

ePRO

EPRO LIMITED

易寶有限公司

(Incorporated in the Cayman Islands with limited liability)

FIRST QUARTERLY REPORT

FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2003

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

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

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

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

HIGHLIGHTS

- During the three months ended 30 September 2003, the Group's turnover decreased by 22% to approximately HK\$30,756,000.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$1,775,000, representing a 51% increase over the net loss of the corresponding period in 2002.
- No payment of an interim dividend for the three months ended 30 September 2003 is recommended by the Directors.

UNAUDITED RESULTS

The board of directors (the "Directors") of EPRO LIMITED (the "Company") announced the first quarterly unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 September 2003 together with the comparative unaudited figures for the corresponding period in 2002 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Three months ended 30 September	
	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
TURNOVER	2	30,756	39,398
Other revenue		2,933	1,816
Cost of goods sold		(21,425)	(25,882)
Selling and distribution costs		(1,044)	(1,591)
Administrative and other operating expenses		(12,811)	(15,250)
(LOSS) FROM OPERATING ACTIVITIES		(1,591)	(1,509)
Finance costs		(264)	(297)
Share of profits of associates		185	19
Share of profits of jointly controlled entity		—	592
(LOSS) BEFORE TAX		(1,670)	(1,195)
Tax	3	(94)	(82)
(LOSS) BEFORE MINORITY INTERESTS		(1,764)	(1,277)
Minority interests		(11)	98
NET (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,775)	(1,179)
Basic (loss) per share (HK cents)	4	(0.16)	(0.11)

1. Basis of preparation of the financial statements

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

Pursuant to a reorganisation scheme to rationalize the structure of the Group in preparation for the listing of the Company's shares on GEM in August 2000, the Company became the holding company of the companies now comprising the Group in July 2000.

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

The accounting policies applied to the figures in the Group's report for the three months ended 30 September 2003 are consistent with those applied to the annual accounts of the Group for the year ended 30 June 2003.

2. Turnover

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

3. Tax

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

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

	Three months ended 30 September	
	2003 HK\$'000	2002 HK\$'000
The Group:		
Hong Kong taxation	0	0
Overseas taxation	94	82
	<hr/>	<hr/>
	94	82
	<hr/>	<hr/>

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 30 September 2003. (2002: Nil)

4. Loss per share

The calculation of basic loss per share for the three months ended 30 September 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said period of approximately HK\$1,775,000 and on the weighted average number of 1,104,000,000 shares in issue during the three months ended 30 September 2003.

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

No diluted loss per share has been presented for the three months ended 30 September 2003 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

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

5. Reserves

Other than the net loss for the three months ended 30 September 2003, 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 on 28 August 2003. 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 2003.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2003 (2002: Nil).

FINANCIAL REVIEW

For the three months ended 30 September 2003, the Group recorded an unaudited consolidated turnover of approximately HK\$30,756,000, representing a 22% decrease as compared to the corresponding period in 2002. The unaudited net loss from ordinary activities attributable to shareholders amounted to approximately HK\$1,775,000, representing a 51% increase over the net loss of the corresponding period in 2002. The decrease in turnover of the Group was mainly due to the general weak demand in goods and services in the IT markets.

BUSINESS REVIEW

As the economic outlook remains in poor shape in the early months of this fiscal year, our industry is continuously suffering from sluggish market demand and fierce competition. In order to alleviate the economic hardship, substantial efforts have been made to explore new market opportunities, to maintain good relationship with clients and business partners, as well as to reinforce our sales and marketing strategies.

Systems integration services

Competent systems integration helps companies leverage on resource utilization by integration of distributed application systems, and gradually enhance their long-term competitiveness. Anyhow, the adverse economic and social impacts brought by the SARS virus still mystifying the local companies, as reflected in their holdback and decrease of IT budget.

IT development outsourcing

To improve efficiency and increase productivity, outsourcing becomes a progressively adopted business practices. The Group offers enterprise customers systems migration from legacy systems to servers as well as software development services. With software development now shifting from higher-cost labour market to lower-cost market such as China, the future potential of this business services remains promising.

IT professional services

The Group provides proven IT network management solutions and specialized IT professional services to cater clients' business needs. With the prospect of a large network management solution market and our team of IT network management specialists, the Group is well equipped with our service capabilities to expand this services offering in the coming years.

Comprehensive logistics solutions

The overall demand in logistic IT solutions is still promising in spite of the decelerated business environment. Through years of solid experiences and dedication, the Group has built close and trusted business relationships with a number of logistics providers in the mainland market. We will continue to focus our efforts in securing market position in this fast-growing market.

Outlook

The Group remains conservatively optimistic about our business development in the long run. According to an IDC study released in June this year, the systems integration market in Asia-Pacific (excluding Japan) will increase to US\$8.6 billion in 2007 at a double-digit Compound Annual Growth Rate (CAGR) of 14%. Besides IT Outsourcing, systems integration is the second largest spending among all other IT services foundations. The systems integration market in PRC will grow at a CAGR of 26% by 2007, and PRC is forecast to become the largest systems integration services market in the region (excluding Japan) by 2005.

Despite project size in recent times has been trimmed down into a more modular format with shorter timeframe and thinner margin, the Group remains confident to confront the tumultuous market by realigning our strategies and focusing on our core competencies, as well as further leveraging existing relationships with business partners.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 30 September 2003.

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

A. DIRECTORS AND CHIEF EXECUTIVES

As at 30 September 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	Founder of a discretionary trust	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%

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. These shares were held by Araucarea Holdings Ltd. ("Araucarea"), a corporation wholly-owned by TUYF Company Limited as trustee of The TUYF Unit Trust, a unit trust of which all of the units in issue are owned by HSBC International Trustee Limited in its capacity as the trustee of The TUYF Family Trust, a discretionary family trust of which the objects include the family members of Mr. Yip Sam Lo.

Accordingly, Mr. Yip Sam Lo, as founder of The TUYF Family Trust was deemed to be interested in the shares of the Company held by Araucarea.

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.

(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	Founder of a discretionary trust	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%

Notes:

1. These shares were held by Araucarea, a corporation wholly-owned by TUYF Company Limited as trustee of The TUYF Unit Trust, a unit trust of which all of the units in issue are owned by HSBC International Trustee Limited in its capacity as the trustee of The TUYF Family Trust, a discretionary family trust of which the objects include the family members of Mr. Yip Sam Lo.

Accordingly, Mr. Yip Sam Lo, as founder of The TUYF Family Trust was deemed to be interested in the 5,112,991 non-voting deferred shares of EPRO Systems Limited held by Araucarea.

2. 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%

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 18.71(A)(1) of the GEM Listing Rules:

(1) Pre-IPO share option plan

Name of grantee	Number of outstanding share options as at 1 July 2003	Date of grant*	Exercise period	Exercise price per share HK\$	Number of outstanding share options as at 30 September 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 2003	Date of grant*	Exercise period	Exercise price per share HK\$	Number of outstanding share options as at 30 September 2003
Mr. Leung Yiu Chown, Desmond	1,000,000	22 November 2000	22 November 2000 to 21 November 2003	0.38	1,000,000

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

(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 September 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.

B. SUBSTANTIAL SHAREHOLDERS

As at 30 September 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%
TUYF Company Limited	Trustee	262,577,201	3	23.78%
HSBC International Trustee Limited	Trustee	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. Such interest was also disclosed as the interest 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.

- (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.

COMPETITION AND CONFLICT OF INTEREST

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

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) on 10 July 2000 with written terms of reference in compliance with the requirements as set out in Rules 5.23 and 5.24 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Group. The Committee comprises Mr. Yip Sam Lo and the two independent non-executive Directors, Mr. David Egryn Jones and Mr. Li Ming Lun.

The information contained in the Group’s first quarterly report for the three months ended 30 September 2003 has not been audited but has been reviewed by the Committee, who was of the opinion that such report complied with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures had been made.

By order of the Board
Yip Sam Lo
Managing Director

Hong Kong, 13 November 2003