



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)



QUARTERLY REPORT 2000/2001
(For the third quarter ended 30th June, 2001)

www.evi.com.hk

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 document, 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 Growth Enterprise Market of The Stock Exchange of Hong Kong Limited 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 document 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 document misleading; and (3) all opinions expressed in this document have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

ABOUT EVI EDUCATION ASIA LIMITED

EVI Education Asia Limited (“the Company”) aims to become an Internet education provider, offering Chinese and English language-based pre-school education services targeting kindergartens, teachers, parents and pre-school children. The Company and its subsidiaries (the “Group”) objective are to establish an education community consisting of kindergartens, teachers, parents and pre-school children 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.

CHAIRMEN’S STATEMENT

I have pleasure to present to shareholders the third quarterly results for the nine months from 1st October, 2000 to 30th June, 2001 of the Group.

Financial Performance

The Company’s shares were listed on GEM on 15th March, 2001 at an issued price HK\$0.38 per share, generating net proceeds of approximately HK\$52 million. Turnover for the nine months ended 30th June, 2001 increased by about 7.5 times to approximately HK\$395,000 (2000: approximately HK\$53,000), of which 77.34% was attributable to the provision of computer and IT training courses and 22.66% was attributable to the sales and installation of computer hardware and software to kindergartens in Hong Kong.

The Group’s cost of sales primarily representing the cost of computer hardware and software sourced by the Group from its suppliers, direct labour and operation overheads. During the nine months ended 30th June, 2001, the Group’s cost of sales was approximately HK\$72,000 and its gross profit was approximately HK\$323,000. The Group’s gross profit margin for the nine months ended 30th June, 2001 was approximately 82%. For the three months ended 30th June, 2001, the Group achieved an increase of turnover to approximately HK\$110,000, (2000: approximately HK\$31,000). The net loss for the three months ended 30th June, 2001 was approximately HK\$4,573,000. The loss attributable to shareholders for the nine months ended 30th June, 2001 increased to HK\$10,776,000, which is primarily due to the increase in operation overheads and the marketing effort to promote the Group’s services and products.

As at 30th June, 2001, the Group had maintained a strong financial position with approximately HK\$47million cash on hand with no debt on hand. The financial situation and cash flow position will strengthen further after the monthly subscription scheme for the on-line education service starts in September, 2001.

Business and Operational Review

Throughout the period after listing, the Group continues its vision as the leading education services provider in Hong Kong and Asia. With its profound experience in the education sector and as the pioneer in the Internet world of education services, the Group has successfully attracted kindergartens from different education groups, including large, well-known, non-profit taking kindergartens groups in Hong Kong to subscribe for the EVI education platform. After careful marketing consideration, the Group has selected around 50 kindergartens from the group of interested kindergartens, to subscribe for a term of 3 years, the provision of the EVI On-line System. The monthly subscription scheme will start on September, 2001, half year earlier than expected, showing a noteworthy milestone that generates recurrent monthly subscription income for the Group.

Apart from the talented management team, the Group also possesses a dedicated sales and marketing team responsible for a series of aggressive marketing campaigns. During the period under review, the Group held many exhibition workshops for potential kindergartens, with the aim to demonstrate the effectiveness of the EVI On-line System and to enhance its branding. Moreover, recognising the trend of IT education development by the education community, the Group grasped the opportunity to

co-organise an education seminar with the Hong Kong Council of Early Childhood Education and Service on 26th May, 2001. The attractive topic, named "Impact of Information Technology on Children", has drawn the attendance of over 300 teachers and headmasters. These marketing activities have achieved remarkable results in enhancing the public recognition of our brand.

Leveraging on its core on-line education system, the Group also provides other value-added services to the education professionals. During the period under review, the Group offers trainings on the EVI On-line System as well as on general IT knowledge to teachers and related officials. In addition, the Group also organises extra-curriculum IT classes to kindergartens. Through enhancing its education services business, the Group also intends to enlarge its total revenue income. In May, 2001, the Group established a new company, namely, EVI MP Limited, which is responsible for creative design and web site design. In addition to the monthly subscription fees and training course income, the website design income arisen could also strengthen the Group's revenue stream.

Being a young and booming enterprise, the Group's prime focus is to enhance its education platform by enriching the contents and features therein. A considerable amount of resource and effort, therefore, has been injected for improving and upgrading the EVI On-line System platform. A new chief technical officer (CTO), has been appointed to oversee the Group's system development, strategic architectural and infrastructure issues as well as manage the Group's technology outsourcing vendors. Besides, he also leads all areas of project implementation and future technology development of the Group.

Future Prospect

It is the expertise in the education and IT sectors that outstands the Group to be the chosen education services provider in the industry. Moving forward, the Group is going to make use of this absolute advantage and, by enlarging its market share, strives to become the most recognised education services provider in Hong Kong and Asia. The Group will develop and provide additional products and services in order to fully utilize its revenue-generating potential.

Realising its mission, the first priority of the Group is to improve the quality of its products and services. With the effort and support of different teams and levels, the Group endeavors to enrich contents and features of the Kindergartens Zone, Parents Zone and Kids Zone of the EVI On-line System.

The Group has carefully selected around 50 kindergartens from various groups of interested kindergartens in subscribing the Internet education services. As many kindergartens in Hong Kong operate as a group, once a member of a kindergarten group accepted the Internet education system, other members of the Group are likely to follow. With the favourable pricing policy adopted and the snowball effect generated by those kindergartens that joined the scheme, the Group believes that additional subscription contracts will be delivered.

Capturing the overseas market opportunities, the Group is now extending from its local base of the pre-school education to other Asian countries such as The People's Republic of China, Taiwan and Singapore. The Group had set up a joint venture with a listed group in Singapore in July, 2001, a pioneer in Internet education with over 10 years experience, which intends to expand education service business into these markets. In addition, the Group had acquired the "I-Express Technology" from the Singapore company that could enhance the ease of use and the effectiveness of the EVI On-line System. With the experience and the IT advancement possessed, the Group is in a better position to explore future business opportunities in the primary and secondary school education levels. This would obviously serve as a stepping-stone for the Group to strengthen its position as the Asian on-line education authority in the future.

Appreciation

On behalf of the board of directors, 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 contribution and dedicated efforts throughout the period.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th August, 2001

FINANCIAL RESULTS

The unaudited consolidated results of the Group for the nine months and three months ended 30th June, 2001, together with the comparative figure for the corresponding period in 2000 are as follows:

	<i>Notes</i>	For the Three Months Ended 30th June,		For the Nine Months Ended 30th June,	
		2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	110	31	395	53
Cost of sales		—	—	(72)	—
Gross profit		110	31	323	53
Distribution and selling expenses		(1,263)	(411)	(2,485)	(427)
Research and development costs		(35)	—	(100)	—
General and administrative expenses		(3,937)	(1,279)	(9,276)	(2,266)
Loss from operations		(5,125)	(1,659)	(11,538)	(2,640)
Interest income		552	—	762	—
Loss before taxation		(4,573)	(1,659)	(10,776)	(2,640)
Taxation	(3)	—	—	—	—
Loss attributable to shareholders		<u>(4,573)</u>	<u>(1,659)</u>	<u>(10,776)</u>	<u>(2,640)</u>
Dividends	(4)	—	—	—	—
Loss per share – Basic	(5)	<u>(0.57) cents</u>	<u>(0.35) cents</u>	<u>(1.54) cents</u>	<u>(0.55) cents</u>

Notes:

(1) Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15th January, 2001 under the Companies Law (2000 Revision) of the Cayman Islands. The Company's shares were listed on GEM on 15th March, 2001. The reorganisation of the Group ("Group Reorganisation") prior to the listing on GEM was completed on 13th March, 2001. The Group resulting from the Group reorganisation is regarded as a continuing entity. Accordingly, the consolidated results of the Group for the nine months and three months ended 30th June, 2001 have been prepared on the merger accounting basis as if the Company had always been the holding company of the Group. The combined results for the nine months and three months ended 30th June, 2001 have been prepared on a basis as if the current group structure had been in existence throughout the nine month ended 30th June, 2001 or since their respective dates of incorporation where there is a shorter period.

All intra-group transactions have been properly eliminated for the current reporting period and for the last corresponding period.

The principal accounting policies adopted in preparing the unaudited consolidated results conform with Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants.

(2) Turnover and revenue recognition

Turnover comprises (i) the net invoiced value for sales and installation of computer hardware and software sold after allowances for returns and discounts, and (ii) fee from provision of computer training services.

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. Sales revenue is recognised when the merchandise is delivered and installed and title has passed. Training fee income is recognised upon the provision of computer training services. Interest income is recognised on a time-proportion basis on the principal outstanding and at the rates applicable.

(3) Taxation

Individual companies within the Group provide for profits tax on the basis of their profit for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible for profits tax purposes.

No provision for Hong Kong profits tax has been made as the Group had no assessable profit arising in or derived from Hong Kong.

There was no significant unprovided deferred taxation as at 30th June, 2001.

(4) Interim dividend

The Board does not recommend the payment of an interim dividend for the nine months ended 30th June, 2001. The Group has not declared any dividends for the corresponding period in 2000.

(5) Loss per Share

The calculation of basic loss per share for the nine months and three months ended 30th June, 2001 is based on the respective unaudited consolidated loss attributable to shareholders of approximately HK\$10,776,000 and HK\$4,573,000 respectively (2000: HK\$2,640,000 and HK\$1,659,000) and the weighted average number of approximately 697,947,000 shares and 800,000,000 shares (2000: 480,142,000 shares and 480,142,000 shares) in issue during the nine months and three months ended 30th June, 2001 respectively.

The exercise of the share options granted by the Company would have a dilutive effect on the loss per share for the nine months and three months ended 30th June, 2001. However, no such options are currently exercisable. No diluted loss per share is presented as the outstanding share options were anti-dilutive. No such potential dilutive effect existed for the corresponding period 30th June, 2001.

(6) Movement of reserves

	Share Premium HK\$000	Contributed surplus (a) HK\$000	Accumulated loss HK\$000	Total HK\$000
Balance as at 1st October, 2000	–	–	(9,048)	(9,048)
Premium on issue of Ordinary Shares	52,800	–	–	52,800
Share issuance expenses	(8,737)	–	–	(8,737)
Effect of Group Reorganisation	(21,691)	14,918	–	(6,773)
Loss attributable to shareholders	–	–	(10,776)	(10,776)
Balance as at 30th June, 2001	<u>22,372</u>	<u>14,918</u>	<u>(19,824)</u>	<u>17,466</u>

The movement in reserve have no difference except the loss for the period for the nine months and three months ended 30th June, 2001. There is no movement in reserve except the loss for the period of the nine months and three months ended 30th June, 2000.

- (a) The capital reserve of the Group represented 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 a subsidiary acquired through an exchange of shares pursuant to the Group Reorganisation.

DIRECTORS' INTEREST IN SHARES

As at 30th June, 2001, the interests of the directors and their respective associates in the Company and its associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") of the Company or which required, pursuant to Rules 5.40 to 5.59 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"), to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Director	Type of interests	Total Number of Shares
Mr. Pong Wai San, Wilson (" <u>Mr.</u> Pong") (Note 1)	Corporate	521,840,000 shares
Mr. Cheung Shi Kwan, Wings	Personal	800,000 shares
Madam Pong Lo Shuk Yin, Dorothy (Note 2)	Family	521,840,000 shares

Notes:

1. These Shares are registered in the name of and beneficially owned by, Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited is registered in the name of and beneficially owned by, Mr. Pong.
2. These Shares are registered in the name of and beneficially owned by, Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited is registered in the name of and Beneficially owned by, Mr. Pong and Mr. Pong is the son of Madam Pong Lo Shuk Yin, Dorothy and accordingly, Madam Pong Lo Shuk Yin is deemed to be interested in the 521,840,000 Shares beneficially owned by, Summerview Enterprises Limited.

Save as disclosed above, as at 30th June, 2001 none of the directors or their associates had any personal, family, corporate or other interests in the shares of the Company or any of its associated corporations as defined in the SDI Ordinance or which, pursuant to Rules 5.40 to 5.59 of the GEM Listing Rules, are required to be notified to the Company and the Stock Exchange.

OUTSTANDING SHARE OPTIONS

As at 30th June, 2001, options to subscribe for an aggregate of 50,400,000 Shares had been granted pursuant to the pre-IPO share option scheme adopted by the Group on 28th February, 2001 (the "Pre-IPO Share Option Scheme") and no option was granted pursuant to the share option scheme adopted by the Group on 28th February, 2001 (the "Share Option Scheme"). 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".

(1) Pre-IPO Share Option Scheme

As at 30th June, 2001, options to subscribe for an aggregate of 50,400,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.38 per share were outstanding. These options were granted to the following categories of grantees:–

Categories of grantees	Total no. of grantees	No. of underlying shares comprised in the options
Directors	3	41,200,000
Consultant	1	1,000,000
Employees	8	8,200,000
Total		<u>50,400,000</u>

Details of the grant to the directors of the Company are set out in the section headed "Directors' Rights to Acquire Share". The following are details of the options granted to directors of the Company:

Name of director	No. of underlying shares Comprised in the options
Mr. Pong	20,000,000
Pong Lo Shuk Yin, Dorothy	16,200,000
Cheung Shi Kwan, Wings	5,000,000
Total	<u>41,200,000</u>

Subsequent to 31st March, 2001 and up to 30th June, 2001, options to subscribe for a total of 600,000 Shares granted to 2 employees of the Group had lapsed upon their cessation of employment with the Group.

(2) Share Option Scheme

No option was granted by the Company under the Share Option Scheme during the nine months ended 30th June, 2001 and no option granted pursuant to the Share Option Scheme was exercised during the same period.

Save as disclosed above, during the nine months ended 30th June, 2001, none of the directors and employees of the Group was granted options to subscribe for shares in the Company under the Share Option Scheme.

A summary of the major terms of each share option scheme including details of all options granted thereunder are set out at pages 179-183 of the prospectus of the Company dated 6th March, 2001.

DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Pursuant to the Pre-IPO Share Option Scheme as described in the section headed "Outstanding Share Options" above. Options granted under the Pre-IPO Share Option Scheme are exercisable in accordance with the terms of the Pre-IPO Share Option at any time during the three-years period commencing 1 year after the date of the listing of the Shares on GEM in accordance with the following schedule:

Period since date of grant	Percentage of options exercisable by the grantees
Year 1	Up to 30% of the total number of option granted
Year 2	Up to 60% of the total number of option granted
Year 3	All remaining option which has not been previously exercised.

None of the above options, which are not exercisable in the first year of the grant, has been exercised during the nine months ended 30th June, 2001.

During the nine months ended 30th June, 2001, no option had been granted to the directors of the Company under the Share Option Scheme.

Save as disclosed above, at no time during the nine months ended 30th June, 2001 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.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001 the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the Company has been notified of the following shareholders are interested in 10% or more of the Company's issued share capital:

Name	Number of shares held	Approximate percentage of shareholding
Summerview Enterprises Limited	521,840,000 (<i>Note 1</i>)	65.23
Mr. Pong	521,840,000 (<i>Note 1</i>)	65.23
Madam Pong Lo Shuk Yin, Dorothy	521,840,000 (<i>Note 1</i>)	65.23
Cyber Generation Limited	91,520,000 (<i>Note 2</i>)	11.4
Hanny Magnetics (B.V.I.) Limited	91,520,000 (<i>Note 2</i>)	11.4
Hanny Holdings Limited	91,520,000 (<i>Note 2</i>)	11.4

Notes:

1. These Shares are registered in the name of and beneficially owned by, Summerview Enterprises Limited. The entire issued share capital of Summerview Enterprises Limited is registered in the name of and beneficially owned by, Mr. Pong. Mr. Pong is the son of Madam Pong Lo Shuk Yin, Dorothy and accordingly, Madam Pong Lo Shuk Yin is deemed to be interested in the 521,840,000 Shares beneficially owned by, Summerview Enterprises Limited.
2. These Shares are registered in the name of and beneficially owned by, Cyber Generation Limited. The entire issued share capital of Cyber Generation is beneficially owned by Hanny Magnetics (B.V.I.) Limited. Hanny Magnetics (B.V.I.) Limited is in turn, wholly and beneficially owned by Hanny Holdings Limited, the Shares of which are listed on the main board of the Stock Exchange.

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, as at 30th June, 2001, the following persons were entitled to exercise or control the exercise of five percent or more of the voting power at general meetings of the Company and who are able, as a practicable matter, to direct or influence the management of the Company:

Name	Number of Shares held	Approximate percentage of shareholding
Summerview Enterprises Limited	521,840,000	65.23
Mr. Pong	521,840,000	65.23
Madam Pong Lo Shuk Yin, Dorothy	521,840,000	65.23
Cyber Generation Limited	91,520,000	11.4
Hanny Magnetics (B.V.I.) Limited	91,520,000	11.4
Hanny Holdings Limited	91,520,000	11.4

SPONSORS INTERESTS

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 30th June, 2001 neither of the Sponsor nor any of their respective directors, employees or associates (as referred to in Note 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the Company's share capital.

Pursuant to the agreement dated 6th March, 2001 entered into between the Company and the Sponsor, the sponsor will receive a fee for acting as the Company's retained sponsor for the period 16th March, 2001 to 30th September, 2003.

COMPETING INTERESTS

The Directors believe that 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.

AUDIT COMMITTEE

The Company established an audit committee on 28th February, 2001 with written terms of reference in compliance with rules 5.23 and 5.24 of the GEM Listing Rules. The audit committee has four members comprising the three independent non-executive directors, namely, Hung Tak Chow, Charles, Ko Chun Hay, Kelvin, Hung Fan Wai, Wilfred and the Company Secretary Cheung Hon Fai, Maurice.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The shares of the Company only commenced trading on GEM on 15th March, 2001. Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30th June, 2001.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th August, 2001