



EVI Education Asia Limited

(incorporated in the Cayman Islands with limited liability)



Annual Report 2004

Annual Report



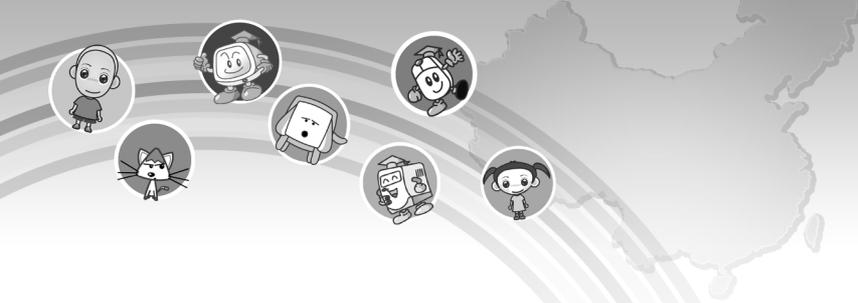
CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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

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

The principal means of information dissemination on GEM is publication on the Internet website operated by the 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.

This report, for which the directors of EVI Education Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to EVI Education Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) 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.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

PONG Wai San, Wilson
(*Chairman and Chief Executive Officer*)
CHEUNG Shi Kwan, Wings
PONG Lo Shuk Yin, Dorothy
LAU Wai Shu

Independent Non-executive Directors

HUNG Tak Chow, Charles
HUNG Fan Wai, Wilfred
LAI Hin Wing, Henry

COMPANY SECRETARY

CHEUNG Hon Fai, Maurice *CPA, ACCA*

COMPLIANCE OFFICER

CHEUNG Shi Kwan, Wings

AUTHORISED REPRESENTATIVES

PONG Wai San, Wilson
CHEUNG Shi Kwan, Wings

QUALIFIED ACCOUNTANT

CHEUNG Hon Fai, Maurice *CPA, ACCA*

AUDIT COMMITTEE

HUNG Tak Chow, Charles (*Committee Chairman*)
HUNG Fan Wai, Wilfred
LAI Hin Wing, Henry

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Bank of Bermuda (Cayman) Limited
36C Bermuda House
British American Centre
Dr. Roy's Drive
George Town
Grand Cayman
Cayman Islands
British West Indies

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681 GT
George Town
Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

14th Floor
Causeway Bay Plaza 2
463-483 Lockhart Road
Hong Kong

WEBSITE ADDRESS

www.evi.com.hk

STOCK CODE

8090

LEGAL ADVISERS

As to the Cayman Islands law:
Conyers Dill & Pearman, Cayman

AUDITORS

Grant Thornton

PRINCIPAL BANKER

Hang Seng Bank

CORPORATE PROFILE

ABOUT EVI EDUCATION ASIA LIMITED

EVI Education Asia Limited (“the Company”) aims to become an Internet education provider, offering Chinese and English language-based education services targeting kindergartens, primary and secondary schools, teachers, parents and pre-school children and kids. The Company’s and its subsidiaries’ (the “Group”) objective is to establish an education community consisting of kindergartens, teachers, parents and pre-school children and kids through the use of both on-line and off-line services. Children can learn with their parents on the Company’s education platform tailor-made for each kindergarten featuring on-line teaching, learning and education-related management tools together with our off-line services including extracurricular training courses, products promotion, seminars, e-media productions and information technologies (“IT”) related services. The platform is innovative and combines IT, traditional teaching curricula and professional on-line and off-line pre-school education materials.

The Company’s shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (“GEM”) on 15th March, 2001.

MISSION

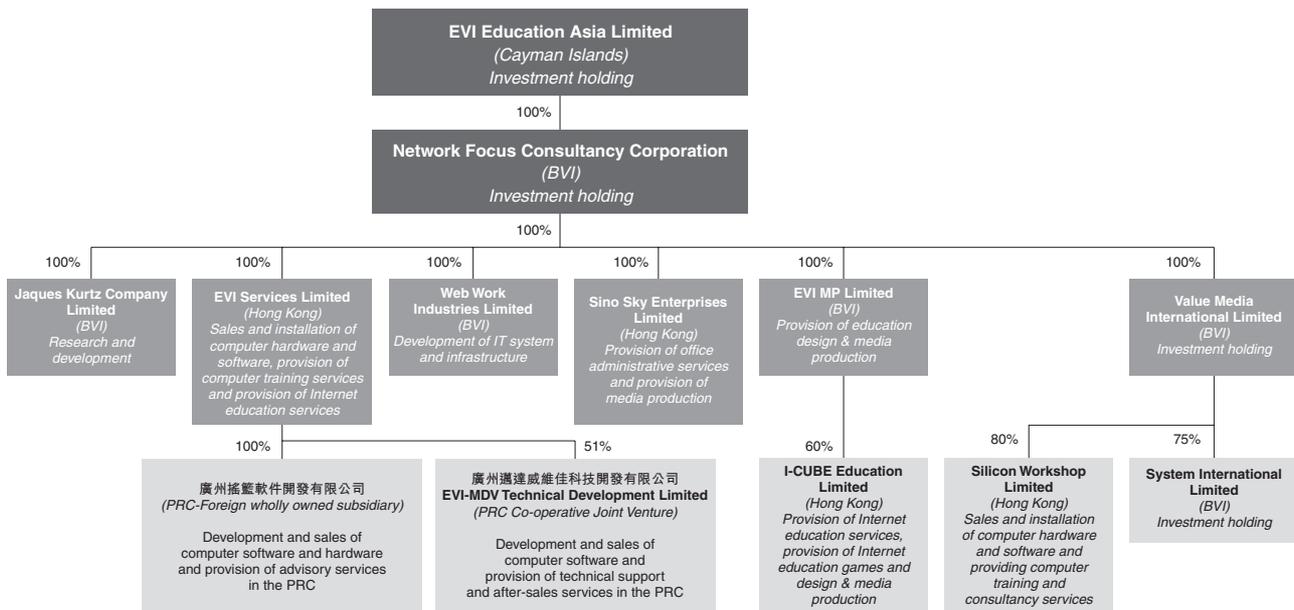
To build a Professional E-education Community with loyal user groups and;

To grow into the Leading Education Services Provider in Hong Kong and Asia.

VISION

To Bring the Real World into the Classroom.

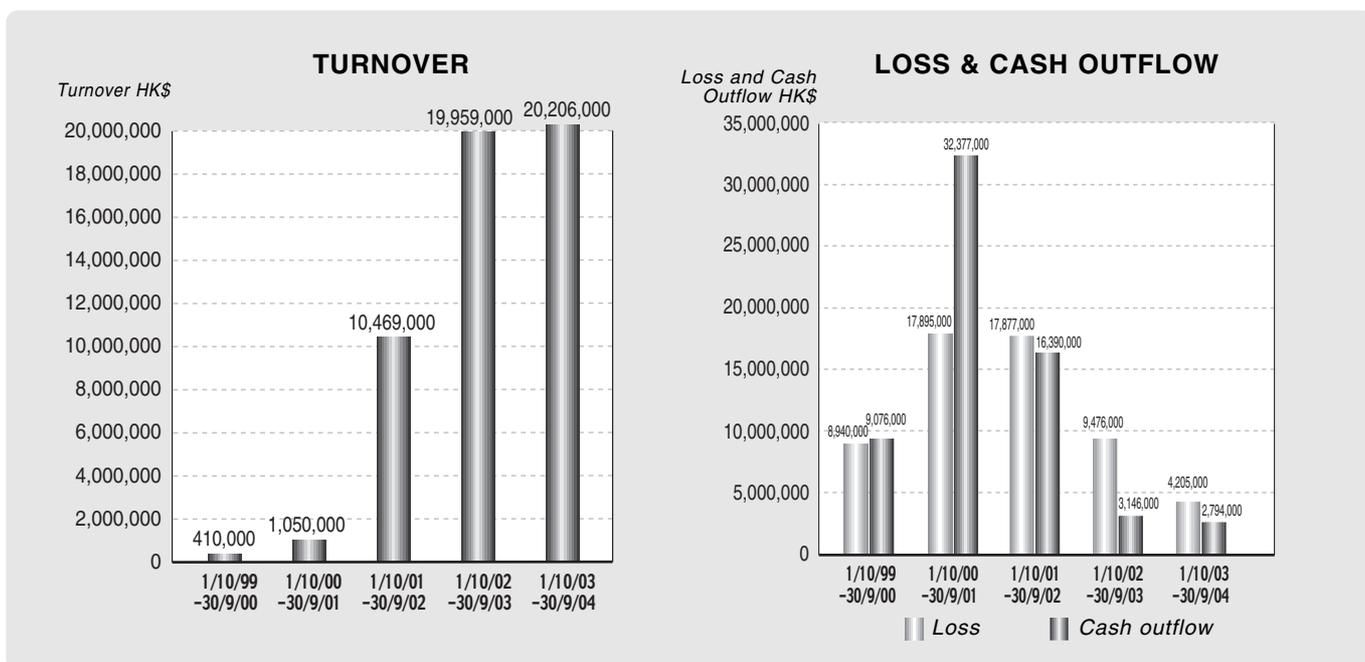
CORPORATE STRUCTURE



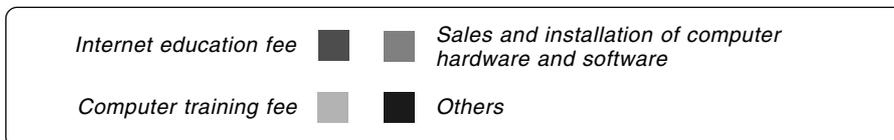
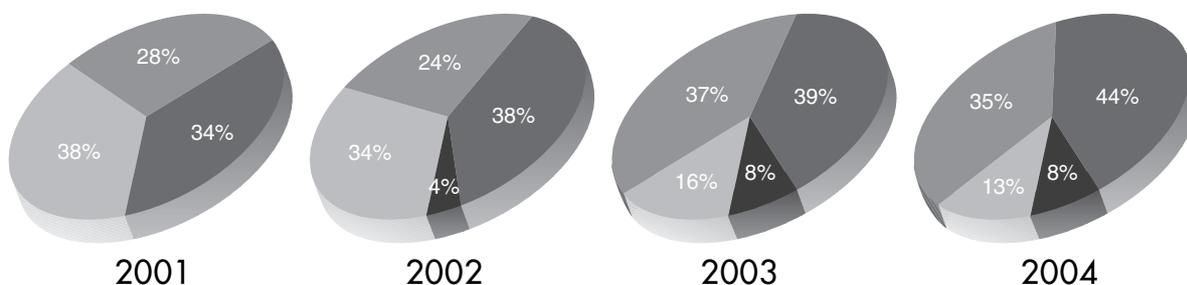
FINANCIAL HIGHLIGHTS

- Revenue reached HK\$20,206,000, slightly increase from the previous year.
- On-line Revenue grew by 13% to HK\$8,820,000.
- Off-line Revenue decreased by 6% to HK\$11,386,000.
- Loss attributable to shareholders narrowed to HK\$4,205,000, from HK\$9,476,000 in the previous year, represented a decrease of 56%.
- Basic loss per share amounted to approximately HK0.11 cent for the year.
- Cash outflow reduced by 11% to HK\$2,794,000.

The audited consolidated results for the year ended 30th September, 2004 and the comparisons with last year are set out in the accompanying table.



TURNOVER BY PRODUCTS





CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the audited consolidated results of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the year ended 30th September, 2004 (the "year") together with the comparative figures for the corresponding year in 2003 in bracket.

FINANCIAL PERFORMANCE

Hong Kong becomes the lowest birth rate city in the world. This phenomenon created a difficult operating environment for the Hong Kong education market and the Group's businesses. Despite of these challenges, EVI has achieved an improvement on the Group cash flow position because the increase of project revenue together with effective cost control on operations. The Group achieved positive cash flow in the first half of current year, being a significant milestone, which indicated the business potential through the educational network. The Group has adjusted its cash breakeven target to coming year due to set up a co-operative joint venture in The People's Republic of China, other than Hong Kong ("PRC"). In essence, during the adverse economic cycle, the Group would continue to apply all necessary cost saving policies in order to retain its financial resources and to maximise its staying power for the shareholders' benefits.

The Group's audited consolidated turnover for the year ended 30th September, 2004 slightly increased to approximately HK\$20,206,000 (2003: HK\$19,959,000). Net loss attributable to shareholders for the year ended 30th September, 2004 was approximately HK\$4,205,000 (2003: HK\$9,476,000), representing a decrease by about 56%.

Comparing segment financial performance to last year, Internet Group revenue for the year ended 30th September, 2004 increased 13% to approximately HK\$8,820,000, representing 44% of total turnover. The recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens remain the core revenue sources of the Group. The online revenue increased significantly because of extension of the Group's portal, I-Cube, into the Primary school market. Off-line revenue was stable and amounted to approximately HK\$11,386,000, among which approximately 35% of the total turnover was attributable to the sales and installation of computer hardware and software and 13% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 8% of the total turnover was attributable to website development and other commercial projects.

The Group maintained solid financial position with approximately HK\$19.1 million cash on hand with no outstanding debt as at 30th September, 2004. The Directors remained their positive perception towards the Group's future financial position due to stable recurring subscription income and rooms of growth for its on-line and off-line business.

BUSINESS OVERVIEW AND MAJOR ACHIEVEMENTS

Customer base and Revenue

Being a prominent internet education provider in Hong Kong, the Group offers various on-line, off-line services, programs and products to kindergartens, primary schools and different individual user groups. From time to time, the EVI portals gain favorable response from its users. The EVI On-line System now comprises of the Kindergartens Zone, Parents and Kids Zone, the Members Zone and the I-Cube. Despite the low tide of the education market; the Group was still capable to solicit new business for its On-line System and continue to receiving subscription fees from the Parents and Kids Zone and I-Cube. EVI now has built a user base of over 50,000 users comprising of students, parents and teachers from over 200 kindergartens and 400 primary schools respectively.

Regarding the Primary school market, the Group's portal "I-Cube" which selling revision exercise and card games to primary students and parents groups has successfully established its client base with over 400 primary schools. New on-line home works and educational games featuring the Olympic 2004 were launched during summer holidays. I-Cube also widened its product range to include new comic and corresponding on-line games for kids, it will continue to research and develop new products in order to expand its revenue sources.

Parallel with the provision of core on-line education services, the Group also capitalised on its school network and utilising its web site development know-how with different commercial partners and the Education and Manpower Bureau ("EMB") in order to bring in additional revenue. In addition, the Group offers range of quality side-products and services such as display kiosk for exhibitions, functions and events. The Group's subsidiary, Silicon Workshop Limited, being the sole-distributor of iKonnet's "HiShare" and "HiClass" software in the Hong Kong was well received by the market. The Office of the Telecommunications Authority (OFTA) appointed the Group to serve the 29th APEC TEL Telecommunications and Information Working Group Meeting held from 21st to 26th March, 2004 which witnessed the Group's high standard and quality of services on provision of the multi-users and broadcasting software.

A Chinese Foreign Co-operative Joint Venture Company ("JV") was established in April 2004. Prior to this JV, the Group has a wholly foreign owned enterprise in Guangzhou to handle the conversion of Group's kindergarten portal and market testing with very encouraging results. The Group believed that with the expertise of the JV Partner in PRC education market, its massive school clientele and sales representative's network, the establishment of JV Company will offer the Group an excellent opportunity to build up its education businesses in PRC beginning with the Guangdong province first. The Group will continue to maintain its positive relationships with various PRC educational related organisations and associations in Beijing, Shanghai and Guangzhou. The Group is now refining its overall business development for the PRC market in different Provinces and the Group believes such latest PRC developments will soon transform the Group's intrinsic value in e-education services into concrete revenue for the Group in the coming year.

Marketing

During the year, series of brand building and marketing campaigns were launched in order to promote the Group's image. The Group organised the function "EVI-Tung Wah Group of Hospitals Kindergartens Group Joint Kindergartens Reading Promotion Scheme" at Central Library on 31st January, 2004 and 1st February, 2004. The Group has the honour to invite Mrs. Tse Ling Kit Ching, JP, the Deputy Secretary from EMB, together with Chairman of Tung Wah Group of Hospitals to officiate this event together with over 200 parents and kids. Various activities namely "EVI Child Intimacy Natural Tour" and "EVI Child Care General Knowledge Q&A Competition" were held during the year with over 5,000 participants from 100 different kindergartens attending such events. The Group's "On-line Kids Broadcasting" also received warm feedback from the members and parents. The Group considered all these would help to strengthen customers' confidence and adhesiveness towards the EVI brand of quality. The Group continues to participate social and charity events such as the "Medicins Sans Frontieres Orienteering Competition 2005" in order to support its good corporate citizenship.

I-Cube has held various marketing functions that were well received by the primary sectors and its members. The second "I-Cube Inter-school Intelligent Competition" was carried out at Ying Wah Primary School on 24th April, 2004 with participation from over 40 primary schools. It has also organised the event "Parents-teachers Seminar about the Internet Safety for Children" with "Television and Entertainment Licensing Authority" and "Central-Western Distinct Parents Teacher Association" at St. Paul's College Primary School on 3rd July, 2004. All these events witnessed the Group's high standard and quality of its education services and contents. I-Cube has successfully blended knowledge, learning with funs, participations from schools and parents that rendering it as one of the hottest sites among the primary students; number of subscribers is now increasing steadily.

Development and launch of new products, contents and features

The Group considers the most effective way to generate additional revenue or to increase the loyalty and adhesiveness from its existing customers is to supply more value-added services through the EVI On-line System. EVI has published its first magazine "Primary School Adoption Instruction" during the Hong Kong Book Fair 2004.

System infrastructure and technology deployment

As for the technology development, the Group keeps on searching add-on features for the EVI On-line System in order to enhance its value. The Group has renewed its sole-distributor agreement with iKonnet on "HiShare" and "HiClass" software in Hong Kong. The Group believed these products together with the MMLC, Light Emitting Diode (LED) display and raised floor system will continue to bring in steady revenue and contributions.

Strategic acquisitions

On 21st April, 2004, EVI Services Limited, a wholly owned subsidiary of the Company, entered into co-operative JV Agreement with a well established PRC educational company. The formation of JV Company is engaged in research & development, produce and sales of technical software or services both on-line and off-line for the PRC education market; including provision of total solutions supportive or after-sales services. The business license registration procedure was now completed with the total investment of the JV Company was approved and revised to HK\$7,000,000. The registered capital of the JV Company was contributed by EVI Services Limited amounted to HK\$5,000,000.

Outlook

The Group believes parents nowadays are more willing to invest in children education, products and services. Besides regular teaching and school activities; more and more parental focus and resources are directed to all-round skills development for the children. Parents are expecting more communication with schools whilst school transparency is one of the key considerations for choosing the right school. Hence, the use of IT or related applications are popular means or scales to be measured by the parents and children. The Group considers its portals or programs are effective and ideal channels to deliver such services and to reinforce the linkage, relationship between schools, families and students in their learning cycles.

The Quality Education Fund (QEF) Board is now considering new applications with matching grants for schools to upgrade their IT infrastructure. Chairman of the QEF Steering Committee Mr. Tai Hay-lap has reiterated the objective of sponsoring schools to replace out-dated or obsolete equipment in order to co-ordinate and remain in line with the new IT education strategy launched by the Government in July 2004. This has created another good business opportunities for the Group. The Group constantly reviews and improves its products and services in order to sustain growth and remain competitive among the market.

Geographically, the Group recognises its source of future growth and return potential from the PRC market. With the rapid growth of computer application in the PRC, the Directors believe that IT has emerged as a new medium of delivering educational and learning contents. Furthermore, the "one-child" policy also suggests parents in the PRC are more concerning or willing to invest in child education, products and services. As a result, the Directors consider that the market potential of its education products and services in the PRC is tremendous. With the anticipation of fast growing trend of PRC education market, the Directors expect the establishment of JV Company this year would broaden its income base and enhance the net asset value of the Group.

APPRECIATION

Despite the challenges ahead of us, I am confident that with our healthy financial position, solid business foundation and highly capable and loyal management team, all of our core businesses will continue to provide solid contributions through the coming years.

Finally, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, to the management and staff for their hard work, support and dedication.

By Order of the Board
EVI Education Asia Limited
Pong Wai San, Wilson
Chairman and Chief Executive Officer

Hong Kong, 25th November, 2004

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

The Group generally financed its operations and investing activities with internally generated cash flows and the balance of the proceeds from the Placing. As at 30th September, 2004, the Group had audited net current assets of approximately HK\$17,812,000 (2003: HK\$19,695,000), including cash and bank deposits amounted to approximately HK\$19,123,000 (2003: HK\$21,917,000). There were nil consolidated total non-current liabilities (2003: Nil). The Group did not have any bank borrowings nor any banking facilities as at 30th September, 2004 (2003: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 30th September, 2004 was Nil (2003: Nil). The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

CAPITAL STRUCTURE AND FOREIGN EXCHANGE EXPOSURE

The unutilised proceeds from the listing of the shares of the Company on GEM were placed mainly in Hong Kong dollar short-term interest bearing deposits with banks in Hong Kong. On financial management, the Group placed approximately HK\$4,374,000 in Australia dollar short-term interest bearing deposits with bank in Hong Kong. The Directors believed that the foreign exchange exposure is mild as it could compensate from the relatively high interest income generated. The Group had not been granted any banking facilities for the year. The incomes of the Group are dominated in Hong Kong Dollar only and the Group has adequate recurring cash flow to meet the working capital requirement. The Group adhered to a prudent policy on financial risk management and the management of currency and interest rate exposures and not to enter into derivative transactions for speculative purposes. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is no need to make use of financial instruments for hedging purposes.

CHARGE ON ASSETS

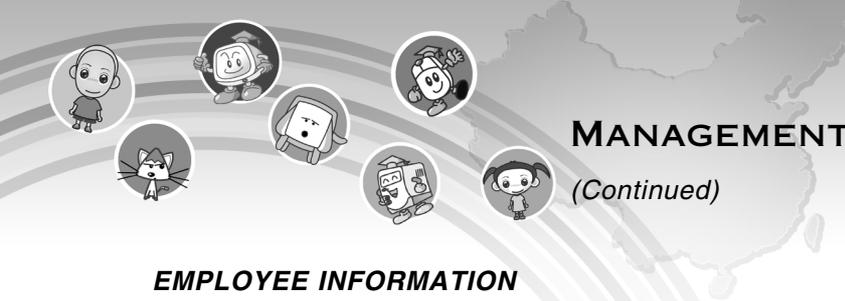
The Group did not have any charge on their assets as at 30th September, 2004 (2003: Nil).

SIGNIFICANT ACQUISITION

The Company does not have any significant acquisition for the year ended 30th September, 2004 except the capital injection HK\$5,000,000 in relation to the formation of a co-operative JV Company in April 2004 disclosed above which will be financed by internal resources of the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

In view of the latest business and PRC market development, the Group has established a co-operative JV Company and a Wholly Owned Foreign Enterprises in Guangzhou to fulfill part of its PRC development. The Group continues to holding talks and maintaining positive relationships with various PRC educational related organisations and associations in Beijing, Shanghai and Guangzhou. Other than that, there has been no solid future plan for material investments and acquisition of material capital assets as at 30th September, 2004.



MANAGEMENT DISCUSSION AND ANALYSIS

(Continued)

EMPLOYEE INFORMATION

Staff costs, including directors' remuneration, were approximately HK\$10,039,000 for the year ended 30th September, 2004 (2003: HK\$10,248,000). Headcount was changed from 61 as at 30th September, 2003 to 102 as at 30th September, 2004. Headcount increased significantly because of the formation of co-operative Joint Venture in PRC. However, it was noted the staff costs decrease with increasing headcount. It was because the Group shifted the production process from Hong Kong to PRC backup office during the year; the replacement of PRC staffs with the relative low salary against Hong Kong staffs. Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund in Hong Kong, retirement schemes operated by the local authorities in PRC, share options and necessary training. The Group's employee remuneration policy, bonus and share option schemes have been reviewed and rewarded against staff's performance on annual basis.

CONTINGENT LIABILITIES

The Group has no contingent liabilities as at 30th September, 2004 (2003: Nil).

BOARD OF DIRECTORS

Executive Directors

PONG Wai San, Wilson (龐維新), aged 35, is the founder, Chairman and Chief Executive Officer. He is responsible for the overall management, strategy planning and corporate development of the Group. Mr. Pong graduated from the University of British Columbia, Canada with a bachelor degree in applied science. He is also the Honorary Consul of Central African Republic, Member of Guangdong Province Youth Federation, Director of Tung Wah Group of Hospitals, Vice-Chairman of Yan Oi Tong and Member of Rotary Club-Mid-Level. Prior to founding the Group, he had held various senior management positions with various local international securities houses and a multinational company before founding the Group.

He is the son of Madam Pong Lo Shuk Yin, Dorothy. He is the substantial shareholder of the Company. Save and except for the information mentioned above, Mr. Pong does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Pong has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors.

CHEUNG Shi Kwan, Wings (張士昆), aged 43, is the Vice-Chairman. He is responsible for the Group's overall management, operations and web content development. Mr. Cheung holds a master degree in applied finance from the University of Western Sydney, Nepean. He is a senior associate member of the Australian Institute of Banking & Finance and has over 15 years of experience in banking, administration and general management. Prior to joining the Group in December 1999, he worked for a listed company in Hong Kong.

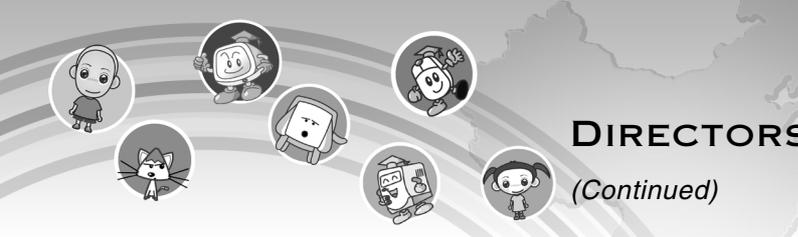
Save and except for the relationship with the Company, Mr. Cheung does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Cheung has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors.

PONG Lo Shuk Yin, Dorothy (龐盧淑燕), aged 57, is an Executive Director. She is responsible for the strategic planning and business development of the Group. Mrs. Pong is also Director of Po Leung Kuk. She joined the Group in August 1999. Madam Pong has over 20 years of experience in administration and management of kindergartens.

Mrs. Pong is the mother of Mr. Pong Wai San, Wilson. Save and except for the information mentioned above, Mrs. Pong does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mrs. Pong has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors.



DIRECTORS AND SENIOR MANAGEMENT

(Continued)

LAU Wai Shu, Terence (劉偉樹), aged 44, is the Chief Operating Officer. He is responsible for the Group's business operations and general administration. Mr. Lau holds a bachelor degree in applied science (civil engineering) from the University of Ottawa, Ontario, Canada. Prior to joining the Group in December 2000, he worked with various companies and has over 15 years of experience in management and marketing. Mr. Lau was appointed as an executive director in November 2001.

Save and except for the relationship with the Company, Mr. Lau does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Lau has interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors.

Independent Non-executive Directors

HUNG Tak Chow, Charles (孔德秋), aged 39, is an Independent Non-executive Director and Chairman of the Audit Committee of the Company. Mr. Hung has a wealth of expertise and experience across a number of information technology ("IT") disciplines gained from over 15 years in both Asia and the United States of America where he held top IT positions with major US investment banks. He obtained a master degree in electrical engineering from Cornell University as well as a bachelor degree in Electrical Engineering from the University of Arizona. He is currently the Chief Information and Operations Officer, Senior Vice President of Prudential Corporation Asia Life Insurance Co., Ltd, Japan (Part of Prudential plc. (United Kingdom)). Mr. Hung was appointed as the Company's Independent Non-executive Director and Audit Committee Chairman in March 2001.

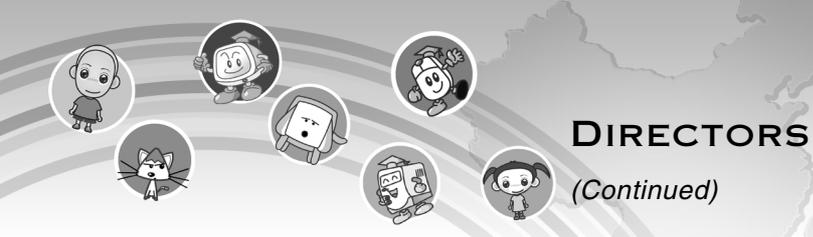
Save and except for the relationship with the Company, Mr. Hung does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Hung has no interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors. The appointment term of Mr. Hung as an Independent Non-executive Director and Chairman of the Audit Committee of the Company is properly disclosed in the Report of the Directors. In accordance with the Articles of Association of the Company, Mr. Hung will retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

HUNG Fan Wai, Wilfred (孔繁偉), aged 35, is an Independent Non-executive Director and Audit Committee member of the Company. Mr. Hung is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Australian Society of Certified Practising Accountants. He holds a bachelor of arts degree in economics from Monash University of Australia and a master degree in business administration from the University of South Australia. He is currently the Chairman of a private company. Mr. Hung was appointed as the Company's Independent Non-executive Director and Audit Committee member in February 2001.

Save and except for the relationship with the Company, Mr. Hung does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Hung has no interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors. The appointment term of Mr. Hung as an Independent Non-executive Director and the Audit Committee member of the Company is properly disclosed in the Report of the Directors. In accordance with the Articles of Association of the Company, Mr. Hung will retire from office and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.



DIRECTORS AND SENIOR MANAGEMENT

(Continued)

LAI Hin Wing, Henry (賴顯榮), age 47 is an Independent Non-executive Director and Audit Committee member of the Company. Mr. Lai is a Notary Public and also a China Appointed Attesting Officer in Hong Kong. He holds a bachelor of laws degree from the University of Hong Kong and was admitted a solicitor in Hong Kong, England and Wales and the State of Victoria, Australia. Mr. Lai is currently a partner of Messrs. P.C. Woo & Co, a firm of solicitors and notaries in Hong Kong and has been practising in the legal firm for over 20 years. He also served as the Non-executive Director of Allied Properties (HK) Limited. Mr. Lai was appointed as the Company's Independent Non-executive Director and Audit Committee member in May 2003.

Save and except for the relationship with the Company, Mr. Lai does not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.

As at the date of this report, Mr. Lai has no interests in the shares of the Company within the meaning of Part XV of the Securities and Futures Ordinance. Such interests were properly disclosed in the Report of the Directors.

SENIOR MANAGEMENT

CHEUNG Hon Fai, Maurice (張漢輝), aged 30, is the Financial Controller and Company Secretary. He is responsible for the Group's financial management and company secretarial matters. Mr. Cheung holds a bachelor of arts degree in accountancy from the Hong Kong Polytechnic University. He is both associate member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group in November 2000, he worked in a listed company in Hong Kong and an international accounting firm and has over 7 years of experience in auditing, accounting and financial management.

CHAN Kin Kee (陳健基), aged 34, is the Chief Technical Officer. He is responsible to oversee the Group's system development, strategic architectural issues as well as manage the Group's technology outsourcing vendors. Besides, he also leads all areas of project implementation and future development of the Group. Mr. Chan holds a bachelor of arts degree in computing from Macquarie University, Australia. Prior to joining the Group in June 2001, he worked as the Head of IT development in a listed financial institution and has over 10 years experience on system integration, database management and consulting role in system analyzing and programming.

MUI Chi Pan, Benny (梅智斌), aged 29, is the Director of I-Cube Education Limited. He is responsible for overseeing the sales and marketing operations, production and business development of the I-Cube Education Limited and the portal I-Cube (www.icubeworld.com). Mr. Mui holds an advanced diploma in computer studies from the University of Oxford. Prior joining the Group in May 2001, Mr. Mui worked for various design and multi-media production companies.

NIP Kai Yan, Ken (聶啟恩), aged 36, is the Marketing Manager of Silicon Workshop Limited. He is responsible for overseeing the sales and marketing operations, and business development of the Silicon Workshop Limited, a subsidiary acquired by the Group in March 2002. Mr. Nip holds a bachelor degree in applied physics from the City University of Hong Kong. Mr. Nip has over 10 years experience on pre-school and primary school education industries.

Save and except for the relationship with the Company, all senior management above do not have any relationship with any other Directors, senior management, substantial shareholders or controlling shareholders of the Company.



REPORT OF THE DIRECTORS

The Directors have the pleasure to present the annual report together with the audited financial statements of EVI Education Asia Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 30th September, 2004.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services.

An analysis of the Group’s performance for the year by business segment and geographical segment are set out in Note 3 to the financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 30th September, 2004, the five largest customers accounted for approximately 20.2% (2003: 24.1%) of the Group’s total turnover and the five largest suppliers of the Group accounted for approximately 34.1% (2003: 43.8%) of the Group’s total purchases. The largest customer of the Group accounted for approximately 7.4% (2003: 7.2%) of the Group’s total turnover while the largest supplier accounted for approximately 11.2% (2003: 16.6%) of the Group’s total purchases.

None of the directors, their associates, or any shareholder (which, to the knowledge of the Directors, owned more than 5% of the Company’s share capital) had a beneficial interest in the Group’s five largest customers and suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group’s results for the year ended 30th September, 2004 are set out in the consolidated income statements on page 26.

The Directors do not recommend the payment of a dividend and recommend that the accumulated deficits of approximately HK\$58,501,000 as at 30th September, 2004 be carried forward.

SHARE CAPITAL

There was no change in the Company’s share capital during the year.

RESERVES AND ACCUMULATED DEFICITS

Movements in reserves and accumulated deficits of the Group and the Company during the year are set out in Notes 20 and 21 respectively to the financial statements.

DISTRIBUTABLE RESERVES

As at 30th September, 2004, the Company had no distributable reserves available for distribution to the Company’s shareholders (2003: Nil).

CHARITABLE DONATION

During the year, the Group has charitable donation amounted to HK\$10,000 (2003: Nil).

PURCHASE, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there was no restriction against such rights under the Companies Law (Revised) of the Cayman Islands.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment during the year are set out in Note 10 to the financial statements.

COMMITMENTS

Particulars of commitments as at 30th September, 2004 are set out in Note 22 to the financial statements.

RETIREMENT PLANS

Details of the retirement plans are set out in Note 23 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 30th September, 2004, the Group had no connected transactions under Chapter 20 of the Rules Governing the Listing of Securities on the Growth Enterprise Market (the "GEM") of the Stock Exchange (the "GEM Listing Rules").

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors who held office during the year and up to the date of this report are:

Executive directors

Mr. Pong Wai San, Wilson
Mr. Cheung Shi Kwan, Wings
Madam Pong Lo Shuk Yin, Dorothy
Mr. Lau Wai Shu, Terence

Independent non-executive directors

Mr. Hung Tak Chow, Charles
Mr. Hung Fan Wai, Wilfred
Mr. Lai Hin Wing, Henry

DIRECTORS AND DIRECTOR'S SERVICE CONTRACTS (Continued)

Except for Mr. Lau Wai Shu, Terence, each of the Executive Directors of the Company has entered into a service contract with the Company for an initial term of three years commencing from 1st March, 2001. The service contracts shall continue thereafter until terminated by either party giving the other not less than three months' notice after the expiration of the said initial fixed term. For Mr. Lau Wai Shu, Terence, the service contract with the Company do not have fixed terms but shall continue thereafter until termination by either party giving the other not less than two month's notice.

Mr. Hung Fan Wai, Wilfred was appointed as the Independent Non-executive Director and Audit Committee member of the Company for an initial term of two years from 28th February, 2001 and renewed for a further two years on 28th February, 2003. Mr. Hung Tak Chow, Charles was appointed as the Independent Non-executive Director and Audit Committee chairman of the Company for an initial term of two years from 13th March, 2001 and renewed for a further two years on 13th March, 2003. Mr. Lai Hin Wing, Henry was appointed as the Independent Non-executive Director and Audit Committee member of the Company for an initial term of two years from 1st May, 2003. All service contracts will renew every two years after the expiration of the said fixed term but they are subject to retirement by rotation in accordance with the Company's Articles of Association. There is no director emolument amount specified in the service contracts and will be fixed by shareholders at the Company's annual general meeting. According to the notice of annual general meeting, the shareholder will authorise the Board to fix the directors' remuneration. The Company received confirmation of independence in respect of the year ended 30th September, 2004 from each of the independent non-executive directors pursuant to Rule 5.09 of the GEM Listing Rules. Up to and as at the date of the report, the Company still considers the independent non-executive directors to be independent.

In accordance with the Articles of Association of the Company, Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred will retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 11 to 13.

DIRECTORS' INTEREST AND SHORT POSITION IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2004, the interests and short positions of the Directors in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors were as follows:

Long Position in Shares of the Company:

Name of director	Number of Shares of the Company			Total	Percentage of Shares outstanding
	Personal interests	Family interests	Corporate interests		
Mr. Pong Wai San, Wilson ("Mr Pong") (Note 1)	153,610,000	–	2,609,200,000	2,762,810,000	69.07%
Mr. Cheung Shi Kwan, Wings	4,000,000	–	–	4,000,000	0.10%
Madam Pong Lo Shuk Yin, Dorothy (Note 2)	–	2,762,810,000	–	2,762,810,000	69.07%

Notes:

- As at 30th September, 2004, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 153,610,000 Shares are registered in the name of Mr. Pong. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong. The interest of Mr. Pong in the issued shares of the Company was, accordingly corporate interest in the Company as described in Rule 18.16(1) of the GEM Listing Rules.
- Mr. Pong is the son of Madam Pong Lo Shuk Yin, Dorothy, who is deemed to be interested in 2,609,200,000 Shares beneficially owned by Summerview Enterprises Limited and 153,610,000 Shares beneficially owned by Mr. Pong respectively.

Short Position in Shares of the Company:

None as recorded.

Save as disclosed in this paragraph, as at 30th September, 2004, none of the Directors nor chief executive of the Company had or deemed to have any interests or short positions in the shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such positions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which are required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.66 of the GEM Listing Rules relating to securities transactions by Directors.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(a) Pre-IPO Share Option Scheme

Pursuant to the Pre-IPO Share Option Scheme adopted by the Company on 28th February, 2001 (the "Pre-IPO Share Option Scheme"), options were granted on the same day to certain executive directors and staff of the Group to subscribe for an aggregate of 210,000,000 shares (as adjusted by the share subdivision as at 31st October 2001) (the "Shares") at a price of HK\$0.076 per share (as adjusted) exercisable in the period from 15th March, 2002 to 14th March, 2005.

The following are details of the Pre-IPO Share Options granted to directors of the Company:

Name	Subscription price per share	No. of underlying Shares comprised in the options
Mr. Pong	\$0.076	100,000,000
Pong Lo Shuk Yin, Dorothy	\$0.076	81,000,000
Cheung Shi Kwan, Wings	\$0.076	25,000,000
Lau Wai Shu, Terence	\$0.076	4,000,000
		210,000,000

All of these options may be exercised within three years after the expiry of twelve months from the date of listing of the shares of the Company on GEM on 15th March, 2001 provided that the maximum number of shares the grantees are entitled to subscribe for by exercising the options shall not exceed:

- (i) 30% of the total number of options during the first year of such three-year period;
- (ii) 60% of the total number of options during the second year of such three-year period; and
- (iii) the remaining unexercised options during the third year of such three-year period.

(b) Post-IPO Share Option Scheme

Pursuant to the share option scheme adopted by the Group on 28th February, 2001 (the "Post-IPO Share Option Scheme"), option was granted on 31st October, 2001 to Mr. Lau Wai Shu, Terence, who was subsequently appointed as an Executive Director of the Company on 1st November, 2001, to subscribe for 2,500,000 Shares of the Company at a price of HK\$0.208 per share (as adjusted) exercisable during the period from 1st November, 2002 to 31st October, 2005.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

(b) Post-IPO Share Option Scheme *(Continued)*

Such options may be exercised within three years after the expiry of 12 months from the date of grant of the options, provided that the maximum number of shares the grantees are entitled to subscribe for by exercising the options shall not exceed:

- (i) 30% of the total number of options during the first year of such three-year period;
- (ii) 60% of the total number of options during the second year of such three-year period; and
- (iii) the remaining unexercised options during the third year of such three-year period.

None of the above options has been exercised during the year ended 30th September, 2004.

Save as disclosed above, at no time during the year ended 30th September, 2004 was the Company, its subsidiaries or holding company a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SHARE OPTION SCHEMES

Pursuant to a written resolution of all the shareholders of the Company passed on 28th February, 2001, two share option schemes namely, Pre-IPO Share Option Scheme and Post-IPO Share Option Scheme (collectively referred to as the "Schemes") were adopted by the Company.

SUMMARY OF THE SCHEMES

a. Purposes of the Schemes

The purposes of the Pre-IPO Share Option Scheme are to recognise the contribution of certain executive directors and employees of the Group to the growth of the Group prior to the listing of the Shares on GEM.

The purposes of the Post-IPO Share Option Scheme are to recognise the contribution of certain employees of the Group and to retain the services of the employees who will continue to make valuable contribution to the Company.

b. Participants of the Schemes

Pursuant to the Pre-IPO Share Option Scheme, the Directors may, at their absolute discretion, invite any employee of the Company or any of its subsidiaries, whether full time, part time or otherwise and including (without limitation) any executive director and advisors of the Company or any of its subsidiaries, to take up options to subscribe for Shares. On 28th February, 2001, options to subscribe for an aggregate of 255,000,000 Shares at an exercise price equal to HK\$0.076 (as adjusted) have been conditionally granted by the Company to three directors, one Advisory Board member and ten employees of the Company. No further options may be granted upon the listing of the shares of the Company on GEM on 15th March, 2001.

SUMMARY OF THE SCHEMES *(Continued)*

b. Participants of the Schemes *(Continued)*

Pursuant to the Post-IPO Share Option Scheme, the grantees eligible for the Post-IPO Share Option Scheme include any employee of the Company or any subsidiary (include any executive director of the Company or any subsidiary but not any independent non-executive director) which is in full-time employment with the Company or any subsidiary at any time when an option is granted to such employee.

c. Total number of shares available for issue under the Schemes

The total number of shares subject to the Pre-IPO Share Option Scheme is 400,000,000 Shares, equivalent to 10% of the issued share capital of the Company immediately following the completion of the Placing, the Capitalisation Issue and the Pre-IPO Issue.

Pursuant to a written resolution of all the shareholders of the Company passed on 28th February, 2001, options to subscribe for an aggregate of 255,000,000 Shares have been conditionally granted by the Company pursuant to Pre-IPO Share Option Scheme. Pursuant to a written resolution of all the shareholders of the Company passed on 31st October, 2001, options granted for an aggregate of 25,000,000 Shares have been conditionally granted by the Company under the Post-IPO Share Option Scheme.

As at 30th September, 2004, 120,000,000 Shares are available for issue under the Post-IPO Share Option Scheme, representing approximately 3% of the issued share capital of the Company as at 30th September, 2004.

d. Maximum entitlement of each participant

No option may be granted to any one person which, if exercised in full, will result in the total number of Shares already issued and which may fall to be issued to him under all the options previously granted to him pursuant to the Schemes exceeding 25% of the maximum aggregate number of Shares for the time being issued and which may fall to be issued under the Schemes.

e. Time of exercise of options

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may not expired earlier than three years and later than 10 years from the date of grant of the Option subject to the provisions for early termination thereof.

f. Payment on acceptance of option

A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

g. Basis of determining the subscription price

The subscription price for shares under the Pre-IPO Share Option Scheme is HK\$0.38, being the price per share at which the shares are offered for subscription by the public at the initial public offer of shares of the company. Adjusted Subscription price of the Pre-IPO Share Options was HK\$0.076 per share.

SUMMARY OF THE SCHEMES (Continued)

g. Basis of determining the subscription price (Continued)

The subscription price for shares under the Post-IPO Share Option Scheme is determined by the Board of Directors of the Company and notified to the grantee and shall be no less than the higher of the closing price of Shares on the Stock Exchange on the date of grant of the option, the average of the closing price of Shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option or the nominal value of the Shares.

h. Remaining life of the Schemes

The Pre-IPO Share Option Scheme has no remaining life as no further options may be granted but the provisions of such plan shall in all other respects remain in full force and effect and options which are granted during the life of such plan may continue to be exercisable in accordance with their terms of issue.

The Post-IPO Share Option Scheme will remain valid until 28th February, 2011.

The other principal terms of the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme are set out in the prospectus of the Company dated 6th March, 2001.

In view of small historical trading volume and fluctuation of the trading price of the Company's Shares, the directors are also noted that the value of the theoretical value of the share options granted during the year depends on a number of variables which are difficult to ascertain. Accordingly, the directors believe that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances.

OUTSTANDING SHARE OPTIONS

As at 30th September, 2004, options to subscribe for an aggregate of 220,000,000 Shares has been granted pursuant to the Pre-IPO Share Option Scheme and option to subscribe for an aggregate of 14,000,000 Shares has been granted pursuant to the Post-IPO Share Option Scheme were outstanding. All of these options are subject to the same conditions on the timing of exercise as detailed in the section headed "Directors' Rights to Acquire Shares or Debentures" above.

Pre-IPO Share Option Scheme

Pursuant to a written resolution of all the shareholders of the Company passed on 28th February, 2001, options to subscribe for an aggregate of 255,000,000 Shares at an exercise price of HK\$0.076 (as adjusted) have been conditionally granted by the Company to certain directors and employees of the Company. All of these options may be exercised in the period from 15th March, 2002 to 14th March, 2005.

OUTSTANDING SHARE OPTIONS *(Continued)*

Pre-IPO Share Option Scheme *(Continued)*

As at 30th September, 2004, options to subscribe for an aggregate of 220,000,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.076 per shares were outstanding and these options relate to the options granted to four directors, one consultant and two employees at the date of grant, details of which as at 30th September, 2004 are as follows:—

	Number of share options
As at 1st October, 2003	221,500,000
Less: share options lapsed during the year	<u>(1,500,000)</u>
As at 30th September, 2004	<u>220,000,000</u>

Post-IPO Share Option Scheme

Pursuant to a written resolution of all the shareholders of the Company passed on 31st October, 2001, options granted for an aggregate of 25,000,000 Shares at a exercise price equal to HK\$0.208 (as adjusted) have been conditionally granted by the Company to fifteen full time employees of the Group (including options to subscribe for 2,500,000 Shares were granted to Mr. Lau Wai Shu, Terence who was appointed as director on 1st November, 2001 subsequently). All of these options may be exercised in the period from 1st November, 2002 to 31st October, 2005.

As at 30th September, 2004, options to subscribe for an aggregate of 14,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding and these options relate to the options granted to one director and six employees at the date of grant, details of which as at 30th September, 2004 are as follows:

	Number of share options
As at 1st October, 2003	21,000,000
Less: share options lapsed during the year	<u>(7,000,000)</u>
As at 30th September, 2004	<u>14,000,000</u>

SUBSTANTIAL SHAREHOLDERS

So far as is known to the Directors, as at 30th September, 2004, the following persons or companies (not being a Director or chief executive of the Company) had, or deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

Long Position in Shares of the Company:

Name	Number of issued shares	Capacity in which shares are held	Percentage holding
Summerview Enterprises Limited	2,609,200,000 <i>(Note)</i>	Beneficial Owner	65.23%

Note:

As at 30th September, 2004, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong.

Short Position in Shares of the Company:

None as recorded.

Save as disclosed herein, as at 30th September, 2004, the Directors were not aware of any other persons or companies (not being a Director or chief executive of the Company) had, or deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly deemed to be interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' INTEREST IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries or its holding company was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SPONSOR'S INTEREST

No contract was entered into or existed by the Company for any retained sponsor during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

AUDIT COMMITTEE

The Company has established an audit committee and has formulated its written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. The members of the Audit Committee up to the date comprised the three independent non-executive directors, Mr. Hung Tak Chow, Charles, Mr. Hung Fan Wai, Wilfred and Mr. Lai Hin Wing, Henry. The primary duties of the Audit Committee are to review the Company's annual report, half-yearly reports and quarterly report and to provide advice and comments thereon to the Board of Directors. Up to the date of this report, four audit committee meetings were held this year to discuss the operating results, statements of affairs and accounting policies with respect to the first, second, third quarterly and annual reports of 2003-2004.

BOARD PRACTICES AND PROCEDURES

Throughout the year, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDITORS

Arthur Andersen & Co. were auditors of the Company for the year ended 30th September, 2001 and PricewaterhouseCoopers were auditors of the Company for the years ended 30th September, 2002 and 30th September, 2003.

Grant Thornton were appointed as auditors of the Company by the Board on 8th November, 2004 extraordinary general meeting, to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers on 8th October, 2004. The financial statements have been audited by Grant Thornton, who will retire and a resolution to re-appoint Grant Thornton as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors

PONG WAI SAN, WILSON

Chairman and Chief Executive Officer

Hong Kong, 25th November, 2004



AUDITORS' REPORT

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton 
均富會計師行

AUDITORS' REPORT TO THE MEMBERS OF EVI EDUCATION ASIA LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 26 to 55 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 30th September, 2004 and of the Group's loss and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong, 25th November, 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 30th September, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	3	20,206	19,959
Costs of merchandise		(5,450)	(6,301)
Costs of internet connectivity fee		(291)	(525)
Staff costs		(10,039)	(10,248)
Depreciation		(1,306)	(3,269)
Amortisation of intangible assets		(1,645)	(2,963)
General and administrative expenses		(6,215)	(6,259)
Operating loss	4	(4,740)	(9,606)
Interest income	3	235	247
Loss before taxation		(4,505)	(9,359)
Taxation	7	(16)	(76)
Loss before minority interests		(4,521)	(9,435)
Minority interests		316	(41)
Loss attributable to shareholders	8	(4,205)	(9,476)
Loss per share	9		
– Basic		HK(0.11) cent	HK(0.24) cent
– Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

As at 30th September, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	10	741	1,662
Intangible assets	11	2,533	1,728
Total non-current assets		3,274	3,390
Current assets			
Trade receivables	13	3,566	3,545
Due from customers on installation contracts	14	135	800
Prepayments, deposits and other current assets		863	647
Cash and bank deposits		19,123	21,917
Total current assets		23,687	26,909
Current liabilities			
Trade payables	15	(969)	(1,847)
Accruals and other payables		(1,739)	(1,922)
Deposits from customers		(2,473)	(2,918)
Due to minority shareholders of subsidiaries	16	(660)	(460)
Provision for tax		(34)	(67)
Total current liabilities		(5,875)	(7,214)
Net current assets		17,812	19,695
Total assets less current liabilities		21,086	23,085
Minority interests	17	(2,225)	(91)
Net assets		18,861	22,994
CAPITAL AND RESERVES			
Share capital	18	40,000	40,000
Reserves	20	37,362	37,290
Accumulated deficits	21	(58,501)	(54,296)
Shareholders' funds		18,861	22,994

Pong Wai San, Wilson
Chairman

Cheung Shi Kwan, Wings
Director



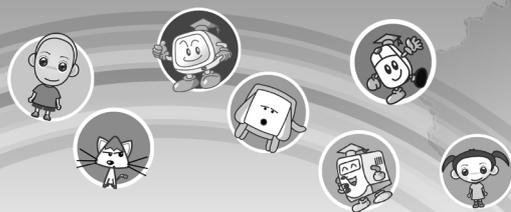
BALANCE SHEET

As at 30th September, 2004

	Notes	2004 HK\$'000	2003 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	12	<u>18,851</u>	<u>10,020</u>
Current assets			
Prepayments, deposits and other current assets		–	4
Cash and bank deposits		<u>5</u>	<u>13,074</u>
		<u>5</u>	<u>13,078</u>
Current liability			
Due to a director		<u>–</u>	<u>(18)</u>
Net current assets		<u>5</u>	<u>13,060</u>
Net assets		<u>18,856</u>	<u>23,080</u>
CAPITAL AND RESERVES			
Share capital	18	40,000	40,000
Reserves	20	24,881	24,881
Accumulated deficits	21	<u>(46,025)</u>	<u>(41,801)</u>
Shareholders' funds		<u>18,856</u>	<u>23,080</u>

Pong Wai San, Wilson
Director

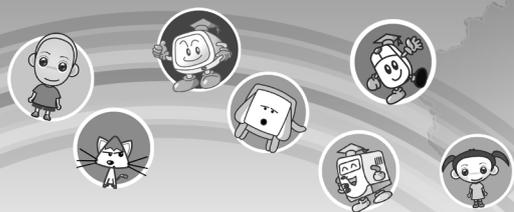
Cheung Shi Kwan, Wings
Director



CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30th September, 2004

	2004 HK\$'000	2003 HK\$'000
Cash flows from operating activities		
Loss before taxation	(4,505)	(9,359)
Adjustments for:		
Depreciation	1,306	3,269
Amortisation of intangible assets	1,645	2,963
Interest income	(235)	(247)
Loss on disposal of property, plant and equipment	–	53
Operating loss before working capital changes	(1,789)	(3,321)
Increase in trade receivables	(21)	(639)
Decrease/(Increase) in due from customers on installation contracts	665	(1,026)
(Increase)/Decrease in prepayments, deposits and other current assets	(180)	137
(Decrease)/Increase in trade payables	(878)	896
Decrease in accruals and other payables	(147)	(144)
(Decrease)/Increase in deposits from customers	(445)	1,282
Cash used in operations	(2,795)	(2,815)
Interest received	235	247
Income tax paid	(49)	(133)
<i>Net cash used in operating activities</i>	<u>(2,609)</u>	<u>(2,701)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(385)	(341)
Additions of intangible assets	–	(104)
<i>Net cash used in investing activities</i>	<u>(385)</u>	<u>(445)</u>
Cash flows from financing activities		
Increase in due to minority shareholders of subsidiaries	200	–
<i>Net cash from financing activities</i>	<u>200</u>	<u>–</u>
Net decrease in cash and cash equivalents	(2,794)	(3,146)
Cash and cash equivalents at beginning of year	21,917	25,063
Cash and cash equivalents at end of year	<u>19,123</u>	<u>21,917</u>
Analysis of cash and cash equivalents:		
Cash and bank deposits	<u>19,123</u>	<u>21,917</u>



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30th September, 2004

	2004 HK\$'000	2003 HK\$'000
Total equity at beginning of year	22,994	32,470
Exchange translation differences	72	–
Loss attributable to shareholders	(4,205)	(9,476)
Total equity at end of year	18,861	22,994

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law (Revised) of the Cayman Islands. The shares of the Company are listed on the Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s registered office is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands. The directors consider the Company’s ultimate holding company is Summerview Enterprises Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 12 to the financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation

The financial statements on pages 26 to 55 are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention.

Adoption of revised SSAP

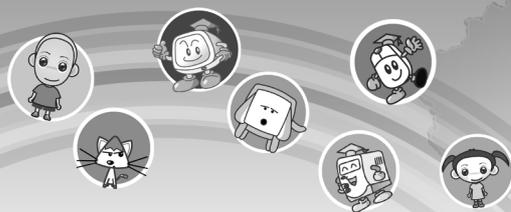
In the current year, the Company has adopted Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In the previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where timing differences were not expected to reverse in the foreseeable future. Deferred tax assets were not recognised unless their realisation was assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions.

In the absence of any specific transitional arrangements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of SSAP 12 (Revised) has no material effect on the current and prior years’ net assets and results and accordingly, no prior year adjustment is required.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30th September each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Basis of consolidation (Continued)

All material intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those enterprises controlled by the Company.

Control exists when the Company has the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

In the Company's balance sheet, the investments in subsidiaries are carried at cost less impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Property, plant and equipment

(i) Depreciation and amortisation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold improvements	50% or over the unexpired lease terms
Furniture and office equipment	25% to 33%
Computer equipment	20% to 33%

(ii) Measurement bases

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use. Subsequent expenditure relating to property, plant and equipment is added to the carrying amount of the assets if it can be demonstrated that such expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets.

When assets are sold or retired, any gain or loss resulting from their disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Intangibles

(i) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition/ investment over the Group's share of the fair value of the identifiable assets and liabilities acquired/ invested. Goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 5 years. Goodwill is stated in the consolidated balance sheet at gross amount less accumulated amortisation and impairment losses.

(ii) Research and website development costs

The costs for developing websites which include external direct cost of materials and services consumed in developing the website are capitalised, and the capitalisation of such costs ceases no later than the point at which the website is substantially completed and ready for its intended purpose, except that such costs involve provision of additional functions or features to the website. Website development costs are amortised on a straight-line basis over a period of three years, which represent the expected useful life of the website. Capitalised website development costs are stated at cost less accumulated amortisation and impairment losses.

Research and other development costs relating to website development and website maintenance costs are expensed in the year in which they are incurred.

(iii) Licensing rights

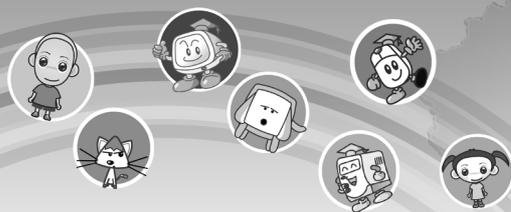
Costs of licensing rights acquired during the year are capitalised and amortised using the straight-line method over their estimated useful lives of two years. Capitalised costs of licensing rights are stated at cost less accumulated amortisation and impairment losses.

(f) Impairment

The carrying amounts of the Group's and Company's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(f) **Impairment** (Continued)

(ii) *Reversals of impairment*

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(g) **Operating leases**

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(h) **Trade receivables**

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

(i) **Installation work in progress**

When the outcome of an installation contract can be estimated reliably, contract revenue and costs are recognised over the period of the contract, respectively, as revenues and expenses. The Group uses the percentage of completion method to determine the appropriate amount of revenue and costs to be recognised in a given period; the stage of completion is measured by reference to actual costs incurred for work performed to date as a percentage of total estimated costs for each contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

When the outcome of an installation contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that will be recoverable. Contract costs are recognised when incurred.

The aggregate of the costs incurred and the profit/loss recognised on each contract is compared against the progress billings up to the year end. Where costs incurred and recognised profits (less recognised losses) exceed progress billings, the balance is shown as due from customers on installation contracts under current assets. Where progress billings exceed costs incurred plus recognised profits (less recognised losses), the balance is shown as due to customers on installation contracts under current liabilities.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(j) **Foreign currencies**

Transactions in foreign currencies are translated into Hong Kong dollars at the rates of exchange ruling at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Hong Kong dollars at the rates of exchange ruling at that date. Gains and losses arising on exchange are dealt with in the income statement.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date and the income statements are translated at an average rate for the year. Gains and losses arising on exchange are dealt with as movements in reserve.

(k) **Provisions**

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(l) **Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic benefits will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(m) **Income tax**

Income tax comprises current and deferred taxes.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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 profits will be available to allow all or part of the asset to be recovered. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Deferred tax assets and liabilities are not discounted. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

2. **PRINCIPAL ACCOUNTING POLICIES** (Continued)

(n) **Revenue recognition**

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group, on the following basis:

(i) *Sale and installation of computer hardware and software*

The Group enters into contracts with customers whereby the sale and installation of computer hardware and software are bundled together in one contract. Revenue from such contracts is recognised by reference to the stage of completion of the contracts, which is measured by reference to actual costs incurred for work performed to date as a percentage of total estimated costs for each contract.

(ii) *Service fees*

Service fees are recognised when the related services are rendered.

(iii) *Interest income*

Interest income is recognised on a time-proportion basis, taking into account the principal outstanding and the interest rates applicable.

(o) **Employee benefits**

(i) *Employee entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

(ii) *Bonus plans*

Provisions for bonus plans are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) *Pension obligations*

The Group contributes to a number of defined contribution retirement schemes which are available to all employees in Hong Kong. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the schemes. The Group's contributions to these defined contribution retirement schemes are expensed as incurred.

Subsidiaries incorporated in the People's Republic of China other than Hong Kong ("PRC") participate in the defined contribution retirement schemes operated by the local authorities for employees in the PRC. Contributions to these schemes are charged to the income statement when incurred.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

(o) Employee benefits (Continued)

(iii) Pension obligations (Continued)

The assets of the schemes are held separately from those of the Group in independently administered funds.

(iv) Share options

No employee compensation cost is recognised when options are granted. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(p) Cash and cash equivalents

Cash comprises cash on hand and demand deposits repayable on demand with any bank or other financial institution. Cash includes deposits denominated in foreign currencies.

Cash equivalents represent 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(q) 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.

(r) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, property, plant and equipment, receivables and excluding operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation. Capital expenditure comprises additions to intangible assets and property, plant and equipment.

In respect of geographical segment reporting, sales are based on the place in which the customer is located. Total assets and capital expenditure are classified where the assets are located.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. **TURNOVER, REVENUE AND SEGMENT REPORTING**

The Group is principally engaged in provision of internet education services, sale and installation of computer hardware and software and provision of computer training services. Revenues recognised during the year are as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover		
Internet education fee	8,820	7,775
Sales and installation of computer hardware and software	7,102	7,484
Computer training fee	2,553	3,142
Others	1,731	1,558
	20,206	19,959
Interest income	235	247
Total revenues	20,441	20,206

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

(a) Business segments

The Group operates under three main business segments, namely internet education, sales and installation of computer hardware and software and computer training.

	Internet education 2004 HK\$'000	Sales and installation of computer hardware and software 2004 HK\$'000	Computer training 2004 HK\$'000	Others 2004 HK\$'000	Group 2004 HK\$'000
Turnover	8,820	7,102	2,553	1,731	20,206
Segment (loss)/profit	(3,155)	(1,385)	632	(282)	(4,190)
Unallocated costs					(550)
Operating loss					(4,740)
Interest income					235
Loss before taxation					(4,505)
Taxation					(16)
Loss before minority interests					(4,521)
Minority interests					316
Loss attributable to shareholders					(4,205)
Segment assets	3,735	2,972	649	187	7,543
Unallocated assets					19,418
Total assets					26,961
Segment liabilities	3,167	1,177	405	292	5,041
Unallocated liabilities					834
Total liabilities					5,875
Capital expenditure	2,835	—	—	—	2,835
Depreciation	1,306	—	—	—	1,306
Amortisation	907	369	369	—	1,645

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

	Internet education 2003 HK\$'000	Sales and installation of computer hardware and software 2003 HK\$'000	Computer training 2003 HK\$'000	Others 2003 HK\$'000	Group 2003 HK\$'000
Turnover	7,775	7,484	3,142	1,558	19,959
Segment (loss)/profit	(6,396)	(2,255)	754	(757)	(8,654)
Unallocated costs					(952)
Operating loss					(9,606)
Interest income					247
Loss before taxation					(9,359)
Taxation					(76)
Loss after taxation					(9,435)
Minority interests					(41)
Loss attributable to shareholders					(9,476)
Segment assets	2,966	3,593	1,083	251	7,893
Unallocated assets					22,406
Total assets					30,299
Segment liabilities	3,107	2,120	466	497	6,190
Unallocated liabilities					1,024
Total liabilities					7,214
Capital expenditure	445	–	–	–	445
Depreciation	3,269	–	–	–	3,269
Amortisation	2,112	426	425	–	2,963

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

3. TURNOVER, REVENUE AND SEGMENT REPORTING (Continued)

(b) Geographical segments

A geographical analysis of the Group's revenue is not presented as the Group's revenue in geographical segments other than Hong Kong are less than 10% of the aggregate amount of all segments.

The following tables show the carrying amount of segment assets and additions to property, plant, equipment and intangible assets by geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant, equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK'000	2003 HK\$'000
Hong Kong	19,997	30,299	164	445
PRC	6,964	–	2,671	–
	<u>26,961</u>	<u>30,299</u>	<u>2,835</u>	<u>445</u>

4. OPERATING LOSS

Operating loss is arrived at after charging:

	2004 HK\$'000	2003 HK\$'000
Costs of merchandise	5,450	6,301
Costs of internet connectivity fee	291	525
Staff costs (including directors' emoluments (Note 5))	10,039	10,248
Operating lease rentals in respect of		
– premises	1,861	1,562
– computer servers	219	434
Depreciation	1,306	3,269
Amortisation of intangible assets		
– Website development costs	636	2,112
– Goodwill	1,009	851
Provision for doubtful debts	59	284
Auditors' remuneration	180	308

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of emoluments paid/payable to directors of the Company during the year are:

	2004 HK\$'000	2003 HK\$'000
Fees for executive directors	–	–
Fees for independent non-executive directors	–	–
Other emoluments for executive directors		
– Salaries and allowances	1,090	1,200
– Pension costs – defined contribution retirement schemes	24	24
Other emoluments for independent non-executive directors		
– Salaries and allowances	50	50
	<u>1,164</u>	<u>1,274</u>

No directors waived any emoluments during the year. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for the year.

Analysis of directors' emoluments by number of directors and emolument ranges is as follows:

	2004	2003
<i>Executive directors</i>		
– Nil to HK\$1,000,000	4	4
<i>Independent non-executive directors</i>		
– Nil to HK\$1,000,000	3	3
	<u>7</u>	<u>7</u>

The executive directors received individual emoluments for the year ended 30th September, 2004 of approximately HK\$568,000 (2003: HK\$612,000), HK\$546,000 (2003: HK\$612,000), HK\$12 (2003: HK\$12) and HK\$12 (2003: HK\$12), respectively.

The independent non-executive directors received individual emoluments for the year ended 30th September, 2004 of approximately HK\$50,000 (2003: HK\$50,000), Nil (2003: Nil) and Nil (2003: Nil), respectively.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

5. DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (Continued)

- (b) The five highest paid individuals during the year included two (2003: two) directors, details of whose emoluments are set out in Note 5(a) above. Details of emoluments of the remaining three (2003: three) non-director highest paid individuals for the year are set out below:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	1,254	1,337
Pension costs – defined contribution retirement schemes	36	36
	<u>1,290</u>	<u>1,373</u>

During the year, no emoluments were paid to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office. The emoluments of all of the five highest paid individuals (including directors and other employees) fall within the range of Nil to HK\$1,000,000.

6. STAFF COSTS

Staff costs, including directors' emoluments, consisted of:

	2004 HK\$'000	2003 HK\$'000
Salaries and allowances	9,343	9,264
Unutilised annual leave	–	289
Pension costs – defined contribution retirement schemes	696	695
	<u>10,039</u>	<u>10,248</u>

7. TAXATION

The charge comprises:

	2004 HK\$'000	2003 HK\$'000
Current tax – Hong Kong profits tax	<u>16</u>	<u>76</u>

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

7. TAXATION (Continued)

Reconciliation between tax expense and accounting loss at applicable tax rates is as follows:

	2004 HK\$'000	2003 HK\$'000
Loss before taxation	<u>(4,505)</u>	<u>(9,359)</u>
Tax on loss, calculated at the rates applicable to losses in the tax jurisdictions concerned	(647)	(1,638)
Tax effect of non-deductible expenses	196	746
Tax effect of non-taxable revenue	(60)	(43)
Tax effect of deductible temporary differences not recognised	<u>527</u>	<u>1,011</u>
Total taxation	<u>16</u>	<u>76</u>

The Company is incorporated in the Cayman Islands and is exempted from taxation in the Cayman Islands until 2021. The Company's subsidiaries established in the British Virgin Islands are incorporated under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of the British Virgin Islands income taxes.

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. PRC tax is provided in accordance with the legislation and tax rates prevailing in the PRC.

The tax effect of temporary differences for deferred tax assets not recognised in the financial statements is in respect of the following:

	<u>Group</u>	
	2004 HK\$'000	2003 HK\$'000
Accelerated depreciation allowance	(85)	168
Tax loss*	(9,362)	(8,357)
Effect of change in tax rate	<u>–</u>	<u>(731)</u>
	<u>(9,447)</u>	<u>(8,920)</u>

* Tax loss of the Group is subject to the agreement of the Hong Kong Inland Revenue Department and can be carried forward indefinitely.

8. LOSS ATTRIBUTABLE TO SHAREHOLDERS

The loss attributable to shareholders is dealt with in the financial statements of the Company to the extent of HK\$4,224,000 (2003: HK\$9,810,000).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

9. LOSS PER SHARE

The calculation of basic loss per share is based on the consolidated loss attributable to shareholders of approximately HK\$4,205,000 (2003: HK\$9,476,000) and on 4,000,000,000 shares (2003: 4,000,000,000 shares) in issue during the year.

Diluted loss per share is not presented because the effect is anti-dilutive.

10. PROPERTY, PLANT AND EQUIPMENT

	Group			Total HK\$'000
	Leasehold improvements HK\$'000	Furniture and office equipment HK\$'000	Computer equipment HK\$'000	
Cost				
At 1st October, 2003	1,788	715	8,161	10,664
Additions	77	31	277	385
Disposals	–	(7)	(2,184)	(2,191)
At 30th September, 2004	1,865	739	6,254	8,858
Accumulated depreciation				
At 1st October, 2003	1,758	639	6,605	9,002
Charge for the year	29	64	1,213	1,306
Disposals	–	(7)	(2,184)	(2,191)
At 30th September, 2004	1,787	696	5,634	8,117
Net book value				
At 30th September, 2004	78	43	620	741
At 30th September, 2003	30	76	1,556	1,662

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

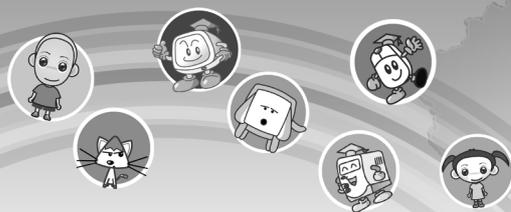
11. INTANGIBLE ASSETS

	Group			
	Website development costs	Goodwill	Licensing rights	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st October, 2003	702	1,026	–	1,728
Additions	–	2,450	–	2,450
Amortisation during the year	(636)	(1,009)	–	(1,645)
At 30th September, 2004	66	2,467	–	2,533
At 30th September, 2004				
Cost/Gross amount	6,534	4,961	6,318	17,813
Accumulated amortisation and impairment loss	(6,468)	(2,494)	(6,318)	(15,280)
Net book value	66	2,467	–	2,533
At 30th September, 2003				
Cost/Gross amount	6,534	2,511	6,318	15,363
Accumulated amortisation and impairment loss	(5,832)	(1,485)	(6,318)	(13,635)
Net book value	702	1,026	–	1,728

12. INTERESTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	2,608	2,608
Due from subsidiaries	63,061	49,980
	65,669	52,588
Less: accumulated impairment losses	(46,818)	(42,568)
	18,851	10,020

The outstanding balances with the subsidiaries are unsecured, interest-free and not repayable until the subsidiaries are financially capable to do so.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. INTERESTS IN SUBSIDIARIES (Continued)

The following is a list of the subsidiaries as at 30th September, 2004:

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Interest held	Principal activities and place of operation
Network Focus Consultancy Corporation	British Virgin Islands, limited liability company	US\$2,000	100%*	Investment holding in Hong Kong
EVI Services Limited	Hong Kong, limited liability company	HK\$21,053	100%	Sales and installation of computer hardware and software, provision of computer training services and internet education services in Hong Kong
Jaques Kurtz Company Limited	British Virgin Islands, limited liability company	US\$1	100%	Inactive
Sino Sky Enterprises Limited	Hong Kong, limited liability company	HK\$2	100%	Provision of office administrative services to the Group in Hong Kong
Web Work Industries Limited	British Virgin Islands, limited liability company	US\$1	100%	Development of information technology system and infrastructure in Hong Kong
EVI MP Limited	British Virgin Islands, limited liability company	US\$1	100%	Provision of internet education services, design and media production in Hong Kong
Value Media International Limited	British Virgin Islands, limited liability company	US\$100	100%	Investment holding in Hong Kong
System New International Limited	British Virgin Islands, limited liability company	US\$100	75%	Inactive

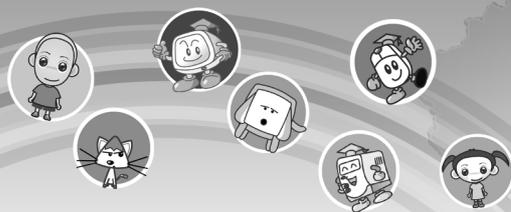
NOTES TO THE FINANCIAL STATEMENTS

(Continued)

12. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital	Interest held	Principal activities and place of operation
Silicon Workshop Limited	Hong Kong, limited liability company	HK\$100	80%	Sales and installation of computer hardware and software and provision of computer training services in Hong Kong
I-CUBE Education Limited	Hong Kong, limited liability company	HK\$10	60%	Provision of internet education services and design and media production, provision of internet education games in Hong Kong
廣州搖籃軟件開發有限公司	PRC, foreign wholly-owned limited liability company	HK\$150,000	100%	Development and sales of computer software and hardware and provision of advisory services in the PRC
EVI-MDV Technical Development Limited	PRC, co-operative joint venture with limited liability	HK\$5,000,000	51%	Development and sales of computer software and provision of technical support and after-sales services in the PRC

* Shares held directly by the Company.



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

13. TRADE RECEIVABLES

Majority of the Group's turnover is on open accounts terms and in accordance with terms specified in the contracts governing the relevant transactions.

At 30th September, 2004, the ageing analysis of the Group's trade receivables was as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	2,060	2,329
31 – 60 days	994	452
61 – 90 days	125	166
91 – 180 days	914	1,066
	4,093	4,013
Less: provision for doubtful debts	(527)	(468)
	3,566	3,545

14. INSTALLATION WORK IN PROGRESS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Contract costs incurred plus attributable profits less foreseeable losses to date	330	1,026
Less: progress billings to date	(195)	(226)
	135	800

Included in current assets under the following captions:

Due from customers on installation contracts	135	800
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As at 30th September, 2004, no retention was held by customers for contract work (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

15. TRADE PAYABLES

At 30th September, 2004, the ageing analysis of the Group's trade payables was as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
0 – 30 days	703	1,416
31 – 60 days	198	336
61 – 90 days	13	16
91 – 180 days	55	79
	969	1,847

16. DUE TO MINORITY SHAREHOLDERS OF SUBSIDIARIES

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

17. MINORITY INTERESTS

	<i>HK\$'000</i>
At 1st October, 2002	50
Share of profit of a subsidiary	41
At 30th September, 2003 and at 1st October, 2003	91
Establishment of a subsidiary	2,450
Share of net loss of subsidiaries	(316)
At 30th September, 2004	2,225

18. SHARE CAPITAL

	2004	2003
	HK\$'000	HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	500,000	500,000
<i>Issued and fully paid:</i>		
4,000,000,000 ordinary shares of HK\$0.01 each	40,000	40,000

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

19. SHARE OPTIONS

- (a) The Company adopted a share option scheme (“Pre-IPO Share Option Scheme”) on 28th February, 2001. On the same date, options were granted to the executive directors and other employees of the Group to subscribe for an aggregate of 255,000,000 shares (as adjusted by the share subdivision on 30th November, 2001) of the Company at a price of HK\$0.076 per share (as adjusted), exercisable during a three-year period from 15th March, 2002 to 14th March, 2005. Maximum number of shares in which employees are entitled to subscribe for by exercising the options shall not exceed (a) 30% of the total number of options during the first year of the three-year period; (b) 60% of the total number of the options during the second year of the three-year period; and (c) the remaining unexercised options during the third year of the three-year period.

Movements of the share options under the Pre-IPO Share Option Scheme during the year ended 30th September, 2004 are as follows:

Date of grant	Exercise period	Subscription price per share	Number of shares				End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	
28th February, 2001	15th March, 2002						
	to 14th March, 2005	HK\$0.076	221,500	-	(1,500)	-	220,000

- (b) The Company adopted another share option scheme (“Share Option Scheme”) on 28th February, 2001, pursuant to which it may grant options to employees (including executive directors) of the Group to subscribe for shares of the Company, subject to a maximum of 10% of the nominal value of the issued share capital of the Company from time to time, excluding for this purpose shares issued on the exercise of options. The subscription price will be determined by the directors, and will not be less than the higher of: (a) the nominal value of the shares; (b) the average of the closing price of the shares quoted on the GEM of the Stock Exchange on the five trading days immediately preceding the date of offer of the options; or (c) the closing price of the shares quoted on the GEM of the Stock Exchange on the date of offer of the options, which must be a business day as defined in the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

19. SHARE OPTIONS (Continued)

(b) (Continued)

On 31st October, 2001, the Company granted 25,000,000 options (as adjusted) to certain employees of the Group to subscribe for the Company's shares in accordance with the Share Option Scheme. The share options are exercisable during the period from 1st November, 2002 to 31st October, 2005 at a subscription price of HK\$0.208 per share (as adjusted). During the year, 7,000,000 (2003: 2,000,000) of these options lapsed in connection with the cessation of employment of certain employees.

Movements of the share options under the Share Option Scheme during the year ended 30th September, 2004 are as follows:

Date of grant	Exercise period	Subscription price per share	Number of shares				End of year
			Beginning of year	Granted during the year	Lapsed during the year	Exercised during the year	
31st October, 2001	1st November, 2002 to 31st October, 2005	HK\$0.208	21,000	-	(7,000)	-	14,000

20. RESERVES

	Group			Total
	Share premium	Capital reserve (a)	Foreign currencies translation reserve	
At 1st October, 2002, 30th September, 2003 and at 1st October, 2003	22,372	14,918	-	37,290
Exchange translation differences	-	-	72	72
At 30th September, 2004	22,372	14,918	72	37,362

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

20. RESERVES (Continued)

	Company	
	2004	2003
	HK\$'000	HK\$'000
Share premium	22,372	22,372
Contributed surplus (b)	2,509	2,509
	24,881	24,881

Notes:

- (a) Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through an exchange of shares pursuant to the group reorganisation on 28th February, 2001.
- (b) Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of a subsidiary acquired through an exchange of shares pursuant to the group reorganisation on 28th February, 2001.

Under the Companies Law (Revised) of the Cayman Islands, share premium and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of share premium and contributed surplus if it is, or would after the payment be, unable to pay its liabilities as they become due.

As at 30th September, 2004, the Company had no reserves available for distribution to shareholders (2003: Nil).

21. ACCUMULATED DEFICITS

	Group	Company
	HK\$'000	HK\$'000
At 1st October, 2002	(44,820)	(31,991)
Loss attributable to shareholders	(9,476)	(9,810)
At 30th September, 2003 and at 1st October, 2003	(54,296)	(41,801)
Loss attributable to shareholders	(4,205)	(4,224)
At 30th September, 2004	(58,501)	(46,025)



NOTES TO THE FINANCIAL STATEMENTS

(Continued)

22. OPERATING LEASE COMMITMENTS

At 30th September, 2004, the Group had operating lease commitments under various non-cancellable operating lease agreements. The commitments payable under these agreements are analysed as follows:

	2004		2003	
	Land and buildings HK\$'000	Other assets HK\$'000	Land and buildings HK\$'000	Other assets HK\$'000
Within one year	556	194	1,884	192
In the second to fifth years	1,205	–	446	–
	<u>1,761</u>	<u>194</u>	<u>2,330</u>	<u>192</u>

23. RETIREMENT PLANS

The employees of the Group in Hong Kong participate in the Mandatory Provident Fund Scheme (“the MPF Scheme”), a defined contribution scheme managed by an independent trustee. The Group and its employees each make monthly contributions to the MPF Scheme at 5% of the employees’ earnings with the maximum contribution by each of the Group and the employees limited to HK\$1,000 per month and thereafter contributions are voluntary.

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by the relevant authorities for its PRC employees. The Group is required to make contributions to the retirement plans which are calculated based on certain prescribed rates and the salaries, bonuses and certain allowances of its PRC employees. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

There are no forfeited contributions available under the schemes.

During the year, the aggregate contributions made by the Group to the retirement schemes amounted to approximately HK\$696,000 (2003: HK\$695,000).

24. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements on pages 26 to 55 were approved by the Board of Directors on 25th November, 2004.

FINANCIAL SUMMARY

For the year ended 30th September, 2004

	Year ended 30th September,				
	2000 \$'000	2001 \$'000	2002 \$'000	2003 \$'000	2004 \$'000
Turnover	410	1,050	10,469	19,959	20,206
Costs of merchandise	(278)	(260)	(2,788)	(6,301)	(5,450)
Cost of internet connectivity fee	–	(303)	(508)	(525)	(291)
Staff costs	(1,969)	(8,200)	(11,606)	(10,248)	(10,039)
Depreciation	(111)	(1,390)	(4,334)	(3,269)	(1,306)
Amortisation of intangible assets	–	(1,527)	(5,986)	(2,963)	(1,645)
General and administrative expenses	(7,040)	(8,492)	(6,715)	(6,259)	(6,215)
Gain on disposal of interest in a subsidiary	–	–	6,318	–	–
Impairment loss on intangible assets	–	–	(3,159)	–	–
Loss from operations	(8,988)	(19,122)	(18,309)	(9,606)	(4,740)
Interest income	48	1,227	525	247	235
Loss before taxation	(8,940)	(17,895)	(17,784)	(9,359)	(4,505)
Taxation	–	–	(40)	(76)	(16)
Loss after taxation	(8,940)	(17,895)	(17,824)	(9,435)	(4,521)
Minority Interests	–	–	(53)	(41)	316
Loss attributable to shareholders	(8,940)	(17,895)	(17,877)	(9,476)	(4,205)
ASSETS AND LIABILITIES					
TOTAL ASSETS	11,717	54,850	38,983	30,299	26,961
TOTAL LIABILITIES	(10,765)	(4,503)	(6,463)	(7,214)	(5,875)
MINORITY INTERESTS	–	–	(50)	(91)	(2,225)
	<u>952</u>	<u>50,347</u>	<u>32,470</u>	<u>22,994</u>	<u>18,861</u>

Notes:

1. The Company was incorporated in the Cayman Islands on 15th January, 2001 and became the holding company of the Group on 28th February, 2001 as a result of the Group Reorganisation.
2. The results for each of the two years ended 30th September, 2000 and 2001, and the assets and liabilities as at 30th September, 2000 and 2001 have been prepared using the merger method of accounting as if the group structure immediately after the Group Reorganisation had been in existence since 28th June, 1999.