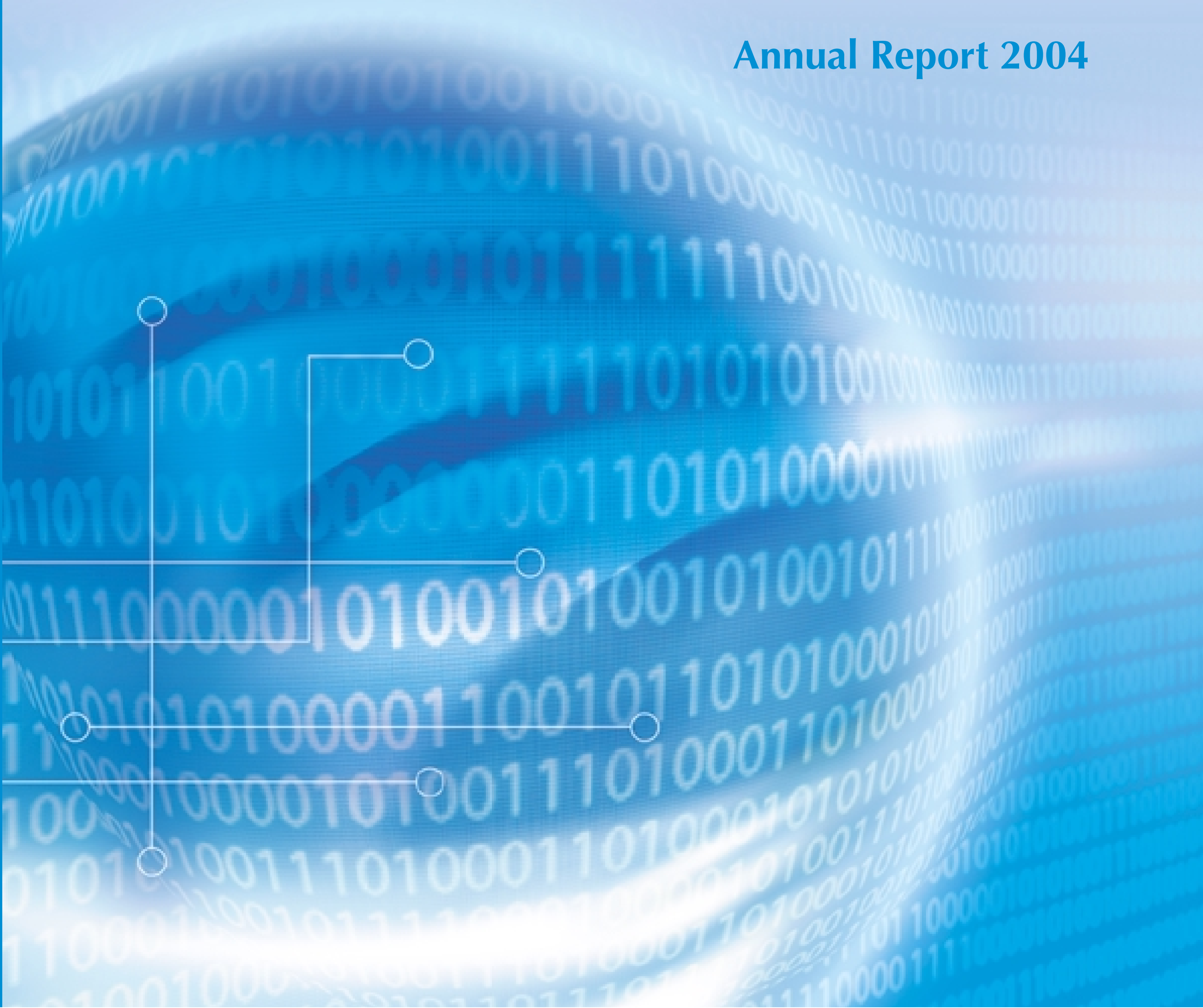
*e*PRO

EPRO LIMITED

(Incorporated in the Cayman Islands with limited liability)

Annual Report 2004



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.

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CHAIRMAN'S STATEMENT

Fiscal year 2004 brings to the Group both new challenges and opportunities. Although business condition remained adverse in the first half year, the Group put tremendous effort to consolidate its position in the highly potential and growing areas including IT application development outsourcing services and systems integration services when emerging signs of market recovery appear in the latter half year. With the continuous commitment of the management team, the Group strives to provide high quality services with the invaluable asset — our elite professional IT teams.

BUSINESS REVIEW

Systems integration services

The overall sentiment in IT investment is still in slow recovery due to the previous prolonged global economic downturn, albeit the slight recovery in economy. Oganizations are still conservative in new technology and large-scale IT projects spending while IT buyers weigh against the return of such IT services, tending to seek solutions that will increase operating efficiency and minimize operating expenses in a cost-effective manner. The Group will attach to the latest market trend and provide professional custom-made services as to the clients' needs.

IT development outsourcing services

Enterprises are increasingly focusing on the stability, reliability and efficiency of their IT solutions that address their key business requirements at a reasonable manageable cost. Since IT outsourcing is becoming a progressively adopted business practices, enterprises are more open-minded to initiate outsourcing deals and partner with key outsourcers that have strategic and technological expertise. Given the proven track record and our long, sustained mutual trust built with our clients, our IT development outsourcing business remains a promising one.

Professional IT services

The Group has acquired solid business knowledge in information technology infrastructure platform and IT management solutions areas through years of experiences in the market. A steady growth in the demand of professional IT services is expected in the years ahead. This growth is driven primarily by the continuous spending of corporations which are seeking gain in operational efficiencies through stable and reliable IT infrastructure in this increasingly competitive environment.

Comprehensive logistics solutions

Over the year, the Group has improved the quality and sophistication of our logistics application solutions, as well as enhanced our logistics industry specific know-how and skill sets in order to provide value-added services for our clients. Along with the intensified cross-broader transportation under the Closer Economic Partnership Arrangement (CEPA) logistics providers will certainly expect to maximize returns on prior IT investments and improve efficiencies. Through years of solid industry experiences and dedication, the Group is well positioned to capitalize the golden opportunities.

Prospect

In light of the economic uncertainties and intensified competitions in the industry , the Group is taking a very attentive approach to exercise conservative cost control and to explore new opportunities in the IT market. The Group remains confident in our capabilities to overcome the challenging times ahead, at the same time, looks forward to a rebound of the market.

The regional IT market looks promising in the long run, according to the recent International Data Centre (IDC) reports. In the June 2004 issue, the IDC estimated that the Asia/Pacific IT services market is growing at 13% CAGR (Compounded Annual Growth Rate) from 2003 to 2008. Greater China region, particularly the People's Republic of China (PRC) and India are expected to enjoy the highest growth in their System Integration ("SI") markets in the coming five years. Indicated in the IDC August report, the SI services market in Asia/Pacific (excluding Japan) is growing at 13.5% CAGR from 2003 to 2008 and will reach US$9.8 billion by the end of 2008. The Board believes that, with our determination and resilience, the Group will be able to grasp at the arising opportunities and show significant improvement in the coming years.

During the year, we are glad to have new directors to join the Board. We are confident that the Group will be benefited from the experience, leadership and vision of the new Board members that would strongly position EPRO on a vigorous platform for growth. In the years ahead, the management team will lead our Group in enhancing profit margin, at the same time, focus on driving shareholder value.

Appreciation

I would like to take this opportunity to express my gratitude to all management teams and our staff members for their dedication and significant contributions in the past year. I would also like to extend my sincere appreciation to all our fellow shareholders, customers and business partners for their continuous support and confidence in the Group.

On behalf of the Board
Huang Shaokang
Chairman

21 September 2004

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the financial year ended 30 June 2004, the Group recorded a turnover of HK$85,148,000, representing a decrease of 33% from last year. The decrease in turnover resulted from the general weak demand in goods and services in the IT markets.

The total operating expenses were HK$43,317,000 for 2004 (2003: HK$54,719,000), representing a decrease of 21% compared to previous year primarily. Under the difficult operating environment, the Group had exercised tight measures on cost control policies.

The audited net loss attributable to shareholders amounted to approximately HK$10,750,000. In comparison, the Group recorded an audited net profit attributable to shareholders of approximately HK$3,290,000 for the year ended 30 June 2003.

Comments on Segment Information

The Directors consider that the Group's primary segment reporting basis is by business segment. During the current and the prior year, the Group's operations relate solely to the provision of professional IT contract services. No further business segment information is presented.

Geographical 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 28% and 65% (2003: 46% and 51%) of the Group's turnover were derived from Hong Kong and Mainland China respectively.

Capital Structure

The Group generally finances its operations with internally generated cashflows, rental income, banking facilities provided by banks and loans from a shareholder and a 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 facilities.

As at 30 June 2004, the interest rate of banking facilities was charged a the range of Hong Kong prime rate +/- 1% (2003: the interest rate of banking and finance leases facilities was charged at the range of Hong Kong prime rate +/- 1%).

As at 30 June 2004, the amount of short term bank and other borrowings of the Group which were repayable within a year was HK$11,220,000 (2003: HK$20,278,000) and the amount of long term bank and other borrowings of the Group which were repayable over a year was HK$8,594,000 (2003: HK$4,679,000).

During the year ended 30 June 2004, the capital structure of the Company has the following changes:-

(i) Capital Reduction

Pursuant to a special resolution passed on 28 August 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"). 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 was 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 was 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 was eliminated against the accumulated losses of the Company during the year. Immediately after the Capital Reduction, the authorised share capital was increased from HK$100,000,000 to HK$1,000,000,000 by the creation of 90,000,000,000 new shares of nominal value of HK$0.01 each.

(ii) Rights Issue

A rights issue of nine rights share for every twenty existing shares held by members whose names appeared on the register of members on 9 January 2004 was made, at a subscription price of HK$0.011 per rights share, resulting in the issue of 496,800,000 shares of HK$0.01 each for a total cash consideration of approximately HK$5,465,000 before share issue expenses of HK$1,402,000 which were debited to the share premium account. Share options were adjusted on the same basis of the rights issue above, which resulted in the increase of 24,135,188 share options during the year.

Charges on Group Assets

The banking facilities of the Group are secured by:

(i) mortgages over the Group's land and buildings and investment property situated in Hong Kong, which have an aggregate carrying value at 30 June 2004 of HK$6,850,000 (2003: HK$9,400,000) and HK$3,150,000 (2003: Nil), respectively;

(ii) corporate guarantees amounting to an aggregate of HK$28,300,000 executed by the Company (2003: HK$28,300,000); and

(iii) pledge of certain of the Group's time deposits amounting to HK$6,501,000 (2003: HK$9,719,000).

Material Acquisitions/Disposals

On 22 March 2004, the Group entered into the agreement with the ICTs Hong Kong Limited pursuant to which the purchaser agreed to acquire and the Group agreed to dispose of its 75% equity interest in eRPO Computer Systems (Guangzhou) Company Limited for a cash consideration of approximately HK$2.6 million. In addition, the Group also disposed of its 70% equity interest in ePROgistics Limited during the year for a cash consideration of approximately HK$1.75 million.

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

Significant Investment

The Group has not held any significant investment for the year ended 30 June 2004.

Final Dividend

The Directors do not recommend the payment of a final dividend by the Company for the financial year ended 30 June 2004 (2003: Nil).

Liquidity, Financial Resources and Gearing Ratio

During the year under review, the Group financed its operations by internally generated cash flow, rental income, banking facilities provided by banks, and loans from a related company and a shareholder.

As at 30 June 2004, the Group's consolidated shareholders' funds, current assets and net current assets were HK$12,358,000 (2003: HK$19,133,000), HK$48,358,000 (2003: HK$75,961,000) and HK$7,832,000 (2003: HK$9,895,000), respectively. The decreases in current assets and net current assets were mainly due to the loss for the year.

In respect of the Group's current assets of HK$48,358,000 as at 30 June 2004, trade receivable (net of provision for doubtful debts) accounted for 13% whilst pledged deposit, cash and cash equivalents accounted for about 75%.

As at 30 June 2004, the Group's consolidated bank overdrafts and short-term bank and other loans were HK$6,970,000 (2003: HK$5,260,000) and HK$4,250,000 (2003: HK$15,018,000) respectively.

As at 30 June 2004, the Group's long term loans and borrowings totalling HK$8,594,000 (2003: HK$4,679,000) of which HK$6,471,000 will mature in the year ending 30 June 2006 and HK$2,025,000 is due for repayment in the three years ending 30 June 2009. The remaining HK$98,000 is repayable after 30 June 2009.

As at 30 June 2004, the Group's pledged deposit and cash and cash equivalents amounted to HK$36,200,000 (2003: HK$31,500,000).

As at 30 June 2004, the Group's gearing ratio (basis: total liabilities over total assets) was 80% (2003: 79%).

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

Although the gearing ratio is high at 80%, 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, Renminbi, Japanese Yen and United States dollars. The Directors consider the impact of foreign exchange exposure of the Group is minimal.

At 30 June 2004, the Group had outstanding foreign exchange forward contract to sell JPY48,330,000 (equivalent to HK$3,495,000) and buy US$434,544 (equivalent to HK$3,389,000). The net unrealised loss of this outstanding foreign exchange forward contract at the balance sheet date amounted to HK$106,000 and was charged to the profit and loss account during the year and recorded in other payables and accruals.

Contingent Liabilities

(a) The Company had contingent liabilities in respect of corporate guarantees for banking and finance lease facilities granted to certain subsidiaries and an associate in the aggregate amount of HK$29,695,000 (2003: HK$29,695,000). At the balance sheet date, such facilities were utilised by the subsidiaries and an associate to the extent of HK$11,894,000 (2003: HK$10,864,000).

(b) At 30 June 2003, the Group had executed performance bonds of HK$8,880,000 in respect of certain services provided by the Group.

Employees and Remuneration Policies

As at 30 June 2004, the total number of full time employees of the Group was 175 (2003: 260). The decrease in employees was mainly due to the disposal of subsidiaries. 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 evaluation 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 2004, 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 Directors
HUANG Shaokang *(Chairman)*
YIP Sam Lo
XIN Yi
LIU Lin
ZENG Weiren

Independent Non-executive Directors
LI Ming Lun
LU Wei

COMPANY SECRETARY
WONG Huk Yung, Hudson, CPA

QUALIFIED ACCOUNTANT
WONG Huk Yung, Hudson, CPA

COMPLIANCE OFFICER
YIP Sam Lo

AUTHORISED REPRESENTATIVES
YIP Sam Lo
WONG Huk Yung, Hudson

AUDIT COMMITTEE
YIP Sam Lo
LI Ming Lun *(Chairperson)*
LU Wei

LEGAL ADVISERS TO THE COMPANY
David Lo & 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
1601, 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

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 39, is the chairman and the managing director of the Group. He joined the Group in 2002 and is responsible for overall strategy planning, management and development of the Group. Mr. Huang has over 13 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 (葉三閭), aged 57, is an executive director of the Group. He joined the Group in 1992 responsible for the business development of the Group. Mr. Yip has over 22 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. XIN Yi (辛毅), aged 33, is an executive director of the Group. Mr. Xin has more than 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.

Mr. LIU Lin(柳林), aged 34, is an executive director of the Group and a director of Shanghai EPRO Software Company Limited. 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 Master of Science degree in Computer Science from Columbia University, the United States.

Mr. ZENG Weiren（曾為人）, aged 41, is an executive director of the Group. Mr. Zeng joined the Group in 2004. Mr. Zeng has over 15 years experience in private investment, and he was previously a director of a major electronic manufacturer in the People's Republic of China.

DIRECTORS *(Continued)*

Independent Non-executive Directors

Mr. LI Ming Lun (李名麟), aged 56, 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.

Mr. LU Wei(鲁煒), aged 47, is an associate professor at University of Science and Technology of China. He has over 15 years of experience in financial management and many years of practical experience in management consulting for UN organizations and other international institutions. Mr. Lu was working with a Sino-Canadian Training and Consulting Institute since 1988 to 1994. He holds a Master's degree in engineering and currently a PhD Candidate in the University of Science and Technology of China.

SENIOR MANAGEMENT

Mr. CHIU Sin Ping, Patrick(趙善平), aged 46, 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. HE Hua Guang (何華光), aged 38, 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 12 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 34, 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 12 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 38, 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.

The directors present their report and the audited financial statements of the Company and the Group for the year ended 30 June 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 15 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 loss for the year ended 30 June 2004 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 24 to 69.

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 year ended 30 June 2000 and the assets and liabilities and minority interests of the Group as at 30 June 2000 are presented below on the basis that the Group structure immediately following the Reorganisation had been in existence throughout that year. The summary financial information as at 30 June 2004, 2003, 2002 and 2001 and for the four years then ended has been extracted from the Company's annual reports for the respective years while the summary financial information as at 30 June 2000 and for the year then ended has been extracted from the Company's prospectus dated 27 July 2000 and reclassified as appropriate.

SUMMARY FINANCIAL INFORMATION *(Continued)*

RESULTS

	Year ended 30 June				
	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
TURNOVER					
Continuing operations	**85,148**	126,494	177,129	348,532	297,525
Discontinued operations	**—**	—	25,359	82,106	71,897
	85,148	126,494	202,488	430,638	369,422
Other revenue and gains	**2,698**	9,485	11,872	4,218	712
Cost of goods sold	**(54,664)**	(78,472)	(151,130)	(349,498)	(275,885)
Selling and distribution costs	**(1,423)**	(2,591)	(7,365)	(28,090)	(17,583)
Technical expenses	**(14,305)**	(22,892)	(23,795)	(26,926)	(23,738)
Administrative expenses	**(27,386)**	(31,201)	(57,830)	(66,227)	(33,745)
Other operating income/(expenses), net	**(203)**	1,965	(47,088)	(8,508)	(338)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	**(10,135)**	2,788	(72,848)	(44,393)	18,845
Surplus/(deficit) on revaluation of leasehold land and buildings	**687**	—	(820)	(1,020)	(3,286)
Finance costs	**(1,037)**	(1,237)	(2,933)	(3,931)	(3,328)
Share of profits and losses of:					
A jointly-controlled entity	**—**	3,779	(1,378)	—	—
Associates	**163**	(138)	366	164	55
PROFIT/(LOSS) BEFORE TAX					
Continuing operations	**(10,322)**	5,192	(73,032)	(26,990)	10,880
Discontinued operations	**—**	—	(4,581)	(22,190)	1,406
	(10,322)	5,192	(77,613)	(49,180)	12,286
Tax					
Continuing operations	**(180)**	(2,044)	(430)	(1,080)	(2,430)
	(180)	(2,044)	(430)	(1,080)	(2,430)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(10,502)**	3,148	(78,043)	(50,260)	9,856
Minority interests	**(248)**	142	6,172	4,029	(1,262)
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	**(10,750)**	3,290	(71,871)	(46,231)	8,594

SUMMARY FINANCIAL INFORMATION *(Continued)*

ASSETS, LIABILITIES AND MINORITY INTERESTS

	2004	2003	2002	2001	2000
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**61,726**	89,878	108,876	229,161	189,812
Total liabilities	**(49,120)**	(70,745)	(89,440)	(150,679)	(135,539)
Minority interests	**(248)**	—	(1,930)	(8,505)	(9,486)
	12,358	19,133	17,506	69,977	44,787

FIXED ASSETS AND AN INVESTMENT PROPERTY

Details of movements in the fixed assets and an investment property of the Group during the year are set out in notes 13 and 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 therefor, are set out in notes 24 and 25 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 26 to the financial statements and in the consolidated statement of changes in equity as set out on pages 27 and 28 of this annual report.

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 and when 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 2004, 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 44% of the total sales for the year and the largest customer included therein amounted to 18%.

Purchases from the Group's five largest suppliers accounted for approximately 30% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 18%.

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 interest in the Group's five largest customers or suppliers.

DIRECTORS

The Directors of the Company during the year were:

Executive directors:

Mr. Huang Shaokang *(Chairman)*	
Mr. Yip Sam Lo	
Mr. Xin Yi	
Mr. Liu Lin	(appointed on 28 April 2004)
Mr. Zeng Weiren	(appointed on 28 April 2004)
Mr. Xu Jie	(resigned on 25 August 2003)
Mr. Leung Yiu Chown, Desmond	(resigned on 28 April 2004)

Non-executive directors:

Mr. Li Ming Lun*	
Mr. Lu Wei*	(appointed on 26 April 2004)
Mr. David Egryn Jones*	(resigned on 26 April 2004)
Mr. Kwong Chak Chung	(resigned on 28 April 2004)

* *Independent non-executive directors*

DIRECTORS *(Continued)*

In accordance with articles 86 and 87 of the Company's articles of association, Mr. Xin Yi, Mr. Lu Wei, Mr. Liu Lin and Mr. Zeng Weiren will retire and, being eligible, will offer themselves for re-election at the Company's forthcoming annual general meeting.

The Directors proposed to appoint Ms. Chen Yen Yung as an additional director of the Company. Upon the aforesaid appointment is effected subsequent to the date of the annual report, Ms. Chen shall hold office only until the forthcoming annual general meeting of the Company but is eligible for re-election pursuant to article 86 of the Company's articles of association.

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 and 9 of this annual report.

DIRECTORS' SERVICE CONTRACTS

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' INTEREST IN CONTRACTS

Save as disclosed in note 31 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party during the year.

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

A. DIRECTORS AND CHIEF EXECUTIVES

At 30 June 2004, the interests or short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its 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 (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 to subscribe 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	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)	16.40%
Mr. Liu Lin	Interest in corporation	96,094,897	(3)	6.00%

Notes:

(1) Mr. Huang Shaokang was deemed to be interested in 266,800,000 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 161,083,400 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, as founder of The TUYF Family Trust was deemed to be interested in the shares of the Company held by Araucarea.

(3) Mr. Liu Lin was deemed to be interested in 96,094,897 shares of the Company which were held through Kingston View International Limited ("Kingston View"), a corporation wholly-owned by Mr. Liu.

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	*Note*	Percentage of total issued non-voting deferred shares
Mr. Yip Sam Lo	Founder of a discretionary trust	5,112,991	(1)	33.86%

Note:

(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 shares of the Company held by Araucarea.

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. Yip Sam Lo	Beneficial owner	19,863,670#	1.24%

\# *Details of the above share options as required to be disclosed by the GEM Listing Rules have been disclosed in note 25 to the financial statements.*

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 requirements.

Save as disclosed above, as at 30 June 2004, none of the Directors or the chief executive 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 interest or short position 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 interest which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or any interest which were required to be notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

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

B. SUBSTANTIAL SHAREHOLDERS

As at 30 June 2004, the interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company 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 to subscribe 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)	16.40%
TUYF Company Limited	Trustee	262,577,201	(4)	16.40%
HSBC International Trustee Limited	Trustee	262,577,201	(4)	16.40%
Ms. Tai Fung	Founder of a discretionary trust	262,577,201	(4)	16.40%
Kenn & K (BVI) Limited	Beneficial owner	101,168,489	(5)	6.31%
Kwong Chak Chung	Interest in corporation	101,168,489	(5)	6.31%
Ms. Lau King Sau, Kenzie	Interest of spouse	101,168,489	(6)	6.31%
Kingston View	Beneficial owner	96,094,897	(7)	6.00%
Ms. Ma Li	Interest of spouse	96,094,897	(8)	6.00%

Notes:

(1) The interest of China Dynamic has also been disclosed as the 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 427,883,400 shares of the Company through interests of her spouse, Mr. Huang Shaokang.

(3) The interest of Araucarea has also been disclosed as the 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".

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

(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) 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.

(6) Ms. Lau King Sau, Kenzie was deemed to be interested in the 101,168,489 shares of the Company through interests of her spouse, Mr. Kwong Chak Chung.

(7) The interest of Kingston View has also been disclosed as the interests of Mr. Liu Lin in the above paragraph under "Disclosure of interests under Part XV of the Securities and Futures Ordinance - Directors and Chief Executives".

(8) Ms. Ma Li was deemed to be interested in the 96,094,897 shares of the Company through interests of her spouse, Mr. Liu Lin.

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**
Mr. Kwong Chak Chung	Beneficial owner	11,907,459#	(1)	0.74%
Ms. Lau King Sau, Kenzie	Interest of spouse	11,907,459#	(1)	0.74%
Ms. Tai Fung	Interest of spouse	19,863,670#	(2)	1.24%

Notes:

(1) Ms. Lau King Sau, Kenzie was deemed to be interested in 11,907,459 share options of the Company through interests of her spouse, Mr. Kwong Chak Chung.

(2) Ms. Tai Fung was deemed to be interested in 19,863,670 share options through interests of her spouse, Mr. Yip Sam Lo.

\# *Details of the above share options as required to be disclosed by the GEM Listing Rules have been disclosed in note 25 to the financial statements.*

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

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.

Save as disclosed above, as at 30 June 2004, 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 25 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouse or children under 18 year of age, or were any rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow 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

Details of movements in share options during the year are set out in note 25 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 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.

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 was unsecured, interest-free and had a credit term of 45 days while the loan advance of HK$4,288,000 was unsecured, interest-free and had no fixed terms of repayment. A full provision of HK$10,800,000 for these receivable balances had been made in a prior year 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. Included in the receivable of HK$10,800,000 was HK$3,867,000 held by a subsidiary, which was partially disposed of and became an associate of the Group during the year. The receivables held by the Group and the associate totalling HK$10,800,000 were written off against the provisions during the year ended 30 June 2004.

FINANCIAL 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 Limited ("2GoTrade"); and (b) contingent liabilities of approximately HK$1,395,000 in respect of corporate guarantees for finance leases granted to 2GoTrade. The aggregate amount of HK$4,818,000 represented approximately 25.2% of the net asset value of the Group as at 30 June 2003. The amount due from 2GoTrade of HK$3,423,000 was unsecured, interest-free and had no fixed terms of repayment. A full provision of HK$3,423,000 was made as at 30 June 2003.

During the year ended 30 June 2004, the Group fully wrote off the amount due from 2GoTrade against the provision of HK$3,423,000. As at 30 June 2004, the Group had 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$69,000. The contingent liabilities of HK$1,395,000 represented approximately 11.3% of the net asset value of the Group as at 30 June 2004.

The balance sheet of 2GoTrade as at 30 June 2004 is set out below:

	Balance at 30 June 2004	**Group's attributable interest**
	HK$'000	HK$'000
Current assets	**1,204**	361
Current liabilities	**(18,983)**	(5,695)
Net liabilities	**(17,779)**	(5,334)

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 32 to the financial statements.

COMPLIANCE WITH RULES 5.34 TO 5.45 OF THE GEM LISTING RULES

The Company complied with the board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the year ended 30 June 2004.

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 5.28 and 5.33 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 an executive director, Mr. Yip Sam Lo and the two independent non-executive directors, Mr. Li Ming Lun, and Mr. Lu Wei. The Group's financial statements for the year ended 30 June 2004 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 held four meetings since July 2003.

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
21 September 2004

ERNST & YOUNG
安永會計師事務所

To the members
***e*PRO Limited**
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 24 to 69 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 Institute of Certified Public 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 2004 and of the loss 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
21 September 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
TURNOVER	5	**85,148**	126,494
Other revenue and gains	5	**2,698**	9,485
Cost of goods sold		**(54,664)**	(78,472)
Selling and distribution costs		**(1,423)**	(2,591)
Technical expenses		**(14,305)**	(22,892)
Administrative expenses		**(27,386)**	(31,201)
Other operating income/(expenses), net		**(203)**	1,965
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	6	**(10,135)**	2,788
Surplus on revaluation of leasehold land and buildings		**687**	—
Finance costs	9	**(1,037)**	(1,237)
Share of profits and losses of:			
A jointly-controlled entity		**—**	3,779
Associates		**163**	(138)
PROFIT/(LOSS) BEFORE TAX		**(10,322)**	5,192
Tax	10	**(180)**	(2,044)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(10,502)**	3,148
Minority interests		**(248)**	142
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	**(10,750)**	3,290
EARNINGS/(LOSS) PER SHARE (HK cents):	12		(Restated)
Basic		**(0.73)**	0.24
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Fixed assets	13	**8,796**	13,600
Investment property	14	**3,150**	—
Interests in associates	16	**1,105**	—
Other assets		**317**	317
		13,368	13,917
CURRENT ASSETS			
Inventories	17	**1,820**	6,931
Trade and bills receivables	18	**6,078**	21,041
Prepayments, deposits and other receivables		**3,979**	16,208
Tax recoverable		**281**	281
Pledged deposits	19	**6,501**	9,719
Cash and cash equivalents	19	**29,699**	21,781
		48,358	75,961
CURRENT LIABILITIES			
Amounts due to contract customers		**—**	496
Trade and bills payables	20	**4,737**	11,205
Other payables and accruals	21	**16,181**	21,990
Deposits received		**751**	2,833
Deferred revenue		**1,730**	2,093
Tax payable		**5,907**	7,171
Interest-bearing bank and other borrowings	22	**11,220**	20,278
		40,526	66,066
NET CURRENT ASSETS		**7,832**	9,895
TOTAL ASSETS LESS CURRENT LIABILITIES		**21,200**	23,812

30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	22	**8,594**	4,679
MINORITY INTERESTS		**248**	—
		12,358	19,133
CAPITAL AND RESERVES			
Issued capital	24	**16,008**	110,400
Reserves	26(a)	**(3,650)**	(91,267)
		12,358	19,133

Huang Shaokang
Director

Yip Sam Lo
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 June 2004

	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 2002		110,400	7,025	479	(102,056)	485	222	951	17,506
Foreign exchange adjustments		—	—	—	—	—	—	(629)	(629)
Net loss 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		110,400	7,025	479	(99,093)	—	—	322	19,133
At 1 July 2003		110,400	7,025	479	(99,093)	—	—	322	19,133
Foreign exchange adjustments		—	—	—	—	—	—	(50)	(50)
Net loss not recognised in the profit and loss account		—	—	—	—	—	—	(50)	(50)
Reduction of capital	24(a)	(99,360)	—	—	99,360	—	—	—	—
Issue of shares	24(b)	4,968	497	—	—	—	—	—	5,465
Share issue expenses	24(b)	—	(1,402)	—	—	—	—	—	(1,402)
Release upon partial disposal of subsidiaries	27(b)	—	—	(144)	—	—	—	106	(38)
Net loss for the year		—	—	—	(10,750)	—	—	—	(10,750)
At 30 June 2004		16,008	6,120	335	(10,483)	—	—	378	12,358
Reserves retained by:									
Company and subsidiaries		16,008	6,120	287	(10,585)	—	—	403	12,233
Associates		—	—	48	102	—	—	(25)	125
At 30 June 2004		16,008	6,120	335	(10,483)	—	—	378	12,358
Reserves retained by Company and subsidiaries at 30 June 2003		110,400	7,025	479	(99,093)	—	—	322	19,133

* *These reserve accounts comprise the consolidated negative reserves in aggregate of HK$3,650,000 (2003: HK$91,267,000) in the consolidated balance sheet.*

The share premium account of the Group includes (i) the premium arising from the new issue of the shares in the current and prior years net of share issue expenses; and (ii) the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation upon listing in July 2000 over the nominal value of the share capital of the Company issued in exchange therefor. Further details of the group reorganisation are set out in the prospectus of the Company dated 27 July 2000.

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

The appropriations to the reserve fund and the expansion reserve were determined by the respective board of directors of the Group's subsidiaries and associates in the People's Republic of China (the "PRC") 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 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(10,322)**	5,192
Adjustments for:			
Finance costs	9	**1,037**	1,237
Share of loss of a jointly-controlled entity		**—**	(3,779)
Share of profits and losses of associates		**(163)**	138
Surplus on revaluation of leasehold land and buildings		**(687)**	—
Interest income	5	**(85)**	(136)
Dividend income from an associate	5	**—**	(101)
Depreciation	6	**1,786**	2,868
Loss on disposal of fixed assets	6	**13**	56
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	**(2,260)**	—
Amortisation of goodwill	6	**—**	227
Impairment of goodwill	6	**—**	1,011
Provision for impairment in interests in associates	6	**—**	101
Write back of provision for impairment in interest in an associate	6	**—**	(5)
Provision for an amount due from an associate	6	**101**	27
Provision/(reversal of provision) for inventories	6	**(269)**	73
Provision for other receivables	6	**3,195**	402
Provision for doubtful debts	6	**483**	7,067
Write back of provision for doubtful debts	6	**(3,413)**	(10,868)
Operating loss before working capital changes - page 30		**(10,584)**	(5,498)

Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
Operating loss before working capital changes - page 29		**(10,584)**	(5,498)
Decrease/(increase) in inventories		**(11,511)**	5,908
Decrease in trade and bills receivables		**13,871**	11,033
Decrease/(increase) in prepayments, deposits and other receivables		**(7,302)**	3,023
Increase/(decrease) in amounts due to contract customers		**(496)**	496
Increase/(decrease) in trade and bills payables		**8,589**	(3,229)
Increase/(decrease) in other payables and accruals		**5,864**	(5,843)
Decrease in deposits received		**(2,082)**	(3,672)
Decrease in deferred revenue		**(363)**	(897)
Decrease in balance with a jointly-controlled entity		**—**	107
Decrease/(increase) in balances with associates		**1,092**	(122)
Foreign exchange adjustments		**(96)**	(609)
Cash generated from operations		**(3,018)**	697
PRC tax paid		**(1,383)**	—
Net cash inflow/(outflow) from operating activities		**(4,401)**	697
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**85**	136
Dividend received from an associate		**—**	101
Purchases of fixed assets	13	**(504)**	(1,687)
Proceeds from disposal of fixed assets		**362**	780
Acquisition of subsidiaries	27(a)	**—**	(1,634)
Disposal of subsidiaries	27(b)	**(272)**	—
Proceeds from disposal of a jointly-controlled entity	27(c)	**8,920**	2,817
Proceeds from disposal of an associate	27(c)	**2,817**	—
Increase in investment in an associate		**(190)**	—
Decrease/(increase) in pledged deposits		**3,218**	(1,869)
Net cash inflow/(outflow) from investing activities		**14,436**	(1,356)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Year ended 30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid on loans and overdrafts	9	**(1,037)**	(1,228)
Interest element on finance lease payments	9	**—**	(9)
Proceeds from issue of share capital	24(b)	**5,465**	—
Share issue expenses	24(b)	**(1,402)**	—
New other loan		**—**	8,000
Repayment of long term bank and other loans		**(4,034)**	(15,656)
Decrease in trust receipt loans		**(2,819)**	(673)
Capital element of finance lease rental payments		**—**	(212)
Net cash outflow from financing activities		**(3,827)**	(9,778)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**6,208**	(10,437)
Cash and cash equivalents at beginning of year		**16,521**	26,958
CASH AND CASH EQUIVALENTS AT END OF YEAR		**22,729**	16,521
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**23,918**	15,474
Time deposits with original maturity of less than three months when acquired		**5,781**	6,307
Bank overdrafts, secured	22	**(6,970)**	(5,260)
		22,729	16,521

BALANCE SHEET

30 June 2004

	Notes	2004 HK$'000	2003 HK$'000
NON-CURRENT ASSETS			
Interest in subsidiaries	15	**—**	—
CURRENT ASSETS			
Due from subsidiaries	15	**—**	4,224
Other receivables		**—**	5
Pledged deposits	19	**6,501**	6,497
Cash and cash equivalents	19	**15,796**	10,377
		22,297	21,103
CURRENT LIABILITIES			
Due to a subsidiary	15	**—**	140
Other payables and accruals	21	**500**	1,104
Bank overdrafts		**16**	—
		516	1,244
NET CURRENT ASSETS		**21,781**	19,859
		21,781	19,859
CAPITAL AND RESERVES			
Issued capital	24	**16,008**	110,400
Reserves	26(b)	**5,773**	(90,541)
		21,781	19,859

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 A REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised) "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures are now more extensive than previously required. These are detailed in note 10 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

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 and investment property 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 2004. 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

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

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

Subsidiaries

A subsidiary is a company, other than a jointly-controlled entity, 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.

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 arising from the acquisition of associates, is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates 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. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated balance sheet.

On disposal of subsidiaries or assoicates, 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. Any attributable goodwill previous eliminated against consolidated reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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

Goodwill *(continued)*

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, 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, associates and jointly-controlled entities 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.

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.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, 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 the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates and jointly controlled entities, 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.

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

Impairment of assets *(continued)*

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.

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 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% - 33⅓%
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.

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio 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 an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Other assets

Other assets represent corporate membership held for long term which are stated at cost less any impairment losses.

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. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

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

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.

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.

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Income tax *(continued)*

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;

(c) management fee income, when the services are rendered;

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

Revenue recognition *(continued)*

(d) rental income, on a time proportion basis over the lease terms; and

(e) 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 and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries 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 ruling 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.

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.

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

Employee benefits *(continued)*

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.

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 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 scheme

The Company operates a share option scheme 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 scheme 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.

4. SEGMENT INFORMATION

The directors consider that the Group's primary segment reporting basis is by business segment. During the current and the prior year, the Group's operations related solely to the provision of professional IT contract services and accordingly, no further business segment information is presented.

Geographical segments

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

Group

	Hong Kong		Mainland China		Singapore		Japan		Eliminations		Consolidated	
	2004	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**24,180**	57,962	**55,656**	64,067	**4,138**	3,634	**1,218**	1,826	**(44)**	(995)	**85,148**	126,494
Segment assets	**52,709**	75,880	**24,337**	65,091	**1,360**	979	**414**	493	**(17,094)**	(52,565)	**61,726**	89,878
Capital expenditure	**341**	524	**163**	1,162	**—**	1	**—**	—	**—**	—	**504**	1,687

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	
	Note	**2004**	2003
		HK$'000	HK$'000
Turnover:			
Professional IT contract services		**85,148**	126,494
Other revenue and gains:			
Interest income		**85**	136
Management fee income		**312**	240
Gross rental income		**41**	—
Dividend income from an associate		**—**	101
Gain on disposal of subsidiaries	27(b)	**2,260**	—
Gain on disposal of a jointly-controlled entity		**—**	8,994
Gain on disposal of an associate		**—**	14
		2,698	9,485

6. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	Notes	Group 2004 HK$'000	Group 2003 HK$'000
Depreciation	13	**1,786**	2,868
Amortisation of goodwill*		**—**	227
Impairment of goodwill arising during the year*		**—**	1,011
Minimum lease payments under operating leases in respect of land and buildings		**2,003**	2,356
Provision for impairment in interests in associates*		**—**	101
Write back of provision for impairment in interest in an associate*		**—**	(5)
Provision for amount due from an associate*	16	**101**	27
Provision for other receivables*#		**3,195**	402
Provision/(reversal of provision) for inventories*		**(269)**	73
Research and development costs		**2,687**	3,834
Auditors' remuneration		**580**	580
Staff costs (including directors' remuneration in note 7):			
Wages and salaries		**25,127**	34,334
Pension scheme contributions		**1,777**	1,676
Less: Forfeited contributions		**(703)**	(129)
Net pension contributions**		**1,074**	1,547
Loss on disposal of fixed assets		**13**	56
Exchange gains, net		**(129)**	(508)
Unrealised loss on foreign exchange forward contract*		**106**	—
Net rental income		**(38)**	—
Provision for doubtful debts*		**483**	7,067
Write back of provision for doubtful debts*		**(3,413)**	(10,868)

* *Included in "Other operating income/(expenses), net" on the face of the consolidated profit and loss account.*

** *At 30 June 2004, no forfeited contributions were available to the Group to reduce its contributions to the pension scheme in future years (2003: Nil).*

\# *The provision was made during the year for a receivable of EPRO Computer Systems (Guangzhou) Company Limited and prior to the Group's disposal of its 75% held therein. The provision was made in accordance with the provisioning policy for accounts and other receivables.*

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, 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	
	2004	2003
	HK$'000	HK$'000
Fees:		
Executive directors	**—**	—
Non-executive directors	**—**	—
Other emoluments:		
Executive directors:		
Basic salaries, other allowances and benefits in kind	**379**	934
Pension scheme contributions	**4**	27
	383	961

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

	2004	2003
	HK$'000	HK$'000
Executive director A	**4**	388
Executive director B**	**—**	573
Executive director C**	**—**	—
Executive director D	**—**	—
Executive director E	**—**	—
Executive director F*	**—**	—
Executive director G*	**379**	—
Independent non-executive director A**	**—**	—
Independent non-executive director B	**—**	—
Independent non-executive director C*	**—**	—
Non-executive director A**	**—**	—
	383	961

* *Newly appointed in the current year.*

** *Resigned during the year.*

7. DIRECTORS' REMUNERATION *(Continued)*

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 was no arrangement 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.

8. FIVE HIGHEST PAID INDIVIDUALS

No director was included in the five highest paid individuals during the year (2003: Nil). Details of the directors' emoluments are set out in note 7 above. The details of the emoluments of the five highest paid employees are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Basic salaries, other allowances and benefits in kind	**3,536**	3,854
Pension scheme contributions	**80**	98
	3,616	3,952

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

	2004	2003
	Number of employees	Number of employees
Nil - HK$1,000,000	**4**	4
HK$1,000,001 - HK$1,500,000	**1**	1

During the year, 900,000 share options were granted to one of the non-director, highest paid employees above through a rights issue, further details of which are included in note 25(b) to the financial statements. No value in respect of the share options granted during the year has been charged to the profit and loss account, or is otherwise included in the above non-director, highest paid employees' remuneration disclosures.

9. FINANCE COSTS

	Group	
	2004	2003
	HK$'000	HK$'000
Interest expenses on bank loans and overdrafts	**616**	872
Interest expenses on other loans	**421**	356
	1,037	1,228
Interest expenses on finance lease payments	**—**	9
Total finance costs	**1,037**	1,237

10. 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 (2003: 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	
	2004	2003
	HK$'000	HK$'000
Group:		
Current - charge for the year		
Mainland China	**119**	1,816
Share of tax attributable to:		
An associate	**61**	—
A jointly-controlled entity	**—**	228
	61	228
Total tax charge for the year	**180**	2,044

10. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expenses at the effective rates for the year is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Profit/(loss) before tax	**(10,322)**	5,192
Tax at the domestic tax rates applicable to profits/(losses) in the countries concerned	**(2,680)**	(4,953)
Income not subject to tax	**(254)**	(1,590)
Expenses not deductible for tax	**2,859**	2,975
Unrecognised deferred tax assets	**255**	5,612
Tax charge at the Group's effective rate of (1.7%) (2003: 39.4%)	**180**	2,044

During the year ended 30 June 2004, a PRC subsidiary of the Group was eligible for the exemption from corporate income tax ("CIT") for the two years starting from the first year in which assessable profits were generated, and a 50% exemption from CIT for the following three years expiring on 31 December 2006. In addition, another PRC subsidiary was eligible for a concessionary CIT rate of 15% for the three years ending 31 December 2005.

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

The net loss from ordinary activities attributable to shareholders for the year ended 30 June 2004 dealt with in the financial statements of the Company was HK$2,141,000 (2003: HK$8,453,000) (note 26(b)).

12. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK$10,750,000 (2003: net profit for the year of HK$3,290,000) and the weighted average number of 1,478,952,329 (2003 (restated): 1,392,000,000) ordinary shares in issue during the year, as adjusted to reflect the rights issue during the year.

Since the exercise price of the Company's share options was higher than the average market price of the Company's shares during the years ended 30 June 2004 and 2003, there were no dilutive potential ordinary shares outstanding during the years and accordingly, no diluted earnings/(loss) per share amount was presented.

13. FIXED ASSETS

Group

	Notes	Leasehold land and buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Computer equipment and software HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost or valuation:							
At beginning of year		9,718	4,667	3,613	24,156	1,176	43,330
Additions		—	220	36	248	—	504
Disposals		—	(394)	(146)	(1,049)	(20)	(1,609)
Disposal of subsidiaries	27(b)	(318)	(844)	(718)	(1,963)	(576)	(4,419)
Surplus on revaluation		600	—	—	—	—	600
Transfer to an investment property	14	(3,150)	—	—	—	—	(3,150)
Exchange adjustments		—	8	8	30	6	52
At 30 June 2004		**6,850**	**3,657**	**2,793**	**21,422**	**586**	**35,308**
Analysis of cost or valuation:							
At cost		—	3,657	2,793	21,422	586	28,458
At 30 June 2004 valuation		6,850	—	—	—	—	6,850
		6,850	3,657	2,793	21,422	586	35,308
Accumulated depreciation and impairment:							
At beginning of year		66	3,740	2,789	22,191	944	29,730
Provided during the year		21	256	347	1,070	92	1,786
Written back on revaluation		(87)	—	—	—	—	(87)
Disposals		—	(384)	(138)	(693)	(19)	(1,234)
Disposal of subsidiaries	27(b)	—	(578)	(606)	(1,954)	(576)	(3,714)
Exchange adjustments		—	5	5	16	5	31
At 30 June 2004		**—**	**3,039**	**2,397**	**20,630**	**446**	**26,512**
Net book value:							
At 30 June 2004		**6,850**	**618**	**396**	**792**	**140**	**8,796**
At 30 June 2003		9,652	927	824	1,965	232	13,600

13. FIXED ASSETS *(Continued)*

The Group's leasehold land and buildings, which are all situated in Hong Kong and under medium term leases, 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 2004.

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$6,850,000 (2003: HK$9,652,000) as at 30 June 2004.

At 30 June 2004, the Group's land and buildings in Hong Kong with an aggregate carrying value of HK$6,850,000 (2003: HK$9,400,000) were pledged to secure banking facilities granted to the Group (note 22(a)).

14. INVESTMENT PROPERTY

	Group	
	2004	2003
	HK$'000	HK$'000
At valuation:		
At beginning of year	**—**	—
Transfer from leasehold land and buildings (note 13)	**3,150**	—
At 30 June 2004	**3,150**	—

During the current year, certain of the Group's leasehold land and buildings situated in Hong Kong was leased to a third party and such property has then been reclassified as an investment property at its carrying value of HK$3,150,000 at the date of transfer. At 30 June 2004, the investment property was revalued on an open market, existing use basis performed by China Hong Kong Auctioneers Valuers Ltd.

The investment property, which is situated in Hong Kong and held under a medium term lease, has been pledged to a bank to secure banking facilities granted to the Group (note 22(a)).

15. INTERESTS IN SUBSIDIARIES

	Company	
	2004	2003
	HK$'000	HK$'000
Unlisted shares, at cost	**45,459**	45,459
Provision for impairment	**(45,459)**	(45,459)
	—	—
Due from subsidiaries	**71,019**	73,470
Provision for amounts due from subsidiaries	**(71,019)**	(69,246)
	—	4,224
Due to a subsidiary	**—**	(140)
	—	4,084

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

Particulars of the principal subsidiaries are as follows:

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

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries are as follows *(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 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 *(notes a & b)*	Mainland China	US$200,000	—	100	Provision of professional IT contract services
EPRO Computer Systems (Beijing) Company Limited *(notes a & b)*	Mainland China	US$700,000	—	100	Provision of professional IT contract services
EPRO Systems (S) Pte. Limited *(note b)*	Singapore	S$400,000	—	90	Provision of professional IT contract services
Shanghai EPRO Software Company Limited *(notes b & c)*	Mainland China	US$200,000	—	90	Provision of professional IT contract services

15. INTERESTS IN SUBSIDIARIES *(Continued)*

Notes:

(a) These subsidiaries are registered as wholly-foreign owned enterprises under the PRC law.

(b) Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

(c) This subsidiary is registered as a foreign investment enterprise under the PRC law.

(d) As at 30 June 2003, the Company held 100% indirect equity interests in EPRO Computer Systems (Guangzhou) Company Limited ("EPRO GZ"), ePROgistics Limited ("ePROgistics") and EPRO Guangzhou Software Technology Limited ("EGST"). During the year, the Group disposed of its 75% equity interests in EPRO GZ to a company, 15% and 85% of the equity interests in which were held by employees of EPRO GZ and a close family member of a director of the Company, who has resigned during the year, respectively (notes 16 & 31). The aforesaid director was also a key management personnel of EPRO GZ during the year ended 30 June 2004. In addition to EPRO GZ, the Group disposed of its 70% equity interests in ePROgistics to an independent third party (note 16), and deregistered EGST.

16. INTERESTS IN ASSOCIATES

	Group	
	2004	2003
	HK$'000	HK$'000
Share of net assets	**1,105**	101
Less: Provision for impairment	**—**	(101)
	1,105	—
Due from associates	**128**	3,450
Less: Provision for amounts due from associates	**(128)**	(3,450)
	—	—
	1,105	—

During the year, the Group has written off an amount due from an associate against the provision of HK$3,423,000.

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

16. INTERESTS IN ASSOCIATES *(Continued)*

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group 2004	2003	Principal activities
EPRO Computer Systems (Guangzhou) Company Limited*	Corporate	Mainland China	**25**	100	Provision of professional IT contract services
ePROgistics Limited*	Corporate	Hong Kong	**30**	100	Provision of logistic IT contract services
eTradeGo Limited	Corporate	British Virgin Islands	**30**	30	Investment holding
2GoTrade Limited	Corporate	Hong Kong	**30**	30	Provision of application services provider services

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.

* *These associates were wholly-owned subsidiaries of the Group in the prior year. The percentage of interests represents the interests after the disposal as detailed in note 15(d), which resulted in aggregate of a gain on disposal of HK$2,260,000 (notes 5 and 27(b)).*

17. INVENTORIES

	Group 2004 HK$'000	2003 HK$'000
Contract work in progress	**1,535**	6,849
Merchandise for sale	**285**	82
	1,820	6,931
Contract work in progress		
Gross amount due from contract customers	**1,535**	6,849
Gross amount due to contract customers included in other payables	**—**	(496)
	1,535	6,353
Contract costs incurred plus recognised profits less recognised losses to date	**8,149**	25,176
Less: Progress billings	**(6,614)**	(18,823)
	1,535	6,353

18. TRADE RECEIVABLES

An aged analysis of trade receivables as at the balance sheet date, based on invoice date, is as follows:

	Group 2004 HK$'000	2003 HK$'000
Current to 3 months	**5,303**	21,131
4 to 6 months	**1,008**	2,364
7 to 9 months	**126**	39
10 to 12 months	**252**	2,803
Over 1 year	**8,955**	10,843
	15,644	37,180
Less: Provision for doubtful debts	**(9,566)**	(16,139)
	6,078	21,041

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.

19. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**23,918**	15,474	**10,015**	4,622
Time deposits	**12,282**	16,026	**12,282**	12,252
	36,200	31,500	**22,297**	16,874
Less: Pledged time deposits for banking facilities *(note 22)*	**(6,501)**	(9,719)	**(6,501)**	(6,497)
Cash and cash equivalents	**29,699**	21,781	**15,796**	10,377

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$3,310,000 (2003: HK$8,499,000). The RMB is not freely convertible into other currencies. However, under Mainland 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.

20. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date, based on invoice date and payment due date, respectively, is as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within 3 months	**2,589**	7,887
4 to 6 months	**7**	1,107
7 to 12 months	**58**	442
Over 1 year	**2,083**	1,769
	4,737	11,205

21. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2004	2003	**2004**	2003
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**4,452**	5,388	**—**	—
Accruals	**11,729**	16,602	**500**	1,104
	16,181	21,990	**500**	1,104

22. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2004	2003
	Notes	**HK$'000**	HK$'000
Bank overdrafts, secured	(a)	**6,970**	5,260
Bank loans, secured	(a)	**4,675**	5,878
Trust receipt loans, secured	(a)	**—**	2,819
Loan from a related company, unsecured	(b)	**3,000**	3,000
Loan from a director, unsecured	(c)	**5,169**	8,000
		19,814	24,957
Wholly repayable within one year:			
Bank loans, overdrafts and trust receipt loans		**8,220**	9,278
Loan from a related company		**3,000**	3,000
Loan from a director		**—**	8,000
		11,220	20,278
Repayable in the second year		**6,471**	1,250
Repayable in the third to fifth years, inclusive		**2,025**	2,919
Repayable beyond five years		**98**	510
		19,814	24,957
Less: Portion classified as current liabilities		**(11,220)**	(20,278)
Long term portion		**8,594**	4,679

22. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

Notes:

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

(i) mortgages over the Group's land and buildings and investment property situated in Hong Kong, which have an aggregate carrying value at 30 June 2004 of HK$6,850,000 (2003: HK$9,400,000) (note 13) and HK$3,150,000 (2003: Nil) (note 14), respectively;

(ii) corporate guarantees amounting to an aggregate of HK$28,300,000 executed by the Company (2003: HK$28,300,000); and

(iii) the pledge of certain of the Group's time deposits amounting to HK$6,501,000 (2003: HK$9,719,000).

(b) The loan from a related company 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.

(c) The loan from a director is unsecured, bears interest at Hong Kong dollar prime rate per annum, and is not repayable on or before 21 September 2005.

23. DEFERRED TAX

The principal components of the Group's deferred tax assets not provided for, calculated at deferred tax rates in Hong Kong, Singapore and the PRC of 17.5% (2003: 17.5%), 22% (2003: 22%) and 7.5% (2003: 7.5%), respectively, on the cumulative timing differences at the balance sheet date, are as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Tax losses	**17,307**	16,713
Accelerated depreciation allowances	**(430)**	(91)
	16,877	16,622

At the balance sheet date, the Group had tax losses arising in Hong Kong and Singapore of approximately HK$93,468,000 (2003: HK$89,962,000) and HK$3,236,000 (2003: HK$3,236,000), respectively, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. The Group's tax losses arising in the PRC that are available for offsetting against the following five years' taxable profits of the companies in which the losses arose are approximately HK$3,172,000 (2003: HK$3,435,000). Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 30 June 2004, there was no significant unrecognised deferred tax liability (2003: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries or associates as the Group has no liability to additional tax should such amounts be remitted.

24. SHARE CAPITAL

Shares	**2004**	2003
	HK$'000	HK$'000
Authorised:		
100,000,000,000 (2003: 10,000,000,000) shares of HK$0.01 (2003: HK$0.10) each	**1,000,000**	1,000,000
Issued and fully paid:		
1,600,800,000 (2003: 1,104,000,000) shares of HK$0.01 (2003: HK$0.10) each	**16,008**	110,400

A summary of the movements in the Company's issued share capital and share premium account during the year is as follows:

	Notes	**Number of shares in issue**	**Issued share capital**	**Share premium account**	**Total**
			HK$'000	HK$'000	HK$'000
At 1 July 2002 and 2003		1,104,000,000	110,400	7,025	117,425
Reduction of share capital	(a)	—	(99,360)	—	(99,360)
Rights issue	(b)	496,800,000	4,968	497	5,465
Share issue expenses	(b)	—	—	(1,402)	(1,402)
At 30 June 2004		1,600,800,000	16,008	6,120	22,128

Notes:

(a) Pursuant to a special resolution on 28 August 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"). 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 was 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 was 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 was eliminated against the accumulated losses of the Company during the year (note 26(b)). Immediately after the Capital Reduction, the authorised share capital was increased from HK$100,000,000 to HK$1,000,000,000 by the creation of 90,000,000,000 new shares of nominal value of HK$0.01 each.

(b) A rights issue of nine rights share for every twenty existing shares held by members whose names appear on the register of members on 9 January 2004 was made, at a subscription price of HK$0.011 per rights share, resulting in the issue of 496,800,000 shares of HK$0.01 each for a total cash consideration of approximately HK$5,465,000 before share issue expenses of HK$1,402,000, which were debited to the share premium account as set out above. Share options were granted on the same basis of the rights issue above, which resulted in the increase of 24,135,188 share options during the year (note 25).

Share options

Details of the Company's share option schemes and the share options issued under the schemes are included in note 25 to the financial statements.

25. SHARE OPTION SCHEME

(a) Pre-IPO share option plan

In recognising the contribution of certain directors of the Company 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 directors 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.

As a result of the rights issue of 496,800,000 shares on 9 January 2004 (note 24(b)), the exercise price of the aforesaid outstanding share options was adjusted and the number of share options outstanding increased in accordance with the terms of the Pre-IPO Plan.

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

	Number of share options					
Name or category of participant	**At 1 July 2003**	**Increased during the year****	**At 30 June 2004**	**Exercisable period of share options**	**Date of grant of share options#**	**Exercise price of share options##**
						HK$
Directors						
Mr. Yip Sam Lo	13,699,083	6,164,587	19,863,670	2 February 2001 to 23 July 2010	26 July 2000	0.557
Mr. Kwong Chak Chung*	8,212,041	3,695,418	11,907,459	2 February 2001 to 23 July 2010	26 July 2000	0.557
Mr. Leung Yiu Chown, Desmond*	3,814,628	1,716,583	5,531,211	2 February 2001 to 23 July 2010	26 July 2000	0.557
	25,725,752	11,576,588	37,302,340			

* Mr. Kwong Chak Chung and Mr. Leung Yiu Chown, Desmond resigned as directors on 28 April 2004. Pursuant to the Pre-IPO Plan, Mr. Kwong and Mr. Leung had the right to exercise the share options within the period of 3 months following the said date of resignation.

No options were exercised under the Pre-IPO Plan during the year.

** The number of share options increased as a result of the rights issue (note 24(b)) on 9 January 2004.

\# 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. The exercise price of share options had been adjusted as a result of the rights issue (note 24(b)) on 9 January 2004.

25. SHARE OPTION SCHEME *(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 10 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 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.

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 and (iii) the nominal value of the Company's shares.

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.

As a result of the rights issue of 496,800,000 shares on 9 January 2004 (note 24(b)), the exercise price of the outstanding share options was adjusted and the number of share options outstanding increased in accordance with the terms of the Scheme.

25. SHARE OPTION SCHEME *(Continued)*

(b) Share option scheme *(continued)*

The following share options were outstanding under the Scheme during the year:

Name or category of participant	At 1 July 2003	Lapsed during the year	Increased during the year**	Expired during the year	At 30 June 2004	Date of grant of share options#	Exercise period of share options	Exercise price of share options##
	Number of share options							HK$
Directors								
Mr. Leung Yiu Chown, Desmond*	1,000,000	—	—	(1,000,000)	—	22 November 2000	22 November 2000 to 21 November 2003	0.38
Mr. Xu Jie*	1,000,000	—	—	(1,000,000)	—	22 November 2000	22 November 2000 to 21 November 2003	0.38
	2,000,000	—	—	(2,000,000)	—	23 March 2001	23 March 2001 to 22 March 2004	0.182
	3,000,000	—	—	(3,000,000)	—			
Other employees								
In aggregate	10,896,000	—	—	(10,896,000)	—	22 November 2000	22 November 2000 to 21 November 2003	0.38
	10,920,000	—	4,914,000	(15,834,000)	—	23 March 2001	23 March 2001 to 22 March 2004	0.182
	16,988,000	(15,486,000)	7,644,600	—	9,146,600	19 December 2001	19 December 2001 to 18 December 2004	0.092
	42,804,000	(15,486,000)	12,558,600	(30,730,000)	9,146,600			

* *Mr. Leung Yiu Chown, Desmond and Mr. Xu Jie resigned as directors on 28 April 2004 and 25 August 2003, respectively.*

Mr. Xu Jie remained as an employee of the Group until 22 March 2004.

** *The number of share options increased as a result of the rights issue (note 24(b)) on 9 January 2004.*

\# *The vesting period of the share options is from the date of the 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. The exercise price of share options had been adjusted as a result of the rights issue (note 24(b)) on 9 January 2004.*

At the balance sheet date, the Company had 46,448,940 outstanding share options, which represented approximately 2.9% of the Company's shares in issue as at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 46,448,940 additional ordinary shares of HK$0.01 each, with aggregate proceeds before related issue expenses of approximately HK$21,619,000.

26. 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 27 and 28 of this annual report.

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain credited to the capital reserve. The amount of the negative goodwill remaining in consolidated reserves, arising from acquisition of a subsidiary and an associate (2003: subsidiaries) prior to the adoption of SSAP 30 is HK$335,000 as at 30 June 2004 (2003: HK$479,000), which is stated at cost.

(b) Company

	Share premium account	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000
At 1 July 2002	24,999	(107,087)	(82,088)
Net loss for the year	—	(8,453)	(8,453)
At 30 June 2003 and 1 July 2003	24,999	(115,540)	(90,541)
Reduction of share capital *(note 24(a))*	—	99,360	99,360
Rights issue *(note 24(b))*	497	—	497
Share issue expenses *(note 24(b))*	(1,402)	—	(1,402)
Net loss for the year	—	(2,141)	(2,141)
At 30 June 2004	**24,094**	**(18,321)**	**5,773**

The share premium account of the Company includes (i) premium arising from the new issue of shares in the current and prior years netted of share issue expenses; and (ii) the difference between the consolidated net assets of the subsidiaries acquired pursuant to the group reorganisation upon listing in July 2000 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 and when they fall due in the ordinary course of business. The share premium may also be distributed in the form of fully paid bonus shares.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisition of subsidiaries

During the year ended 30 June 2003, the Group further acquired 54% and 41% equity interests in ePROgistics Limited and Shanghai EPRO Software Company Limited, respectively. The aggregate fair values of the assets acquired and liabilities assumed of these subsidiaries as at the respective dates of acquisition were:

	2004	2003
	HK$'000	HK$'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)
	—	1,289
Goodwill on acquisition*	—	1,238
	—	2,527
Satisfied by:		
Cash	—	1,964
Reclassification to interests in subsidiaries from interests in associates	—	563
	—	2,527

* *During the year ended 30 June 2003, an annual amortisation of HK$227,000 of the goodwill arising from the further acquisition of equity interests in these subsidiaries was charged to the consolidated profit and loss account while the remaining carrying value of the goodwill of HK$1,011,000 had been fully impaired as at 30 June 2003 and charged to the consolidated profit and loss account in the prior year (note 6).*

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(a) 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:

	2004 HK$'000	2003 HK$'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

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

(b) Disposal of subsidiaries

	2004 HK$'000	2003 HK$'000
Net assets disposed of:		
Fixed assets	705	—
Inventories	16,891	—
Trade receivables	4,022	—
Prepayments, deposits and other receivables	6,974	—
Cash and bank balances	2,282	—
Trade payables	(15,057)	—
Amount due to a shareholder	(1,193)	
Accrued liabilities	(11,673)	—
Bank overdrafts	(10)	—
	2,941	—
Reserves released upon disposal	(38)	—
Gain on disposal of subsidiaries	2,260	—
	5,163	—

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(b) Disposal of subsidiaries *(continued)*

	2004 HK$'000	2003 HK$'000
Satisfied by:		
Cash	**4,375**	—
Reclassification to interests in associates from interests in subsidiaries*	**788**	—
	5,163	—

* *Exchange fluctuation reserve of HK$25,000, which was retained on disposal of the subsidiaries, was net off against the reclassification amount of HK$788,000.*

The disposed subsidiaries contributed HK$20,567,000 to the Group's turnover and loss of HK$171,000 to the Group's consolidated loss after tax and before minority interests for the year ended 30 June 2004.

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

	2004 HK$'000	2003 HK$'000
Cash and bank balances disposed of	**(2,282)**	—
Bank overdrafts acquired	**10**	—
Cash consideration	**2,000**	—
Net outflow of cash and cash equivalents in respect of disposal of subsidiaries	**(272)**	—

As further detailed in note 16 to the financial statements, during the year, the Group disposed of partial interests in certain subsidiaries at consideration of HK$4,375,000, HK$2,000,000 of which was received during the year. At the balance sheet date, the aggregate outstanding sales proceeds receivable of HK$2,375,000 were included in prepayment, deposits and other receivables.

27. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

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

During the year ended 30 June 2003, 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. The settlement of part of the proceeds from the disposal of the jointly-controlled entity amounting to HK$2,817,000 was received in the prior year and the aggregate outstanding sales proceeds receivable of HK$11,737,000 were included in prepayments, deposits and other receivables as at 30 June 2003 which have been settled during the year.

(d) Major non-cash transaction

During the year ended 30 June 2003, Guangzhou EPRO Computer Systems Limited completed its deregistration process in the PRC. The aggregate payable to its minority shareholder of HK$1,930,000 was reclassified from minority interests to other payables.

28. CONTINGENT LIABILITIES

(a) The Company had contingent liabilities in respect of corporate guarantees for banking and finance lease facilities granted to certain subsidiaries and an associate in the aggregate amount of HK$29,695,000 (2003: HK$29,695,000). At the balance sheet date, such facilities were utilised by the subsidiaries and an associate to the extent of the aggregate amount of HK$11,894,000 (2003: HK$10,864,000).

(b) At 30 June 2003, the Group had executed performance bonds of HK$8,880,000 in respect of certain services provided by the Group.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14) under an operating lease arrangement, with a lease negotiated for a term of two years. The terms of the lease generally also requires the tenant to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2004, the Group had total future minimum lease receivables under a non-cancellable operating lease with its tenant falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**247**	—
In the second to fifth years, inclusive	**216**	—
	463	—

(b) As lessee

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Such leases are negotiated for terms ranging from one to three years.

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK$'000	HK$'000
Within one year	**684**	2,093
In the second to fifth years, inclusive	**218**	1,103
	902	3,196

30. COMMITMENTS

At 30 June 2004, the Group had outstanding foreign exchange forward contract to sell JPY48,330,000 (equivalent to HK$3,495,000) and buy US$434,544 (equivalent to HK$3,389,000). The net unrealised loss of this outstanding foreign exchange forward contract at the balance sheet date amounted to HK$106,000 and was charged to the profit and loss account during the year and recorded in other payables and accruals.

31. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following transactions with a jointly-controlled entity, an associate and related companies in which certain directors of the Company have beneficial interests:

	Notes	**2004** **HK$'000**	2003 HK$'000
Management fees received from an associate	(a)	**312**	240
Interest paid to related companies and a director	(b)	**421**	356
Disposal of a subsidiary controlled by a director	(c)	**2,625**	—
Purchases from a jointly-controlled entity and an associate	(d)	**—**	2,078
Sales to a jointly-controlled entity and an associate	(e)	**—**	4,294

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) During the year, the Group disposed of its 75% equity interest in EPRO GZ to a company, 15% and 85% of the equity interests of which were held by employees of EPRO GZ and a close family member of a director of the Company, respectively, who has resigned during the year, for a consideration of HK$2,625,000, and resulting in a gain of HK$1,253,000. The aforesaid director was also a key management personnel of EPRO GZ during the year ended 30 June 2004. Pursuant to the sales and purchase agreement, the Group waived the repayment from EPRO GZ of an aggregate amount of HK$13,244,000 due to certain subsidiaries of the Group. Of the total consideration of HK$2,625,000, HK$1,000,000 was received during the year and the outstanding sales proceeds receivable of HK$1,625,000, to be settled by June 2005, has been included in prepayment, deposits and other receivables as at 30 June 2004. The consideration of the disposal transaction was mutually agreed by both parties.

(d) Purchases were made according to the prevailing market prices, except that a longer credit period was normally granted.

(e) 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.

As at 30 June 2003, a loan advance of HK$4,288,000 and trade receivable balance of HK$6,512,000 were made by the Group to a company registered in the PRC in which a director of the Company held 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 of HK$10,800,000, in aggregate, in prior years. Included in the outstanding receivable of HK$10,800,000 was HK$3,867,000 held by a subsidiary, which was partially disposed of and became an associate of the Group during the year. During the current year, the Group and the associate have fully written off the outstanding receivables against the provisions of totalling HK$10,800,000. 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.

32. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date on 6 August 2004, Core Merit Limited ("Core Merit"), a 55% subsidiary of the Group, together with an independent third party, entered into a joint venture agreement (the "Agreement"), whereby 65% and 35% in Digital China ePRO (BVI) Limited ("Digital China"), a joint venture company incorporated in the British Virgin Islands, will be subscribed at the consideration of HK$3,250,000 and HK$1,750,000, respectively. Further details of the transaction are included in the Company's circular dated 6 August 2004.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 September 2004.