

**ePRO**

**EPRO LIMITED**

**易寶有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8086)**

**HALF-YEAR REPORT**

**FOR THE SIX MONTHS ENDED 31 DECEMBER 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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*This report, for which the directors of EPRO LIMITED collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to EPRO LIMITED. The directors of EPRO LIMITED, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

## HIGHLIGHTS

- For the six months ended 31 December 2004, the Group's turnover decreased by 45% to approximately HK\$28,640,000.
- The Group recorded a net loss from ordinary activities attributable to shareholders of approximately HK\$5,927,000.
- No payment of an interim dividend for the six months ended 31 December 2004 is recommended by the Directors.

## UNAUDITED RESULTS

The board of directors (the "Directors") of EPRO LIMITED (the "Company") announced the half-year unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2004 together with the comparative unaudited figures for the corresponding period in 2003 as follows:

## UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	For the three months ended 31 December		For the six months ended 31 December	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
TURNOVER	2	16,000	21,461	28,640	52,217
Other revenue		489	1,470	697	4,403
Cost of goods sold		(11,857)	(12,320)	(17,775)	(33,745)
Selling and distribution cost		(362)	(915)	(962)	(1,959)
Administrative and other operating expenses		(7,803)	(10,690)	(15,720)	(23,501)
LOSS FROM OPERATING ACTIVITIES	3	(3,533)	(994)	(5,120)	(2,585)
Finance costs	4	(265)	(275)	(519)	(539)
Share of profits of associates		(124)	235	(251)	420
LOSS BEFORE TAX		(3,922)	(1,034)	(5,890)	(2,704)
Tax	5	(98)	(84)	(186)	(178)
LOSS BEFORE MINORITY INTERESTS		(4,020)	(1,118)	(6,076)	(2,882)
Minority interests		67	83	149	72
NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		(3,953)	(1,035)	(5,927)	(2,810)
Basic loss per share (HK cents)	6	(0.25)	(0.09)	(0.37)	(0.25)

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

		As at 31 December 2004 (Unaudited) <i>Notes</i> <i>HK\$'000</i>	As at 30 June 2004 (Audited) <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Fixed assets		8,431	8,796
Investment property		3,150	3,150
Interests in associates		872	1,105
Other assets		317	317
		12,770	13,368
<b>CURRENT ASSETS</b>			
Inventories		1,015	1,820
Trade receivables	7	12,812	6,078
Prepayments, deposits and other receivables		5,796	3,979
Tax recoverable		281	281
Pledged deposits		16,034	6,501
Cash and cash equivalents		6,033	29,699
		41,971	48,358
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	8	8,973	4,737
Other payables and accruals		12,833	16,181
Deposits received		1,354	751
Deferred revenue		793	1,730
Tax payable		5,907	5,907
Interest-bearing bank and other borrowings		10,405	11,220
		40,265	40,526
<b>NET CURRENT ASSETS</b>		1,706	7,832
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		14,476	21,200
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing bank and other borrowings		7,946	8,594
<b>MINORITY INTERESTS</b>		99	248
		6,431	12,358
<b>CAPITAL AND RESERVES</b>			
Issued capital		16,008	16,008
Reserves		(9,577)	(3,650)
		6,431	12,358

## UNAUDITED CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2003</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(13,093)	1,269
NET CASH (OUTFLOW)/INFLOW FROM INVESTING ACTIVITIES	(9,740)	731
NET CASH (OUTFLOW) FROM FINANCING ACTIVITIES	(1,490)	(739)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(24,323)	1,261
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	22,729	16,521
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	(1,594)	17,782

Notes:

## 1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

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

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

The accounting policies applied to the figures in the Group's half-year report for the six months ended 31 December 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. LOSS FROM OPERATING ACTIVITIES

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

	<b>For the three months ended 31 December</b>		<b>For the six months ended 31 December</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation:				
Owned fixed assets	268	540	576	1,182

#### 4. FINANCE COSTS

The finance costs comprise:

	For the three months ended 31 December		For the six months ended 31 December	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
Interest expenses on bank loans and overdrafts	174	172	325	321
Interest expenses on other loans	<u>91</u>	<u>103</u>	<u>194</u>	<u>218</u>
Total finance costs	<u><u>265</u></u>	<u><u>275</u></u>	<u><u>519</u></u>	<u><u>539</u></u>

#### 5. TAX

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

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

	For the three months ended 31 December		For the six months ended 31 December	
	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>	2004 (Unaudited) <i>HK\$'000</i>	2003 (Unaudited) <i>HK\$'000</i>
The Group: Provision for the period — elsewhere	<u><u>98</u></u>	<u><u>84</u></u>	<u><u>186</u></u>	<u><u>178</u></u>

The Group did not have any significant unprovided deferred tax liabilities for the six months ended 31 December 2004. (2003: Nil)

## 6. LOSS PER SHARE

The calculation of basic loss per share for the three months and the six months ended 31 December 2004 is based on the unaudited net loss from ordinary activities attributable to shareholders for the said periods of approximately HK\$3,953,000 and HK\$5,927,000 respectively and on the weighted average number of 1,600,800,000 shares in issue during the three months and the six months ended 31 December 2004 respectively.

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

No diluted loss per share has been presented for the three months and the six months ended 31 December 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 and the six months ended 31 December 2003, as the Company did not have any dilutive potential ordinary shares.

## 7. TRADE RECEIVABLES

The ageing analysis of trade receivables is as follows:—

	<b>As at 31 December 2004 (Unaudited) HK\$'000</b>	<b>As at 30 June 2004 (Audited) HK\$'000</b>
Trade Receivables	22,378	15,644
Less: Provision for doubtful debts	(9,566)	(9,566)
	<u>12,812</u>	<u>6,078</u>
	<u><u>12,812</u></u>	<u><u>6,078</u></u>
	<b>As at 31 December 2004 (Unaudited) HK\$'000</b>	<b>As at 30 June 2004 (Audited) HK\$'000</b>
Outstanding balances with ages:		
0 to 90 days	11,640	4,951
91 to 180 days	1,140	909
181 to 270 days	11	51
271 to 360 days	12	164
Over 360 days	9	3
	<u>12,812</u>	<u>6,078</u>
	<u><u>12,812</u></u>	<u><u>6,078</u></u>

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



## 8. TRADE PAYABLES

As at 31 December 2004, trade and bills payables accounted to approximately HK\$8,973,000 (30 June 2004: approximately HK\$4,737,000), including trade payables of approximately HK\$4,157,000 (30 June 2004: approximately HK\$4,533,000). The ageing analysis of trade payables is as follow:—

	As at 31 December 2004 (Unaudited) HK\$'000	As at 30 June 2004 (Audited) HK\$'000
Outstanding balances with ages:		
0 to 90 days	894	2,385
91 to 180 days	613	7
181 to 360 days	45	58
Over 360 days	2,605	2,083
	<u>4,157</u>	<u>4,533</u>

## 9. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Group	Issued share capital HK\$'000	Share premium 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
Balance at 30 June and 1 July 2003	110,400	7,025	479	(99,093)			322	19,133
Transfer from Share Capital regarding Capital Reduction Expenses for Capital Reduction	(99,360)	99,360						(307)
Net loss for the period				(2,810)				(2,810)
At 31 December 2003	<u>11,040</u>	<u>106,078</u>	<u>479</u>	<u>(101,903)</u>			<u>322</u>	<u>16,016</u>
Balance at 30 June and 1 July 2004	16,008	6,120	335	(10,483)			378	12,358
Net loss for the period				(5,927)				(5,927)
At 31 December 2004	<u>16,008</u>	<u>6,120</u>	<u>335</u>	<u>(16,410)</u>			<u>378</u>	<u>6,431</u>

## **DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2004 (2003: Nil).

## **FINANCIAL REVIEW**

For the six months ended 31 December 2004, the Group recorded an unaudited consolidated turnover of approximately HK\$28.6 million representing a 45% decrease as compared to the corresponding period in 2003. The unaudited net loss from ordinary activities attributable to shareholders amounted to approximately HK\$5.9 million. In comparison, the Group recorded an unaudited net loss from ordinary activities attributable to shareholders of approximately HK\$2.8 million for 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**

The recent economic upturn creates an improving market sentiment for businesses, however, competitions in the IT industry remain intense because of the conservative decision-making behaviors of IT investors. The Group will carry focusing on our effort in securing market position, refining our strategies and enhancing our services quality in this challenging market.

### **Systems integration services**

With a mission to provide best quality services to customers, the Group has dedicated to meet and outclass industrial standards. In mid-December 2004, our Hong Kong office has successfully received the certification of Capability Maturity Model (CMM), Level-3, a well-recognized international software process management standard, from the Software Engineering Institute (SEI) of the United States. The award of this accreditation validates that the project management process of the Group is in line with the international standard.

## **IT development outsourcing services**

The unfavorable regional economic environment causes difficulties for enterprises. Companies and IT departments are struggling to maintain a healthy cost structure while being urged to provide the best support for their external customers. Thus, they are proactively demanding for services that provide outsourcing resource to help them maintaining a better cost control. This is a growing pattern across all companies in the world, which creates good opportunities for the Group.

## **Professional IT services**

The continuous enhancement of technology products and services is an impetus for IT consumers. Customers are relying more on the expertise of IT specialists to provide services and solutions to resolve real business problems. Leveraging the solid experience gained from IT infrastructure technologies, the Group will continue to provide professional services for IT management solutions, especially in the Mainland market.

## **OUTLOOK**

Accumulated with 20 years of solid foundation and 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. We will keep our commitments to build a sustaining IT service business and further-enhanced service capabilities. The Group is optimistic about continuous growth in our focus areas of the IT sector, namely systems integration services, IT development outsourcing services and professional IT services.

## **LIQUIDITY AND FINANCIAL RESOURCES**

The Group's operation is mainly financed by the internal financial resources and bank borrowings. The current ratio of the Group as at 31 December 2004 was approximately 1.04 (30 June 2004: approximately 1.19). The Group's gearing ratio as at 31 December 2004 was 0.88 (30 June 2004: 0.80), calculated based on the Group's total debts of approximately HK\$48,211,000 (30 June 2004: approximately HK\$49,120,000) over total assets of approximately HK\$54,741,000 (30 June 2004: approximately HK\$61,726,000).

## SEGMENTAL INFORMATION

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

	<b>Turnover</b>	
	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	7,395	23,868
Mainland China	18,665	26,217
Singapore	2,580	2,132
	<u>28,640</u>	<u>52,217</u>
	<u><u>28,640</u></u>	<u><u>52,217</u></u>
	<b>Contribution to</b>	
	<b>(loss)/profit from</b>	
	<b>operating activities</b>	
	<b>For the six months ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2003</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	(2,816)	730
Mainland China	(2,156)	(3,357)
Singapore	(148)	42
	<u>(5,120)</u>	<u>(2,585)</u>
	<u><u>(5,120)</u></u>	<u><u>(2,585)</u></u>

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

Segment turnover and results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Approximately 26% and 65% (2003: 46% and 50%) of the Group's turnover were derived from Hong Kong and Mainland of China respectively for the six months ended 31 December 2004. Whereas Hong Kong recorded profit/(loss) from operating activities of approximately HK\$(2,816,000) (2003: approximately HK\$730,000) for the six months ended 31 December 2004. Mainland of China recorded loss from operating activities of approximately HK\$2,156,000 (2003: approximately HK\$3,357,000) for the six months ended 31 December 2004.

## **CAPITAL STRUCTURE**

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

As at 31 December 2004, the interest rate of banking and finance leases facilities was charged at the range of Hong Kong prime rate +/- 1%.

As at 31 December 2004, the amount of short term bank and other borrowings of the Group which will be repayable within a year was about HK\$10 million (as at 30 June 2004: about HK\$11 million) and the amount of long term bank and other borrowings of the Group which will be repayable more than a year was about HK\$7.9 million (as at 30 June 2004: about HK\$8.6 million).

For the six months ended 31 December 2004, there is no material change in the capital structure of the Company.

## **EMPLOYEE INFORMATION**

As at 31 December 2004, the number of staff of the Group was 172 (as at 31 December 2003: 234). Staff remuneration is reviewed once a year or as the management deems appropriate. Changes in remuneration are based on a range of factors including the Group's performance, the competitiveness of remuneration with the external market, and individual employees' performance during the year. Employees were paid at fixed remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training.

## **CONTINGENT LIABILITIES**

As at 31 December 2004, the Company had contingent liabilities in respect of corporate guarantees for banking facilities and finance leases facilities to certain subsidiaries which is about HK\$30.3 million (as at 30 June 2004: about HK\$30 million). Also, the Group has contingent liabilities in respect of corporate guarantees for finance lease facilities granted to an associate in the aggregate amount of HK\$1.4 million (as at 30 June 2004: HK\$1.4 million). The Group had executed performance bonds of about HK\$8.9 million (as at 30 June 2004: about HK\$8.9 million) in respect of certain services provided by the Group.

## **FOREIGN EXCHANGE RISK**

The Group mainly generated revenue and incurred costs in Hong Kong dollars and Renminbi. The Directors consider the impact on foreign exchange exposure of the Group is minimal.

## **DETAILS OF FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS**

The Group did not have any plan for material investments and acquisition or disposal of material capital assets and/or subsidiaries and affiliated companies during the six months ended 31 December 2004.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the six months ended 31 December 2004.

## **CHARGES ON ASSETS**

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

	<b>As at 31 December 2004 (Unaudited) HK\$'000</b>	<b>As at 30 June 2004 (Audited) HK\$'000</b>
Leasehold properties	<u>6,710</u>	<u>6,850</u>

## FINANCIAL GUARANTEES TO AN AFFILIATED COMPANY

As at 31 December 2004 and 30 June 2004, the Group had contingent liabilities of approximately HK\$1.395 million in respect of corporate guarantees for finance leases granted to 2GoTrade Limited ("2GoTrade"), which were utilised by 2GoTrade to the amount of approximately HK\$32,000 (30 June 2004: HK\$65,000) representing approximately 11.3% of the net asset value (based on 30 June 2004 audited accounts) of the Group.

	<b>Percentage of interests held by the Group</b>	<b>Guarantees given for finance leases facilities granted to the affiliated company</b>	<b>Total (after provision)</b>
	<i>%</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
2GoTrade Limited	30	<u>1,395</u>	<u>1,395</u>

The balance sheet of 2GoTrade as at 31 December 2004 is set out below:

	<b>Balance at 31 December 2004</b>	<b>Group's attributable interest</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current assets	1,481	444
Current liabilities	<u>(22,940)</u>	<u>(6,882)</u>
Net liabilities	<u><u>(21,459)</u></u>	<u><u>(6,438)</u></u>

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

## A. DIRECTORS AND CHIEF EXECUTIVES

As at 31 December 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	<u>96,094,897</u>	(3)	<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	<u>5,112,991</u>	(1)	<u>33.86%</u>

*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	19,863,670	1.24%

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

Pre-IPO share option plan

Name of grantee	Number of outstanding share options		Exercise period	Exercise price per share HK\$	Number of outstanding share options as at 31 December 2004
	as at 1 July 2004	Date of grant*			
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, as at 31 December 2004, some Directors are holding shares in the Hong Kong subsidiaries of the Company in a non-beneficial interest to meet the then minimum shareholder requirements.

Save as disclosed above, as at 31 December 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 31 December 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 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 31 December 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.

## SHARE OPTION SCHEMES

### (a) Pre-IPO share option plan

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

Name of grantee	Date of grant <sup>a</sup>	Exercise period	Exercise price HK\$	Number of shares options outstanding as at 1 July 2004	Number of share options lapsed during the period	Number of share options outstanding as at 31 December 2004
Mr. Yip Sam Lo	26 July 2000	2 February 2001 to 23 July 2010	0.557	19,863,670	—	19,863,670
Mr. Kwong Chak Chung <sup>#</sup>	26 July 2000	2 February 2001 to 23 July 2010	0.557	11,907,459	(11,907,459)	—
Mr. Leung Yiu Chown, Desmond <sup>#</sup>	26 July 2000	2 February 2001 to 23 July 2010	0.557	5,531,211	(5,531,211)	—
				37,302,340	(17,438,670)	19,863,670

<sup>#</sup> *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 of the Company within the period of 3 months following the said date of resignation.*

<sup>\*</sup> *The vesting period of the share options is starting for a period of six months from 2 August 2000.*

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

## (b) Share option scheme

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

Name or category of participant	Date of grant*	Exercise period	Exercise price HK\$	Number of share options outstanding as at 1 July 2004	Number of share options granted during the period	Number of share options lapsed during the period	Number of share options outstanding as at 31 December 2004
Other employees							
In aggregate	19 December 2001	19 December 2001 to 18 December 2004	0.092	9,146,600	—	(9,146,600)	—
				<u>9,146,600</u>	<u>—</u>	<u>(9,146,600)</u>	<u>—</u>

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

No option was exercised under the Share Option Scheme up to the date of this report.

## COMPETITION AND CONFLICT OF INTEREST

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

## BOARD PRACTICES AND PROCEDURES

The Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules for the six months ended 31 December 2004.

## **SECURITIES TRANSACTIONS BY DIRECTORS**

During the six months ended 31 December 2004, the Company has complied with the GEM Listing Rules 5.48 to 5.67 (where applicable) concerning the securities transactions by Directors. The Company has made specific enquiry of all the Directors and the Company was not aware of any non-compliance with the required standard of dealings regarding the securities transactions by Directors.

## **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 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 half-year report for the six months ended 31 December 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. Xin Yi, Mr. Liu Lin and Mr. Zeng Weiren, the non-executive Director is Mr. Yip Sam Lo 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, 7 February 2005