, during the year, the Group disposed of its interests in a jointly-controlled entity and an associate at the consideration of HK\$11,737,000 and HK\$2,817,000, respectively. During the year, the settlement for the disposal of a jointly-controlled entity of HK\$2,817,000 was received. At the balance sheet date, the aggregate outstanding sale proceeds receivable of HK\$11,737,000 were included in prepayments, deposits and other receivables.

(e) Major non-cash transactions

During the year, Guangzhou EPRO Computer Systems Limited completed its deregistration process in the PRC. The aggregate payables to its minority shareholder of HK\$1,930,000 was reclassified from minority interest to other payables.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

31. CONTINGENT LIABILITIES

- (a) The Company had contingent liabilities in respect of corporate guarantees for banking and finance lease facilities granted to certain subsidiaries in the aggregate amount of HK\$28,300,000 (2002: HK\$31,300,000). At the balance sheet date, such facilities were utilised by the subsidiaries to the extent of HK\$10,648,000 (2002: HK\$13,055,000).
- (b) The Group had contingent liabilities in respect of corporate guarantees for finance lease facilities granted to an associate in the aggregate amount of HK\$1,395,000 as at 30 June 2003.
- (c) At the balance sheet date, the Group had executed performance bonds of HK\$8,880,000 (2002: HK\$7,536,000) in respect of certain services provided by the Group.

32. COMMITMENTS

At the balance sheet date, the Company did not have any significant commitments. The Group's commitments at the balance sheet date were as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
(a) Capital contributions to the PRC subsidiaries	—	6,000

	Group	
	2003	2002
	HK\$'000	HK\$'000
(b) Total future minimum lease payments under non-cancellable operating leases falling due as follows:		
Within one year	2,093	1,444
In the second to fifth years, inclusive	1,103	1,405
	3,196	2,849

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

32. COMMITMENTS (Continued)

The Group's share of operating lease commitments of a jointly-controlled entity is as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Total future minimum lease payments under non-cancellable operating leases falling due as follows:		
Within one year	—	359
In the second to fifth years, inclusive	—	104
	<u> </u>	<u> </u>
	—	463
	<u> </u>	<u> </u>

33. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with the jointly-controlled entity, an associate and related companies in which certain directors of the Company have beneficial interests:

		2003	2002
	Notes	HK\$'000	HK\$'000
Management fees received from an associate	(a)	240	—
Interest paid to related companies and a director	(b)	356	467
Purchases from the jointly-controlled entity and an associate	(c)	2,078	1,794
Sales to the jointly-controlled entity and an associate	(d)	4,294	423
Sales to related companies	(d)	—	4,872
		<u> </u>	<u> </u>

Notes:

- (a) Management fees were charged to an associate in respect of the administrative support provided by the Group which was determined by mutual negotiation with reference to the actual costs incurred.
- (b) Interest was charged on the amounts advanced by related companies and a director at Hong Kong dollar prime rate per annum.
- (c) The purchases were made according to the prevailing market prices, except that a longer credit period was normally granted.
- (d) The sales of computer software and equipment were made according to the prevailing market prices and conditions offered to the major customers of the Group, except that a longer credit period was normally granted.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

30 June 2003

33. RELATED PARTY TRANSACTIONS *(Continued)*

As at 30 June 2003, loan advance of HK\$4,288,000 (2002: HK\$4,288,000) and trade receivable balance of HK\$6,512,000 (2002 : HK\$4,697,000) were made by the Group to a company registered in the People's Republic of China (the "PRC"), in which a director of the Company holds 51% in trust for an independent third party pursuant to a trust agreement dated 20 April 2001. As a result of the financial deficiency of this company, the Group had made a full provision of the outstanding receivable from this company at 30 June 2003 amounting to HK\$10,800,000 (2002: \$HK8,985,000), in aggregate. In the opinion of the directors, the company is not a related party of the Group pursuant to the aforesaid trust agreement which is confirmed as a legally enforceable agreement under the relevant trust laws in the PRC, pursuant to a legal opinion from the Group's PRC legal counsel.

34. POST BALANCE SHEET EVENT

Subsequent to the Capital Reduction as explained in note 27 to the financial statements, on 28 August 2003 the authorised share capital has been increased from HK\$100,000,000 to HK\$1,000,000,000 by the creation of 90,000,000,000 new ordinary shares of nominal value of HK\$0.01 each. The authorised share capital has then become HK\$1,000,000,000 divided into 100,000,000,000 new shares of HK\$0.01 each while the issued share capital of the Company is HK\$11,040,000 divided into 1,104,000,000 fully paid new shares of HK\$0.01 each.

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 19 September 2003.