

ePRO

EPRO LIMITED

易寶有限公司

(Incorporated in the Cayman Islands with limited liability)

HALF-YEAR REPORT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2003

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

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

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

The principal means of information dissemination on GEM is publication on the internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

- For the six months ended 31 December 2003, the Group's turnover decreased by 22% to approximately HK\$52 million.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$2,810,000.
- No payment of an interim dividend for the six months ended 31 December 2003 is recommended by the Directors.

UNAUDITED RESULTS

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

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	For the three months ended 31 December		For the six months ended 31 December	
		2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
TURNOVER	2	21,461	27,203	52,217	66,601
Other revenue		1,470	59	4,403	1,875
Cost of goods sold		(12,320)	(15,018)	(33,745)	(40,900)
Selling and distribution cost		(915)	(1,457)	(1,959)	(3,048)
Administrative and other operating expenses		(10,690)	(11,350)	(23,501)	(26,600)
LOSS FROM OPERATING ACTIVITIES	3	(994)	(563)	(2,585)	(2,072)
Finance costs	4	(275)	(294)	(539)	(591)
Share of profits of associates		235	21	420	40
Share of profits of jointly controlled entity		0	1,139	0	1,731
		(1,034)	303	(2,704)	(892)
(LOSS)/PROFIT BEFORE TAX					
Tax	5	(84)	(80)	(178)	(162)
(LOSS)/PROFIT BEFORE MINORITY INTERESTS		(1,118)	223	(2,882)	(1,054)
Minority interests		83	7	72	105
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(1,035)	230	(2,810)	(949)
Basic (loss)/earnings per share (HK cents)	6	(0.09)	0.02	(0.25)	(0.09)

UNAUDITED CONSOLIDATED BALANCE SHEET

		As at 31 December 2003 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	As at 30 June 2003 (Audited) <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets		11,985	13,600
Interest in a jointly-controlled entity		0	0
Interests in associates		613	0
Other assets		317	317
		<u>12,915</u>	<u>13,917</u>
CURRENT ASSETS			
Inventories		18,357	6,931
Trade receivables	7	12,425	21,041
Prepayments, deposits and other receivables		9,060	16,208
Due from associates		2,822	0
Due from a jointly-controlled entity		0	0
Tax recoverable		281	281
Cash and cash equivalents		23,854	21,781
Pledged deposits		10,036	9,719
		<u>76,835</u>	<u>75,961</u>
CURRENT LIABILITIES			
Amount due to contract customers		0	496
Trade payables and accrued liabilities	8	29,352	33,195
Deposits received		11,441	2,833
Deferred revenue		1,066	2,093
Tax payable		7,350	7,171
Due to associates		140	0
Interest-bearing bank and other borrowings		20,402	20,278
		<u>69,751</u>	<u>66,066</u>
NET CURRENT ASSETS		<u>7,084</u>	<u>9,895</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,999</u>	<u>23,812</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		4,055	4,679
MINORITY INTERESTS		<u>(72)</u>	<u>0</u>
		<u>16,016</u>	<u>19,133</u>
CAPITAL AND RESERVES			
Issued capital		11,040	110,400
Reserves	9	4,976	(91,267)
		<u>16,016</u>	<u>19,133</u>

UNAUDITED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 31 December 2003 (Unaudited) <i>HK\$'000</i>	For the six months ended 31 December 2002 (Unaudited) <i>HK\$'000</i>
NET CASH INFLOW FROM OPERATING ACTIVITIES	1,618	2,401
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	0	0
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(348)	(473)
TAX		
Overseas profits taxes paid	(1)	(8)
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	<u>731</u>	<u>(820)</u>
NET CASH INFLOW BEFORE FINANCING ACTIVITIES	2,000	1,100
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	<u>(739)</u>	<u>(12,078)</u>
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,261	(10,978)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>16,521</u>	<u>31,316</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>17,782</u></u>	<u><u>20,338</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	23,854	33,492
Bank overdrafts	<u>(6,072)</u>	<u>(13,154)</u>
	<u><u>17,782</u></u>	<u><u>20,338</u></u>

Notes:

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

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

The accounting policies applied to the figures in the Group's half-year report for the six months ended 31 December 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. Loss from operating activities

The Group's loss from operating activities is arrived at after charging the following:

	For the three months ended 31 December		For the six months ended 31 December	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:				
Owned fixed assets	540	771	1,182	1,585
Leased fixed assets	0	15	0	31

4. Finance Costs

The finance costs comprise:

	For the three months ended 31 December		For the six months ended 31 December	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expenses on bank loans and overdrafts	172	232	321	458
Interest expenses on other loans	103	59	218	124
Interest expenses on finance leases	0	3	0	9
Total finance costs	<u>275</u>	<u>294</u>	<u>539</u>	<u>591</u>

5. Tax

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

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

	For the three months ended 31 December		For the six months ended 31 December	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
The Group:				
Provision for the period				
— elsewhere	84	80	178	162
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

6. (Loss)/earnings per share

The calculation of basic loss per share for the three months and the six months ended 31 December 2003 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said periods of approximately HK\$1,035,000 and HK\$2,810,000 respectively and on the weighted average number of 1,104,000,000 shares in issue during the three months and the six months ended 31 December 2003 respectively.

The calculation of basic earnings/(loss) per share for the three months and six months ended 31 December 2002 is based on the unaudited net profit/(loss) from ordinary activities attributable to shareholders for the said periods of approximately HK\$230,000 and (HK\$949,000) respectively and on the weighted average number of 1,104,000,000 shares in issue during the three months and the six months ended 31 December 2002 respectively.

No diluted loss per share has been presented for the three months and the six months ended 31 December 2003 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

No diluted earnings/(loss) per share has been presented for the three months and the six months ended 31 December 2002, as the Company did not have any dilutive potential ordinary shares.

7. Trade Receivables

The ageing analysis of trade receivables is as follows:

	As at 31 December 2003 (Unaudited) HK\$'000	As at 30 June 2003 (Audited) HK\$'000
Trade Receivables	27,514	37,180
Less: Provision for doubtful debts	(15,089)	(16,139)
	<u>12,425</u>	<u>21,041</u>
Outstanding balances with ages:		
0 to 90 days	3,943	18,394
91 to 180 days	8,431	1,463
181 to 270 days	19	36
271 to 360 days	17	821
Over 360 days	15	327
	<u>12,425</u>	<u>21,041</u>

It is the Group's policy to grant a normal term of credit period of 30 to 90 days to its trade customers.

8. Trade Payables

As at 31 December 2003, trade payables and accrued liabilities accounted to approximately HK\$29,352,000 (30 June 2003: approximately HK\$33,195,000), including trade payables of approximately HK\$11,815,000 (30 June 2003: approximately HK\$11,205,000). The ageing analysis of trade payables is as follow:

	As at 31 December 2003 (Unaudited) HK\$'000	As at 30 June 2003 (Audited) HK\$'000
Outstanding balances with ages:		
0 to 90 days	6,341	7,885
91 to 180 days	2,588	1,107
181 to 360 days	1,636	442
Over 360 days	1,250	1,771
	<u>11,815</u>	<u>11,205</u>

9. Reserves

Group	Issued share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Retained profits/ (accumulated losses) <i>HK\$'000</i>	Reserve fund <i>HK\$'000</i>	Expansion reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 30 Sept and 1 Oct 2002	110,400	7,025	479	(102,347)	488	222	951	17,215
Net profit/(loss) for the period				230				230
At 31 Dec 2002	<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(102,117)</u>	<u>488</u>	<u>222</u>	<u>951</u>	<u>17,445</u>
Balance at 30 June and 1 July 2002	110,400	7,025	479	(101,168)	488	222	951	18,394
Net profit/(loss) for the period				(949)				(949)
At 31 Dec 2002	<u>110,400</u>	<u>7,025</u>	<u>479</u>	<u>(102,117)</u>	<u>485</u>	<u>222</u>	<u>951</u>	<u>17,445</u>
Balance at 30 Sept and 1 Oct 2003	110,400	7,025	479	(100,868)			322	17,358
Transfer from Share Capital regarding Capital Reduction	(99,360)	99,360						
Expenses for Capital Reduction		(307)						(307)
Net profit/(loss) for the period				(1,035)				(1,035)
At 31 Dec 2003	<u>11,040</u>	<u>106,078</u>	<u>479</u>	<u>(101,903)</u>	<u></u>	<u></u>	<u>322</u>	<u>16,016</u>
Balance at 30 June and 1 July 2003	110,400	7,025	479	(99,093)			322	19,133
Transfer from Share Capital regarding Capital Reduction	(99,360)	99,360						
Expenses for Capital Reduction		(307)						(307)
Net profit/(loss) for the period				(2,810)				(2,810)
At 31 Dec 2003	<u>11,040</u>	<u>106,078</u>	<u>479</u>	<u>(101,903)</u>	<u></u>	<u></u>	<u>322</u>	<u>16,016</u>

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2003 (2002: Nil).

FINANCIAL REVIEW

For the six months ended 31 December 2003, the Group recorded an unaudited consolidated turnover of approximately HK\$52 million 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\$2,810,000. In comparison, the Group recorded an unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$949,000 for the corresponding period in 2002. The decrease in turnover of the Group was mainly due to the general weak demand in goods and services in the IT markets.

BUSINESS REVIEW

The Group stays conservative and alert towards the generally improving market sentiment. Despite the slightly lessened economic hardship, rivalry amongst competitors remains fierce. The Group is faithful to the mission to deliver outstanding professional services to client and it has earned the status as being one of the well-trusted IT partners in the industry.

Systems Integration services

Systems Integration in the Hong Kong market remains a challenging one. IT buyers are more concerned about the return on IT investment and therefore are seeking solutions that will increase operating efficiency and minimize operating expenses in a cost-effective manner. The Group will continue to focus our effort in securing our market position in this demanding business environment.

IT application development outsourcing services

Given the proven track record and sustained mutual trust built with our clients, our outsourcing business holds out a promising future. A number of development outsourcing projects were completed during the period and yielded customer satisfaction. In view of the potential lucrative market, the Group will continue to keep close attention to new market expansion opportunities.

IT professional services

As efficiency was put the first priority nowadays, enterprises are eager to reengineer, upgrade and construct their IT networks and infrastructures, as to well as to integrate their current IT resources and maximize their utilization. Based on the solid experiences in IT infrastructure technologies, the Group continues to provide professional services for selective IT management solutions, which are now gaining high popularity in the Mainland of China market.

Comprehensive logistics solutions

Logistics industry stands a bright prospect amidst the economic hardship. Since operation automation improves efficiency and raise profit in the long run, logistics service providers are in general keeping an open mind on information technology investment, as a result of which, cultivates a positive outlook to our logistics solutions.

OUTLOOK

In January 2004, an IDC research reveals that there will be a likely 11% IT spending growth to US\$88 Billion in 2004 in the Asia/Pacific region (excluding Japan), whereas China, India and South Korea will account for 80% of incremental revenue in 2004 over the previous year. Looking forward to a favourable prospect, the Group will continue our effort to increase our service quality and customer-centric solutions, as well as to expand our product range in this stimulating time.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operation is mainly financed by the internal financial resources and bank borrowings. The current ratio of the Group as at 31 December 2003 was 1.10 (30 June 2003: 1.15). The Group's gearing ratio as at 31 December 2003 was 0.82 (30 June 2003: 0.79), calculated based on the Group's total debts of HK\$73,806,000 (30 June 2003: HK\$70,745,000) over total assets of HK\$89,750,000 (30 June 2003: HK\$89,878,000).

SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to loss from operating activities by geographical area is as follows:

	Turnover			
	For the three months		For the six months	
	ended 31 December		ended 31 December	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	7,778	12,756	23,868	29,310
Mainland China	12,668	13,522	26,217	35,830
Singapore	1,015	925	2,132	1,461
	<u>21,461</u>	<u>27,203</u>	<u>52,217</u>	<u>66,601</u>
Contribution to (loss)/profit from operating activities				
	For the three months		For the six months	
	ended 31 December		ended 31 December	
	2003	2002	2003	2002
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	(661)	(1,655)	730	(1,236)
Mainland China	(336)	1,212	(3,357)	(583)
Singapore	3	(120)	42	(253)
	<u>(994)</u>	<u>(563)</u>	<u>(2,585)</u>	<u>(2,072)</u>

In accordance with the Group's internal financial reporting, the Group has chosen geographical segment information as the primary reporting format.

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 46% and 50% (2002: 44% and 54%) of the Group's turnover were derived from Hong Kong and Mainland of China respectively for the six months ended 31 December 2003. Whereas Hong Kong recorded profit/(loss) from operating activities of HK\$730,000 (2002: (HK\$1,236,000)) for the six months ended 31 December 2003. Mainland of China recorded loss from operating activities of HK\$3,357,000 (2002: HK\$583,000) for the six months ended 31 December 2003.

CAPITAL STRUCTURE

The Group generally finances its operations with internally generated cashflows, finance leases, banking facilities and loans from related companies. 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.

As at 31 December 2003, the interest rate of banking and finance leases facilities was charged at the range of Hong Kong prime rate +/- 1%.

As at 31 December 2003, the amount of short term bank and other borrowings of the Group which will be repayable within a year was about HK\$20.4 million (as at 30 June 2003: about HK\$20.3 million) and the amount of long term bank and other borrowings of the Group which will be repayable more than a year was about HK\$4.0 million (as at 30 June 2003: about HK\$4.7 million).

For the six months ended 31 December 2003, there is no material change in the capital structure of the Company.

EMPLOYEE INFORMATION

As at 31 December 2003, the number of staff of the Group was 234 (as at 31 December 2002: 263). Staff remuneration is reviewed once a year or as the management deems appropriate. Changes in remuneration are based on a range of factors including the Group's performance, the competitiveness of remuneration with the external market, and individual employees' performance during the year. Employees were paid at fixed remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.

CONTINGENT LIABILITIES

As at 31 December 2003, the Company had contingent liabilities in respect of corporate guarantees for banking facilities and finance leases facilities to certain subsidiaries which is about HK\$28 million (as at 30 June 2003: about HK\$28 million). Also, the Group has contingent liabilities in respect of corporate guarantees for finance lease facilities granted to an associate in the aggregate amount of HK\$1.4 million (as at 30 June 2003: HK\$1.4 million). The Group had executed performance bonds of about HK\$9 million (as at 30 June 2003: about HK\$9 million) in respect of certain services provided by the Group.

FOREIGN EXCHANGE RISK

The Group mainly generated revenue and incurred costs in Hong Kong dollars and Renminbi. The Group also generate revenue in Japanese yen and a forward contract Japanese yen 60 million was purchased at 111.22 against US dollars with maturity in October 2004. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have any plan for material investments and acquisition or disposal of material capital assets and/or subsidiaries and affiliated companies during the six months ended 31 December 2003.

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 six months ended 31 December 2003.

CHARGES ON ASSETS

The details of the Group's assets pledged as securities for banking facilities is as follows:

	As at 31 December 2003 (Unaudited) HK\$'000	As at 30 June 2003 (Audited) HK\$'000
Leasehold properties	9,260	9,400

FINANCIAL ASSISTANCE AND GUARANTEES TO AN AFFILIATED COMPANY

As at 31 December 2003 and 30 June 2003, the Group had (a) a gross amount of approximately HK\$3.42 million due from 2GoTrade Limited ("2GoTrade"); and (b) contingent liabilities of approximately HK\$1.395 million in respect of corporate guarantees for finance leases granted to 2GoTrade, which were utilised by 2GoTrade to the amount of approximately HK\$134,000 (30 June 2003: HK\$216,000). The aggregate amount of approximately HK\$4,818,000 represented approximately 25.2% of the net asset value (based on 30 June 2003 audited accounts) of the Group.

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

The balance sheet of 2GoTrade as at 31 December 2003 is set out below:

	Balance at 31 December 2003 HK\$'000	Group's attributable interest HK\$'000
Fixed assets	—	—
Current assets	848	254
Current liabilities	<u>(20,861)</u>	<u>(6,258)</u>
Net liabilities	<u><u>(20,013)</u></u>	<u><u>(6,004)</u></u>

RIGHTS ISSUE

As detailed in the Company's announcement dated 10 November 2003, the Company proposed to raise approximately HK\$5.5 million, before expenses, by issuing not less than 496,800,000 new shares of HK\$0.01 each in the capital of the Company ("Rights Shares") by way of the issue of Rights Shares to the qualifying shareholders of the Company on the basis of nine Rights Shares for every twenty existing shares of the Company at the subscription price of HK\$0.011 per Rights Share ("Rights Issue"). The net proceeds of the Rights Issue, after deduction of expenses, are estimated to be approximately HK\$4.3 million and the Company intends apply such amount as to approximately HK\$2.0 million for product development with strategic partners, approximately HK\$1.0 million for the development and management of the Group's brandname and the balance of approximately HK\$1.3 million for participation in trade fairs and exhibitions.

A circular containing, inter alia, further information of the Rights Issue, application for Whitewash Waiver, the recommendation of the independent board committee and the advice from the independent financial adviser in relation to the Rights Issue and the Whitewash Waiver was despatched to the Company's shareholders on 5 December 2003.

At the extraordinary general meeting of the Company held on 29 December 2003, ordinary resolutions in relation to the Rights Issue and the Whitewash Waiver were approved by the independent shareholders of the Company.

The Rights Issue has been completed and dealing of the Rights Shares on GEM commenced at 9:30 a.m. on 6 February, 2004. Mr. Huang Shaokang ("Mr. Huang"), a director of the Company, and China Dynamic Enterprises Limited ("China Dynamic"), a company controlled by Mr. Huang, took up his/its entitlement of 49,991,400 Rights Shares and 82,800,000 Rights Shares respectively under the Rights Issue. Pursuant to the underwriting agreement entered into between the Company and Kingston View International Limited ("Kingston View") on 29 October 2003 ("Underwriting Agreement"), the remaining balance of 96,094,897 Rights Shares have been subscribed by Kingston View.

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

A. DIRECTORS AND CHIEF EXECUTIVES

As at 31 December 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	Beneficial owner	161,083,400	1	10.06%
	Interest in corporation	266,800,000	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. The 266,800,000 shares of the Company represented the aggregate of 184,000,000 shares of the Company held by China Dynamic and the 82,800,000 Rights Shares which China Dynamic has undertaken to subscribe under the Rights Issue. Mr. Huang was deemed to be interested in 266,800,000 shares of the Company held by China Dynamic, a corporation wholly-owned by Mr. Huang. Apart from the above, Mr. Huang personally held 161,083,400 shares of the Company which represented the aggregate of 111,092,000 shares of the Company and 49,991,400 Rights Shares that Mr. Huang has undertaken to subscribe under the Rights Issue.

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, 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, 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	3,814,628	0.34%

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 18.58(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 31 December 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 lapsed during the period	Number of outstanding share options as at 31 December 2003
Mr. Leung Yiu Chown, Desmond	1,000,000	22 November 2000	22 November to 2000 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 31 December 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 31 December 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	266,800,000	1	16.67%
Ms. Yip Chi Yu	Interest of spouse	427,883,400	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	Founder of a discretionary trust	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%
Kingston View	Beneficial owner	364,008,600	7	22.74%
Mr. Liu Lin	Interest in corporation	364,008,600	7	22.74%

Notes:

1. The interest of China Dynamic has also been disclosed as interests of Mr. Huang 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 427,883,400 shares through interests of her spouse, Mr. Huang.
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. 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 Ms. Tai Fung.

Accordingly, Ms. Tai, as founder of The TUYF Family Trust was deemed to be interested in the shares of the Company held by Araucarea.

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.
7. Kingston View is taken to be interested in 364,008,600 shares of the Company by virtue of its underwriting obligations under the Underwriting Agreement.
8. Mr. Liu Lin was deemed to be interested in the 364,008,600 shares of the Company through his beneficial interest in Kingston View.

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

(i) the Company (physically settled equity derivatives)

Name of substantial shareholder	Capacity	Number of underlying ordinary shares interested	Notes	Percentage of issued share capital
Ms. Lau King Sau, Kenzie	Interest of spouse	8,212,041	1	0.7%
Ms. Tai Fung	Interest of spouse	13,699,083	2	1.2%

1. Ms. Lau King Sau, Kenzie was deemed to be interested in the 8,212,041 share options through interests of her spouse, Mr. Kwong Chak Chung.
2. Ms. Tai Fung was deemed to be interested in the 13,699,083 share options through interests of her spouse, Mr. Yip Sam Lo.

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.

SHARE OPTION SCHEMES

(a) Pre-IPO share option plan

Pursuant to the terms of a Pre-IPO share option plan (the “Pre-IPO Plan”) adopted by the Company on 24 July 2000, options for subscribing the shares of the Company had been granted to the following directors of the Company as follows:

Name of grantee	Date of grant*	Exercise period	Exercise price HK\$	Number of shares subject to the options as at 31 December 2003
Mr. Kwong Chak Chung	26 July 2000	2 February 2001 to 23 July 2010	0.70	8,212,041
Mr. Yip Sam Lo	26 July 2000	2 February 2001 to 23 July 2010	0.70	13,699,083
Mr. Leung Yiu Chown, Desmond	26 July 2000	2 February 2001 to 23 July 2010	0.70	3,814,628
				<hr/> 25,725,752 <hr/>

* *The vesting period of the share options is starting for a period of six months from 2 August 2000.*

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

(b) Share option scheme

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

Name or category of participant	Number of share options outstanding at 1 July 2003	Number of share options granted during the period	Number of share options lapsed during the period	Number of share options outstanding at 31 December 2003	Date of grant*	Exercise period of share options	Exercise price per share** HK\$
<i>Director</i>							
Mr. Leung Yiu Chown, Desmond	1,000,000	—	(1,000,000)	—	22 November 2000	22 November 2000 to 21 November 2003	0.38
<i>Other employees</i>							
In aggregate	11,896,000	—	(11,896,000)	—	22 November 2000	22 November 2000 to 21 November 2003	0.38
	12,920,000	—	—	12,920,000	23 March 2001	23 March 2001 to 22 March 2004	0.228
	16,988,000	—	—	16,988,000	19 December 2001	19 December 2001 to 18 December 2004	0.115
	42,804,000	—	(12,896,000)	29,908,000			

* *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 option was exercised under the Share Option Scheme up to the date of this report.

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.

BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules for the six months ended 31 December 2003.

AUDIT COMMITTEE

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

The information contained in the Group’s half-year report for the six months ended 31 December 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, 12 February 2004