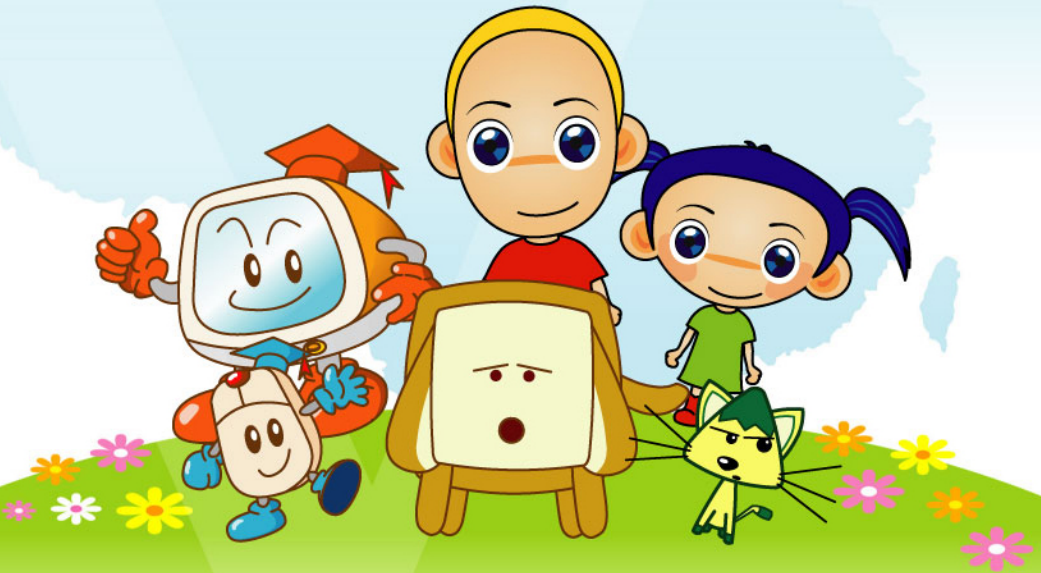




# **EVI Education Asia Limited**

(incorporated in the Cayman Islands with limited liability)



## **INTERIM REPORT 2004/2005**

(For the six months ended 31st March, 2005)

## **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.*

## **CORPORATE INFORMATION**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Ms. IP Kit Yee, Kitty (*Managing Director*)  
Mr. PONG Wai San, Wilson  
(*Chief Executive Officer*)  
Mr. CHAN Kin Chu, Harry  
Mr. CHEUNG Shi Kwan, Wings

#### **Non-executive Director**

Mr. TSANG Link Carl, Brian

#### **Independent non-executive Directors**

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

### **COMPANY SECRETARY**

Mr. CHAN Kin Chu, Harry

### **COMPLIANCE OFFICER**

Mr. CHEUNG Shi Kwan, Wings

### **AUTHORISED REPRESENTATIVES**

Mr. CHAN Kin Chu, Harry  
Mr. CHEUNG Shi Kwan, Wings

### **QUALIFIED ACCOUNTANT**

Mr. CHEUNG Hon Fai, Maurice

### **AUDIT COMMITTEE**

Mr. HUNG Tak Chow, Charles  
(*committee chairman*)  
Mr. HUNG Fan Wai, Wilfred  
Mr. LAI Hin Wing, Henry

### **AUDITORS**

Grant Thornton  
13th Floor, Gloucester Tower  
The Landmark, 11 Pedder Street  
Central, Hong Kong

### **PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

Bank of Bermuda (Cayman) Limited  
P.O. Box 513 GT  
Strathvale House  
North Church Street  
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**

9th Floor, Tai Sang Commercial Building  
24-34 Hennessy Road  
Hong Kong

### **WEBSITE ADDRESS**

[www.evi.com.hk](http://www.evi.com.hk)

### **STOCK CODE**

8090

### **CAYMAN ISLANDS LEGAL ADVISERS**

Conyers Dill & Pearman, Cayman  
Suite 2901, One Exchange Square  
8 Connaught Place, Central, Hong Kong

**FINANCIAL HIGHLIGHTS**

- The Group maintained its healthy financial position with approximately HK\$124.9 million cash on hand with no outstanding bank loan as at 31st March 2005.
- On 25th January 2005, the Company and a subsidiary of Midland Holdings Limited (formerly known as Midland Realty (Holdings) Limited) as subscriber entered into a subscription agreement whereby the subscriber agreed to subscribe for 4,300,000,000 new shares of the Company at the price of HK\$0.025 each. The total consideration amounts to HK\$107,500,000 and the share subscription was completed on 15th March 2005. The Company is now part of the Midland Group.
- Cash inflow from operating activities amounted to HK\$450,000 for the six months period ended 31st March 2005.
- Revenue reached HK\$9,559,000, a 10% decrease from the previous corresponding period.
- Loss attributable to shareholders narrowed to HK\$528,000, from HK\$1,221,000 in the previous corresponding period, represented a decrease of 57%.

The board of directors (the “Board”) of EVI Education Asia Limited (the “Company”) is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for six months ended 31st March 2005 (the “Period”) and three months ended 31st March 2005 together with comparative figures for the corresponding periods ended 31st March 2004 as follows:

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three and six months ended 31st March 2005

	Note	(Unaudited)		(Unaudited)	
		For the three months		For the six months	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	4,854	5,488	9,559	10,610
Costs of merchandise		(1,182)	(1,491)	(2,191)	(2,447)
Costs of internet connectivity fee		(33)	(77)	(73)	(144)
Staff costs		(2,567)	(2,474)	(5,087)	(4,868)
Depreciation		(219)	(348)	(381)	(789)
Amortisation of intangible assets		(396)	(216)	(796)	(947)
General and administrative expenses		(865)	(1,241)	(2,123)	(2,575)
Operating loss	(3)	(408)	(359)	(1,092)	(1,160)
Interest income		148	82	209	115
Loss before taxation		(260)	(277)	(883)	(1,045)
Taxation	(4)	(10)	(38)	(27)	(84)
Loss before minority interests		(270)	(315)	(910)	(1,129)
Minority interests		188	(46)	382	(92)
Loss attributable to shareholders		(82)	(361)	(528)	(1,221)
Loss per share – Basic	(6)	HK(0.002) cent	HK(0.009) cent	HK(0.012) cent	HK(0.031) cent

## CONSOLIDATED BALANCE SHEET

As at 31st March 2005

		(Unaudited) As at 31st March 2005 HK\$'000	(Audited) As at 30th September 2004 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
Non-current assets			
Property, plant and equipment	(7)	1,414	741
Intangible assets	(8)	1,737	2,533
Total non-current assets		<u>3,151</u>	<u>3,274</u>
Current assets			
Trade receivables	(9)	2,887	3,566
Due from customers on installation contracts		–	135
Prepayments, deposits and other current assets		1,419	863
Tax Recoverable		47	–
Cash and bank deposits		124,876	19,123
Total current assets		<u>129,229</u>	<u>23,687</u>
Current liabilities			
Trade payables	(10)	(821)	(969)
Accruals and other payables		(1,419)	(1,739)
Deposits from customers		(3,154)	(2,473)
Due to minority shareholders of subsidiaries	(11)	(380)	(660)
Provision for tax		–	(34)
Total current liabilities		<u>(5,774)</u>	<u>(5,875)</u>
Net current assets		<u>123,455</u>	<u>17,812</u>
Total assets less current liabilities		126,606	21,086
Minority interests		(1,845)	(2,225)
Net assets		<u>124,761</u>	<u>18,861</u>
<b>CAPITAL AND RESERVES:</b>			
Share capital	(12)	83,000	40,000
Reserves	(13)	100,790	37,362
Accumulated deficits	(13)	(59,029)	(58,501)
Shareholders' funds		<u>124,761</u>	<u>18,861</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March 2005

	(Unaudited) For the six months ended 31st March 2005 HK\$'000	(Unaudited) For the six months ended 31st March 2004 HK\$'000
Net cash inflow from operating activities	450	961
Net cash outflow from investing activities	(845)	(110)
Net cash inflow from financing activities	106,164	–
Increase in cash and cash equivalents	105,769	851
Cash and cash equivalents at the beginning of the Period	19,123	21,917
Effect of foreign exchange rate changes	(16)	–
Cash and cash equivalents at the end of the Period	<u>124,876</u>	<u>22,768</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st March 2005

	(Unaudited) For the six months ended 31st March 2005 HK\$'000	(Unaudited) For the six months ended 31st March 2004 HK\$'000
Balance at beginning of the Period	18,861	22,994
Exchange translation difference	(16)	1
Loss attributable to shareholders	(528)	(1,221)
Issue of new shares	106,444	–
Balance at the end of the Period	<u>124,761</u>	<u>21,774</u>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS:

### (1) Basis of preparation and principal accounting policies

The condensed financial statements of the Group for the Period have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountant and the disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange (the “GEM Listing Rules”).

The accounting policies adopted for the preparation of the financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 30th September 2004.

The condensed financial statements for the Period are unaudited, but have been reviewed by the audit committee (the “Audit Committee”) of the Company.

### (2) Segment Reporting

#### (a) Business segments

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

	For the six months ended 31st March									
	Internet education		Sales and installation of computer hardware and software		Computer training		Others		Group	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	4,462	5,103	3,025	3,534	1,192	1,303	880	670	9,559	10,610
Segment (loss)/profit	(1,045)	(921)	(496)	(290)	452	290	7	(207)	(1,082)	(1,128)
Unallocated costs									(10)	(32)
Operating loss									(1,092)	(1,160)
Interest income									209	115
Loss before taxation									(883)	(1,045)
Taxation									(27)	(84)
Loss before minority interests									(910)	(1,129)
Minority interests									382	(92)
Loss attributable to shareholders									(528)	(1,221)
<b>Other Information</b>										
Segment assets	4,388	1,785	2,135	1,727	300	673	412	121	7,235	4,306
Unallocated assets									125,145	23,077
Total assets									132,380	27,383
Segment liabilities	3,090	3,267	1,096	678	410	417	867	116	5,463	4,478
Unallocated liabilities									311	947
Total liabilities									5,774	5,425
Capital expenditure	1,054	110	-	-	-	-	-	-	1,054	110
Depreciation	353	749	8	19	3	4	17	17	381	789
Amortisation	438	569	179	189	179	189	-	-	796	947



(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 is less than 10% of the aggregate amounts of all segments.

The following tables show the carrying amounts 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	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	126,621	19,997	987	164
The People's Republic of China ("PRC"), other than Hong Kong	5,759	6,964	67	2,671
	<u>132,380</u>	<u>26,961</u>	<u>1,054</u>	<u>2,835</u>

(3) **Operating loss**

Operating loss is arrived at after charging:

	(Unaudited) For the three months ended 31st March		(Unaudited) For the six months ended 31st March	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Charging:				
Costs of internet connectivity fee	33	77	73	144
Costs of merchandise	1,182	1,491	2,191	2,447
Staff costs (including directors' emoluments)				
– salaries	2,397	2,333	4,744	4,581
– pension costs-defined contribution plan	170	141	343	287
Operating lease rentals in respect of				
– premises	226	471	565	911
– computer equipment	53	54	106	129
Depreciation	219	348	381	789
Amortisation of intangible assets:				
– Website development costs	12	37	29	569
– Goodwill	384	179	767	378
Provision for doubtful debts	53	22	61	35

(4) **Taxation**

The amount of taxation charged to the unaudited consolidated profit and loss account represented the Hong Kong profits tax provided on the estimated assessable profit for the Period. Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong.

The Company is incorporated in the Cayman Islands and is exempted from the taxation in the Cayman Islands until 2021. The Company's subsidiaries incorporated in the British Virgin Islands under the International Business Companies Acts of the British Virgin Islands and, accordingly, are exempted from payment of British Virgin Islands income taxes. No provision for PRC income tax has been made as there is no assessable profit for PRC subsidiaries for the periods.

During the Period, the tax effect of temporary differences for deferred tax assets was not recognised in the financial statements as the tax loss of the Company is subject to the agreement of the Hong Kong Inland Revenue Department and can be carried forward indefinitely.

**(5) Interim Dividend**

The Board does not recommend the payment of an interim dividend for the Period. (2004: Nil)

**(6) Loss per Share**

The calculation of basic loss per share for the Period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$528,000 (2004: HK\$1,221,000) and on the weighted average number of 4,401,648,352 shares (2004: 4,000,000,000 shares) deemed to be in issue throughout the Period.

Diluted loss per share is not presented for the Period because there was no diluting event existed during the Period.

**(7) Property, Plant and Equipment**

	<b>Leasehold improvements</b>	<b>Furniture and office equipment</b>	<b>Computer equipment</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Cost</b>				
At 1st October 2004	1,865	739	6,254	8,858
Additions for the Period	911	17	126	1,054
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2005	2,776	756	6,380	9,912
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 1st October 2004	1,787	696	5,634	8,117
Charge for the Period	106	15	260	381
	<hr/>	<hr/>	<hr/>	<hr/>
At 31st March 2005	1,893	711	5,894	8,498
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31st March 2005	883	45	486	1,414
	<hr/>	<hr/>	<hr/>	<hr/>
At 30th September 2004	78	43	620	741
	<hr/>	<hr/>	<hr/>	<hr/>

(8) **Intangible Assets**

	Website development costs <i>HK\$'000</i>	Goodwill <i>HK\$'000</i>	Licensing rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Net Book Value</b>				
At 1st October 2004	66	2,467	–	2,533
Amortisation during the Period	(29)	(767)	–	(796)
At 31st March 2005	37	1,700	–	1,737
<b>As at 31st March 2005</b>				
Cost	6,534	4,961	6,318	17,813
Accumulated amortization and impairment loss	(6,497)	(3,261)	(6,318)	(16,076)
Net Book Value	37	1,700	–	1,737
<b>As at 30th September 2004</b>				
Cost	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

(9) **Trade Receivables**

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

The ageing analysis of the Group's trade receivables is as follows:–

	(Unaudited) As at 31st March 2005 <i>HK\$'000</i>	(Audited) As at 30th September 2004 <i>HK\$'000</i>
0 to 30 days	2,020	2,060
31 to 60 days	382	994
61 to 90 days	47	125
Over 90 days	940	914
	3,389	4,093
Less: Provision for doubtful debts	(502)	(527)
	2,887	3,566

**(10) Trade Payables**

The ageing analysis of the Group's trade payables is as follow:-

	<b>(Unaudited)</b> <b>As at</b> <b>31st March</b> <b>2005</b> <i>HK\$'000</i>	<b>(Audited)</b> <b>As at</b> <b>30th September</b> <b>2004</b> <i>HK\$'000</i>
0 to 30 days	607	703
31 to 60 days	29	198
61 to 90 days	122	13
Over 90 days	63	55
	<u>821</u>	<u>969</u>

**(11) Due to minority shareholders of subsidiaries**

The amount was unsecured, non-interest bearing and had no fixed repayment terms. During the Period, the Group made repayment amounting to approximately HK\$280,000 to a minority shareholder of a subsidiary.

**(12) Share Capital**

	<b>Number of shares</b>	<b>Nominal value</b> <b>(Shares of</b> <b>HK\$0.01 each)</b> <i>HK\$'000</i>
<b>Authorised:</b>		
At 31st March 2005 and 30th September 2004	<u>50,000,000,000</u>	<u>500,000</u>
<b>Issued and fully paid</b>		
At 30th September 2004 (Audited)	4,000,000,000	40,000
Issue of new shares ( <i>note</i> )	<u>4,300,000,000</u>	<u>43,000</u>
At 31st March 2005 (Unaudited)	<u>8,300,000,000</u>	<u>83,000</u>

*Note:* During the Period, 4,300,000,000 new shares of HK\$0.01 each (the "Subscription Shares") were issued at a premium of HK\$0.015 each. The reason for this increase in issued share capital was that the Company and, inter alia, Valuwit Assets Limited ("Valuwit"), a subsidiary of Midland Holdings Limited ("Midland"), entered into a subscription agreement (the "Subscription Agreement") on 25th January 2005. Pursuant to the Subscription Agreement, Valuwit agreed to subscribe for the Subscription Shares. The Subscription Agreement was completed on 15th March 2005.

**(13) Reserves**

	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Exchange difference <i>HK\$'000</i>	Accumulated deficits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st October 2003	22,372	14,918	–	(54,296)	(17,000)
Loss attributable to shareholders	–	–	–	(1,221)	(1,221)
Exchange difference	–	–	1	–	1
	<u>22,372</u>	<u>14,918</u>	<u>1</u>	<u>(55,517)</u>	<u>(18,226)</u>
At 31st March 2004	22,372	14,918	72	(58,501)	(21,139)
Issue of new shares ( <i>note (12)</i> )	64,500	–	–	–	64,500
Share issue expenses	(1,056)	–	–	–	(1,056)
Loss attributable to shareholders	–	–	–	(528)	(528)
Exchange difference	–	–	(16)	–	(16)
	<u>85,816</u>	<u>14,918</u>	<u>56</u>	<u>(59,029)</u>	<u>41,761</u>

**(14) Share Option Scheme**

Details of options outstanding as at 31st March 2005 were as follows:

	Number of share options	
	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
At 1st October 2004	220,000,000	14,000,000
<i>Less</i> : share options lapsed during the Period	(220,000,000)	(2,000,000)
	<u>–</u>	<u>12,000,000</u>

No share option was granted during the Period.

All Pre-IPO Share Options lapsed immediately after the option exercisable period expired on 16th March 2005.

**(15) Operating Lease Commitments**

The Group had future aggregate minimum lease payment under various non-cancellable operating lease in respect of office premises and computer equipment as follows:

	(Unaudited) As at 31st March 2005 <i>HK\$'000</i>	(Audited) As at 30th September 2004 <i>HK\$'000</i>
Not later than one year	796	750
Later than one year and not later than five years	829	1,205
	<u>1,625</u>	<u>1,955</u>

## **FINANCIAL PERFORMANCE**

Hong Kong's low birth rate in recent years has placed marketing constraints towards the growth and expansion of Group's services within the education sector. In addition, the initial business development costs of the PRC education market have offset the effect on the increase in edu-commercial project's revenue. In order to mitigate the impact, the Group has applied tight cost control and expanded the edu-commercial project business in order to maximise its staying power in the education market for shareholders' benefits. The Group has achieved positive cash flow for the Period and is now targeting cash flow breakeven for the whole year.

The Group's unaudited consolidated turnover for the Period slightly decreased to approximately HK\$9,559,000, representing a decline by 10% over the corresponding period ended 31st March 2004 (2004: HK\$10,610,000) because of the reduction in subscription fees charged to the kindergarten users when renewing contracts with those kindergartens. Net loss attributable to shareholders for the Period was approximately HK\$528,000 (2004: HK\$1,221,000), representing a decrease of about 57%.

In this quarter ended 31st March 2005, the Group achieved a decrease in turnover to approximately HK\$4,854,000 (2004: HK\$5,488,000). The net loss attributable to shareholders for the three months ended 31st March 2005 was approximately HK\$82,000 (2004: HK\$361,000), representing a decrease of about 77%.

Comparing segment financial performance to the previous corresponding period, the Group's revenue from the internet media for the Period remained stable at approximately HK\$4,462,000 which represents 47% of total turnover. The recurrent subscription income generated from the EVI on-line system ("EVI On-line System") from the kindergarten users in Hong Kong remained the core revenue compared with last corresponding period whilst this reflected satisfactory growth in the Group's particular portal, I-Cube, into the primary school market. Revenue from off-line services was stable and amounted to approximately HK\$5,097,000, among which approximately 32% of the total turnover was attributable to the sales and installation of computer hardware and software, 12% of the total turnover was attributable to the provision of computer training courses and 9% of the total turnover was attributable to website development and other commercial projects. The turnover contribution of each business segments do not have any material changes compared to corresponding period in last financial year.

## **BUSINESS OVERVIEW AND MAJOR ACHIEVEMENTS**

### **Customer base and Revenue**

Being a prominent internet education provider in Hong Kong, the Group offers various on-line and 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 ([www.evigroup.com](http://www.evigroup.com)), Parents, Kids and Members Zones ([www.evi.com.hk](http://www.evi.com.hk)), the I-Cube ([www.icubeworld.com](http://www.icubeworld.com)) and the Silicon ([www.drpcfamilly.com](http://www.drpcfamilly.com)). Despite the trend of downsizing in market, the Group was still capable to solicit new business for EVI On-line System and continued to receiving subscription fees at an acceptable level from the EVI On-line System. The Group now has a user base of over 50,000 users comprising of students, parents and teachers from over 200 kindergartens and over 400 primary schools respectively.

Regarding the business development in the PRC market, both the Chinese Foreign Co-operative Joint Venture Company (“JV”) and the Group’s wholly foreign owned enterprise in Guangzhou have made remarkable progress on marketing and production works (www.evimdv.com). The EVI simplified Chinese version (www.haoertong.com) has obtained official endorsement from the “Central Electronic Education Bureau (“CEEB”) under the Ministry of Education of the PRC” at Beijing in July 2004. It was the first pre-school electronic platform in Hong Kong being recognized for its advance design on “Home & Kindergarten” linkage with numerous resources available to different user groups. A new study on “Home & Kindergarten learning network platform – its application and research” was then proposed and was approved by CEEB under its 15th Topic Educational Technical Research program. The Group is now directing more resources in building up its model with renowned kindergartens in Dongguan and Guangzhou. It is hoped that such experience could lead to solid business return in the next school semester. Both the Group and JV will continue to seek other forms of cooperation with various PRC educational related organizations and associations in different regions.

Parallel with the provision of core on-line education services, the Group also capitalized on its school network and utilized its web site development know-how with different commercial partners and the Education and Manpower Bureau (“EMB”) of HKSAR in order to bring in additional revenue. The Group organised the functions “Frisocare Multi-intelligent Fun Fun Day” at Tseung Kwan O East Point City on 12th December 2004 and at other shopping malls during April to May 2005. The functions not only were well received by our parent members but also displayed how the Group could build up the “added value” for our commercial clients.

## **Marketing**

During the Period, a series of brand building and marketing campaigns were launched in order to promote the Group’s image. Various activities namely “EVI Child Care Natural Tour” and festivals activities including the Halloween, Christmas and Chinese New Years were held for members from different kindergartens. The Group considered all these activities would reinforce EVI’s brand of quality and help to strengthen parent members’ loyalties. As a good corporate citizen towards the community in large, the Group kept on supporting social and charity events such as the “Medecins Sans Frontieres Orienteering Competition 2005” and “Po Leung Kuk Bowling Competition for Charity”.

For the primary sector, I-Cube organized its third “I-Cube Inter-school Intelligent Competition” preliminary contest during the Period and the final competition will be held on 14th May 2005 at Ying Wah Primary School. I-Cube also hosted the event “I-Cube Mock Exam sharing seminar” through its “Multi-intelligent Mock Exam Questions Database” in December 2004. Besides the portal, I-Cube has established “I-Cube Kid’s Digital Learning Playground” at Causeway Bay with an aim to provide comfort facilities for members’ gathering and recreational activities. All these events revealed the Group’s high service quality and standard towards the sector. I-Cube has successfully blended fun element into learning process where more and more schools and parents recognizing it as one of the hottest sites among the primary students.

For the PRC market, the JV organized a grand opening of the “Home & Kindergarten learning network platform – its application and research” under CEEB’s 15th Topic Educational Technical Research program on 17th January 2005. Another seminar was held with the Baiyun Education Bureau on 3rd March 2005. There were over 200 kindergarten practitioners attending the events and the JV will ride on such success in order to start its marketing efforts.

### **Development and Launch of new products, contents and features**

The Group considers the most effective way to generate additional revenue and to increase loyalty and adhesiveness from its existing customers is to provide more value-added services through the EVI On-line System.

The Group noticed the enormous penetration and coverage of mobile phones within Hong Kong and believed they could offer a more comprehensive and effective tool to strengthen the communication between schools and parents. Hence, a new “EVI Messages Platform” will soon be launched.

### **System infrastructure and technology deployment**

As for the technology development, the Group kept on researching and providing more user-friendly features for the EVI On-line System in order to enhance its value. Being the sole-distributor of “HiShare”, “HiClass” and “HiShow” software in Hong Kong, the Group believes these software products together with the MMLC and Light Emitting Diode display will continue to bring in steady revenue and contributions.

Besides the frequent contents revision under different zones, the Group has adopted the latest SMS technologies together with the smart card idea and tools well managed for the aforesaid “EVI Messages Platform”. The Group believes this will establish the value-added services for both the school and parent groups as information are now ready accessible through mobile phone and internet as well.

### **Outlook**

Despite the negative implication of low birth rate, the Group believes parents nowadays are more willing to invest in children education, products and services. More parental focus and resources are directed towards multiple skills and intelligence development beyond the regular class activities. It is expected that school transparency or effective communication would be one of the key factors for parental consideration. Hence, the Group believes that its portals or programs are effective and ideal channels to deliver such services and to reinforce linkage, relationship between schools, families and students in their learning cycles. With the rapidness of home or broadband internet installation, the directors of the Company (the “Directors”) remain positive on the e-educational service industry.



Geographically, the Group recognizes the PRC market as its source of future growth and return. The fast economic growth and “one-child” policy certainly foster huge business potential for quality child products, education and related services. The Directors believe that the deployment of information technology as a new medium of delivering educational and learning contents within PRC presents tremendous commercial opportunities.

The Group’s cash position has strengthened after the share subscription by Midland through a subsidiary for 4,300,000 new shares of the Company at the price of HK\$0.025 each at a total consideration of HK\$107,500,000 under the Subscription Agreement dated 25th January 2005 (the “Share Subscription”). The Share Subscription was completed on 15th March 2005. The Group will make use of the funding to develop new business such as property management and property investment and in particular, the on-line professional training services for real-estate brokers and related examination which will in turn enhance the Group’s revenue stream.

Following the completion of the Share Subscription, the Company has established a special task force (i) to survey and analyze the market with regard to the specific needs of the users for on-line professional training services, and the availability of choices or programmes for the target consumers; and (ii) to review the existing human resources and the list of software and hardware of the Group. The aforesaid feasibility study has been started and it is expected that recommendations on the business plan and model can be made before the end of May for the Board to consider and approve. Assuming the development stage proceeds as planned and smoothly, the Company may be able to launch the on-line professional training services to the market before the end of 2005.

Meanwhile, during the course of developing the on-line professional training programmes, the management of the Company will continue to seek to develop other new businesses, and as appropriate, utilise part of the remaining balance of the cash proceeds from the Share Subscription for property investment and property management, as and when opportunities arise. Up to now, the Group has not identified any specific target investment. The Company will, subject to the property market condition in Hong Kong, recruit a team of professional staff with a specific task to review and recommend property investment opportunities for the Board to consider and approve from time to time.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Liquidity, Financial Resources and Gearing Ratio**

The Group maintained its healthy financial position with approximately HK\$124.9 million cash on hand and has no outstanding bank loan as at 31st March 2005. The directors of the Company (the “Directors”) remain positive towards the Group’s future financial position due to stable recurring income from the existing education business as its core business and the possible expansion of its revenue base resulting from the existence of new business opportunities subsequent to the Share Subscription.

The Group generally finances its operations and investing activities with internally generated cash flows, the balance of the proceeds from the initial placing of the shares of the Company for initial listing on GEM and the proceeds from the Share Subscription. As at 31st March 2005, the Group had unaudited net current assets of approximately HK\$123,455,000 (2004: HK\$20,194,000), including cash and bank deposits amounted to approximately HK\$124,876,000 (2004: HK\$22,768,000). There were nil consolidated total non-current liabilities (2004: Nil). The Group did not have any bank borrowings nor any banking facilities as at 31st March 2005 (2004: Nil). The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group as at 31st March 2005 was Nil (2004: Nil). The financial position of the Group has strengthened significantly after the completion of the Share Subscription. 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 unutilized proceeds from the Share Subscription amounted to approximately HK\$106,543,000 and the unutilized proceeds from the initial placing amounted to approximately HK\$9,862,000, were placed in Hong Kong Dollar short-term interest bearing deposits with banks in Hong Kong. The Group placed approximately HK\$4,856,000 in Australian dollar short-term interest bearing deposits with banks in Hong Kong and approximately HK\$3,615,000 in Renminbi saving accounts with banks in PRC. The Directors believed that the foreign exchange exposure to Australian Dollar is mild as it could compensate from the relatively high interest income generated. The Group had not obtained any banking facilities for the Period. The incomes of the Group are mainly dominated in Hong Kong Dollar 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 31st March 2005 (2004: Nil).

### **Significant Acquisition**

The Company did not have any significant acquisition in the Period.

### **Future Plans for Material Investments and Capital Assets**

Other than the matters discussed in the business outlook above, there was no solid future plan for material investments and acquisition of material capital assets as at 31st March 2005.

## Employee Information

Staff costs, including directors' remuneration, were approximately HK\$5,087,000 for the Period (2004: HK\$4,868,000). Headcount remained stable at 99 as at 31st March 2005 compared to 102 as at 30th September 2004. Headcount increased significantly in the second half of 2004 because of the formation of Co-operative Joint Venture in PRC. However, the Group has shifted and replaced most production process and staff from Hong Kong to PRC office. Staff cost slightly increased compared with the previous corresponding period.

Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund scheme, defined contribution retirement plans organised by the relevant authorities for PRC employees, 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 had no contingent liabilities as at 31st March 2005 (2004: Nil).

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31st March 2005, the interests and short positions of the Directors of the Company and chief executives 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 were required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the required standards of dealing by the Directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Name of director	Number of Shares of the Company				Percentage of Shares outstanding
	Personal interests	Family interests	Corporate interests	Total	
Mr. Pong Wai San, Wilson ("Mr. Pong") (Note)	153,610,000	-	2,182,300,000	2,335,910,000	28.14%
Mr. Cheung Shi Kwan, Wings	4,000,000	-	-	4,000,000	0.05%

Note: As at 31st March 2005, 2,182,300,000 Shares were registered in the name of and beneficially owned by Summerview Enterprises Limited ("Summerview") and 153,610,000 Shares were registered in the name of Mr. Pong. The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed in this paragraph, as at 31st March 2005, 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 SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by the Directors as referred to in Rules 5.48 to 5.67 of the GEM Listing Rules.

## **OUTSTANDING SHARE OPTIONS**

As at 31st March 2005, options for an aggregate of 12,000,000 shares under the Post-IPO Share Option Scheme remained outstanding.

### **(1) 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 (as adjusted by the share subdivision as approved by shareholders on 30th November 2001) at an exercise price of HK\$0.076 (as adjusted) had been conditionally granted by the Company to certain Directors and employees of the Company. All of these options were exercisable in the period from 16th March 2002 to 15th March 2005.

Details of outstanding options as at 31st March 2005 were as follows:–

	<b>Number of share options</b>
At 1st October 2004	220,000,000
<i>Less</i> : share options lapsed during the Period	(220,000,000)
	<hr/>
At 31st March 2005	–
	<hr/>

All Pre-IPO options lapsed after the expiry of the exercisable period.

### **(2) Post-IPO Share Option Scheme**

At the Board meeting of the Company held on 31st October 2001, options for an aggregate of 25,000,000 shares were conditionally granted by the Directors to fifteen full time employees of the Group at the exercise price equal to HK\$0.208 (as adjusted). All of these options may be exercised in the period from 1st November 2002 to 31st October 2005.

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

As at 31st March 2005, options for an aggregate of 12,000,000 shares under the Post-IPO Share Option Scheme were outstanding. These options were granted to five employees, details of which as at 31st March 2005 were as follows:–

	<b>Number of share options</b>
At 1st October 2004	14,000,000
<i>Less</i> : share options lapsed during the Period	(2,000,000)
At 31st March 2005	12,000,000

Save as above, no options under the Post-IPO Share Option Scheme had been granted, exercised, or cancelled during the Period.

Taking into account that the historical trading volume and fluctuation of the trading price of the Company's shares were insignificant, and that the theoretical value of the share options granted depends on a number of variables which are difficult to ascertain, the Directors believed that any calculation of the value of options would not be meaningful and the results thereof may be misleading to shareholders in the circumstances. A summary of the major terms of each share option scheme including details of all options granted hereunder are set out at pages 19-21 of the Annual Report 2004 of the Company.

## **SUBSTANTIAL SHAREHOLDERS**

So far as is known to the Directors, as at 31st March 2005, the following persons or companies (not being Directors or chief executives of the Company) had, or were 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 and the

amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital:

<b>Name of Shareholder</b>	<b>Number of issued shares</b>	<b>Capacity in which shares are held</b>	<b>Percentage holding</b>
Valuewit Assets Limited ("Valuewit")	4,300,000,000 ( <i>Note 1</i> )	Beneficial Owner	51.81%
Midland	4,300,000,000 ( <i>Note 1</i> )	Controlled Company	51.81%
Summerview	2,182,300,000	Beneficial Owner	26.29%
Mr. Pong	2,182,300,000 ( <i>Note 2</i> )	Controlled Company	28.14%
	153,610,000	Beneficial Owner	

*Notes:*

1. Valuewit and Midland were deemed to be interested in the same tranche of shares which have been issued to Valuewit on 15th March 2005 pursuant to a subscription agreement dated 25th January 2005 entered into between, inter alia, the Company and Midland.
2. As at 31st March 2005, 2,182,300,000 shares were registered in the name of and beneficially owned by Summerview. The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed herein, as at 31st March 2005, the Directors were not ware of any other persons or companies (not being Directors or chief executives of the Company) who 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 interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

## **COMPETING INTERESTS**

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business, which cause or may cause significant competition with the business of the Group.

## **BOARD PRACTICES AND PROCEDURES**

The Company had complied with Rules 5.34 to 5.45 of the GEM Listing Rules regarding board practices and procedures throughout the Period.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

Having made specific enquiry of all Directors of the Company, during the Period, the Directors had strictly complied with the required standard of dealings (“Required Standard of Dealings”) regarding directors’ securities transaction as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company has adopted the Required Standard of Dealings as the code of conduct regarding securities transactions by the Directors of the Company.

## **AUDIT COMMITTEE**

The Company has established the Audit Committee and has formulated its written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. 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. Two audit committee meetings were held during the Period.

This interim report has been reviewed by the Audit Committee.

## **PURCHASE, SALE AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the Period.

## **APPRECIATION**

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 throughout the Period.

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

Hong Kong, 5th May 2005