

ePRO

EPRO LIMITED

易寶有限公司

(Incorporated in the Cayman Islands with limited liability)

**FIRST QUARTERLY REPORT
FOR THE THREE MONTHS ENDED 30 SEPTEMBER 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.

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

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

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

HIGHLIGHTS

- During the three months ended 30 September 2004, the Group's turnover decreased by 59% to approximately HK\$12,640,000.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$1,974,000.
- No payment of an interim dividend for the three months ended 30 September 2004 is recommended by the Directors.

UNAUDITED RESULTS

The board of directors (the "Directors") of EPRO LIMITED (the "Company") announced the first quarterly unaudited consolidated results of the Company and its subsidiaries (the "Group") for the three months ended 30 September 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

UNAUDITED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Three months ended 30 September | |
|--|--------------|--|-----------------|
| | <i>Notes</i> | 2004 | 2003 |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> |
| TURNOVER | 2 | 12,640 | 30,756 |
| Other revenue | | 208 | 2,933 |
| Cost of goods sold | | (5,918) | (21,425) |
| Selling and distribution costs | | (600) | (1,044) |
| Administrative and other operating expenses | | (7,917) | (12,811) |
| (LOSS) FROM OPERATING ACTIVITIES | | (1,587) | (1,591) |
| Finance costs | | (254) | (264) |
| Share of (losses)/profits of associates | | (127) | 185 |
| (LOSS) BEFORE TAX | | (1,968) | (1,670) |
| Tax | 3 | (88) | (94) |
| (LOSS) BEFORE MINORITY INTERESTS | | (2,056) | (1,764) |
| Minority interests | | 82 | (11) |
| NET (LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | (1,974) | (1,775) |
| Basic (loss) per share (HK cents) | 4 | (0.12) | (0.16) |

Notes:

1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

The accounting policies applied to the figures in the Group's first quarterly report for the three months ended 30 September 2004 are consistent with those applied to the annual accounts of the Group for the year ended 30 June 2004.

2. TURNOVER

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

3. TAX

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

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

| | Three months ended | |
|--------------------|---------------------------|-----------------|
| | 30 September | |
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The Group: | | |
| Hong Kong taxation | 0 | 0 |
| Overseas taxation | 88 | 94 |
| | <hr/> | <hr/> |
| | 88 | 94 |
| | <hr/> | <hr/> |

The Group did not have any significant unprovided deferred tax liabilities for the three months ended 30 September 2004. (2003: Nil)

4. LOSS PER SHARE

The calculation of basic loss per share for the three months ended 30 September 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said period of approximately HK\$1,974,000 and on the weighted average number of 1,600,800,000 shares in issue during the three months ended 30 September 2004.

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

No diluted loss per share has been presented for the three months ended 30 September 2004 as the exercise price of the Company's outstanding share options was higher than the average market price for the period.

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

5. RESERVES

Other than the net loss for the three months ended 30 September 2004, there was no movement to or from reserves during the three months ended 30 September 2004.

Other than the net loss for the three months ended 30 September 2003, the authorised share capital of the Company of HK\$1,000,000,000 divided into 10,000,000,000 shares of HK\$0.1 each has then been reduced to HK\$100,000,000 divided into 10,000,000,000 shares of HK\$0.01 each on 28 August 2003. The issued share capital of the Company of HK\$110,400,000 has also been reduced to HK\$11,040,000 as a result of the change in par value of shares in issue and the credit of HK\$99,360,000 arising from the Capital Reduction has also been eliminated against the accumulated losses of the Company as at 30 June 2003.

DIVIDEND

The Directors do not recommend the payment of an interim dividend for the three months ended 30 September 2004 (2003: Nil).

FINANCIAL REVIEW

For the three months ended 30 September 2004, the Group recorded an unaudited consolidated turnover of approximately HK\$12,640,000, representing a 59% decrease as compared to the corresponding period in 2003. The unaudited net loss from ordinary activities attributable to shareholders amounted to approximately HK\$1,974,000, representing a 11% increase over the net loss of the corresponding period in 2003. The decrease in turnover of the Group was mainly due to the general weak demand in goods and services in the IT markets.

BUSINESS REVIEW

Despite the overall optimism on the general outlook of the economy, the Group remains prudent in the implementation of its strategies. Increasing sales inquiries and gradually improving market sentiment were found during the period. We are determined to capture the evolving business opportunities to further expand our revenue and profit base.

Systems integration services

The Group delivers professional understanding of systems integration issues and solutions through extensive experience, skilled consultants and close business relationships with industry leaders. The recovering economy has provided many new opportunities for the industry, as organizations are more flexible to IT investment on integrating newly acquired solutions or getting the most out of legacy applications to prolong returns from existing IT assets.

IT development outsourcing services

During the period, a number of successful outsourced IT development projects, mainly on the systems development area, have been completed for clients from the Japan market. All of these projects have earned full customer satisfaction. Additional sales and marketing resources have been attributed to the promotion of the Group to cope with the latest market demand.

IT professional services

The Group provides comprehensive IT professional services for a renowned IT management system which offers companies an enhanced infrastructure that seamlessly links and monitors their heterogeneous business applications under one unified system in a controlled, progressive way. The system has established popularity especially in the northern region of the mainland, and is developing in a satisfying progress in the market.

Prospect

With almost 20 years of solid foundation and accumulated technical know-how in the IT industry, the Group is agile enough to grasp the new market trends and business requirements emerged from the latest economic rebound. Together with our well-planned strategies and the competent management team, we are ready to take off together with the rising wave, and continue to be optimistic on our service businesses in the region in the coming years.

DEPLOYMENT OF HUMAN RESOURCES

As at 30 September 2004, the number of staff of the Group was 173 (as at 30 September 2003: 228). Staff remuneration is reviewed once a year of as the management deems appropriate. Changes in remuneration are based on a range of factors including the Group's performance, the competitiveness of remuneration with the external market, and individual employees' performance during the year. Employees were paid at fixed remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the three months ended 30 September 2004.

FINANCIAL GUARANTEES TO AN AFFILIATED COMPANY

As at 30 September 2004, the Group had contingent liabilities of approximately HK\$1,395,000 in respect of corporate guarantees for finance leases granted to 2GoTrade Limited ("2GoTrade"), which were utilised by 2GoTrade to the amount of approximately HK\$51,000. 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 September 2004 is set out below:

| | Balance at 30 September 2004 HK\$'000 | Group's attributable interest HK\$'000 |
|---------------------|---|---|
| Current assets | 946 | 284 |
| Current liabilities | (19,167) | (5,750) |
| Net liabilities | <u>(18,221)</u> | <u>(5,466)</u> |

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

A. DIRECTORS AND CHIEF EXECUTIVES

As at 30 September 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% |
| Mr. Yip Sam Lo | Interest in corporation | 266,800,000 | (1) | 16.67% |
| | Founder of a discretionary trust | 262,577,201 | (2) | 16.40% |
| Mr. Liu Lin | Interest in corporation | <u>96,094,897</u> | <u>(3)</u> | <u>6.00%</u> |

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.

- (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 5,112,991 non-voting deferred shares of EPRO Systems Limited 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 | <u>19,863,670</u> | <u>1.24%</u> |

The following information of share options granted to the Director, pursuant to the share option schemes under Chapter 23 of the GEM Listing Rules is required to be disclosed pursuant to Rule 18.71(A)(1) of the GEM Listing Rules:

Pre-IPO share option plan

| Name of grantee | Number of outstanding share options as at 1 July 2004 | Date of grant* | Exercise period | Exercise price per share HK\$ | Number of outstanding share options as at 30 September 2004 |
|-----------------|---|----------------|---------------------------------|-------------------------------|---|
| Mr. Yip Sam Lo | 19,863,670 | 26 July 2000 | 2 February 2001 to 23 July 2010 | 0.557 | 19,863,670 |

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

(ii) Associated corporation

No such interest was reported by the Directors.

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

No such short position was reported by the Directors.

II. CHIEF EXECUTIVES

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

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

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

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

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

Save as disclosed above, as at 30 September 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.

B. Substantial Shareholders

As at 30 September 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”.
- (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 | Note | Percentage of issued share capital |
|---------------------------------------|--------------------|---|------|---|
| | | | | |
| Ms. Tai Fung | Interest of spouse | 19,863,670* | (1) | 1.24% |

Note:

- (1) Ms. Tai Fung was deemed to be interested in 19,863,670 share options of the Company 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 the above paragraph under “Disclosure of interests under Part XV of the Securities and Futures Ordinance — Directors and Chief Executives”.*

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 September 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.

COMPETITION AND CONFLICT OF INTEREST

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

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in Rule 5.34 to 5.45 of the GEM Listing Rules throughout the period under review.

AUDIT COMMITTEE

The Company set up an audit committee (the “Committee”) with written terms of reference in compliance with the requirements as set out in Rules 5.28, 5.29 and 5.30 of the GEM Listing Rules. The primary duties of the Committee are to review and provide supervision over the financial reporting process and internal control of the Group. The Committee comprises three independent non-executive Directors, Mr. Li Ming Lun, Mr. Lu Wei and Ms. Chen Yen Yung.

The information contained in the Group’s first quarterly report for the three months ended 30 September 2004 has not been audited but has been reviewed by the Committee, who was of the opinion that such report complied with the applicable accounting standards, and the Stock Exchange and legal requirements and that adequate disclosures had been made.

DIRECTORS

As at the date of this report, the executive Directors are Mr. Huang Shaokang, Mr. Yip Sam Lo, Mr. Xin Yi, Mr. Liu Lin and Mr. Zeng Weiren and the independent non-executive Directors are Mr. Li Ming Lun, Mr. Lu Wei and Ms. Chen Yen Yung.

By order of the Board
HUANG Shaokang
Chairman

Hong Kong, 10 November 2004