



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)



QUARTERLY REPORT 2001/2002

(For the first quarter ended 31st December, 2001)

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 Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

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

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.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the quarterly report of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 31st December, 2001 (the "Period") together with the comparative figure for the corresponding period in 2000 in bracket.

Financial Performance

Turnover of the Group for the three months ended 31st December, 2001 increased by about 8.5 times to approximately HK\$1,968,000 over the corresponding period last year (2000: HK\$207,000), of which 54% was attributable to the recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens which amounted to approximately HK\$1,066,000. Off-line revenue grew by 3.4 times, among which approximately 10% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 36% of the total turnover was attributable to the sales and installation of computer hardware and software. Net loss for the period was approximately HK\$1,112,000 (2000: HK\$1,298,000), representing a decrease by about 14%. Subsequent to the final results document dated 31st October, 2001, the Group had formed a joint venture ("JV") with a Singapore listed group, a pioneer in Internet education with over 10 years experience, to explore the Asia Pacific market to attain further achievement. The Group established a subsidiary, System New International Limited, in July 2001 and subsequently introduced this Singapore company as a 25% shareholder in this subsidiary in October 2001. Such disposal of subsidiary resulted in a recognised gain of approximately six million Hong Kong dollars. In addition, the Group completed the acquisition of licensing rights from the Singapore listed company to resell software technology in Hong Kong for an amount of HK\$6,318,000 in October 2001. The software technology was aimed at Hong Kong's primary and secondary schools. Due to the depressed economic situation together with initial market response, the Group has chosen to adopt a very prudent approach in accounting treatment of write off the software costs of approximately HK\$2,786,000. This approach would give a fair balance sheet value and produce a better position to reflect the Group's future operating performance.

The Group maintained a strong financial position with approximately HK\$35.4 million cash on hand with no outstanding debt as at 31st December, 2001. The Directors considered that the Group's financial position could continue to strengthen due to stable recurring subscription income from kindergartens and the growth on off-line revenue.

Business and Operational Review

Being a prominent Internet education provider in Hong Kong, the Group aims to offer Chinese and English language-based pre-school education services targeting kindergartens, teachers, parents and pre-school children. Currently, the Group's EVI On-line System comprises Kindergartens Zone, Parents Zone and Kids Zone, which provide a tailor-made education platform for the target users. Starting from September 2001, the Group started to charge the participating kindergartens a monthly subscription fee and has successfully entered into contracts with approximately 50 kindergartens, including several well-known kindergarten groups, to subscribe the EVI On-line System for a term of three years. The Group has continued to solicit several additional large kindergarten groups lately with very positive progress made.

During the Period, the EVI On-line System continues to gain favourable response from its users, which further enhance the prestige of the Group. Apart from the provision of core on-line education services, the Group also provides other value-added off-line services. During the period, trainings of the EVI On-line System as well as general IT knowledge were offered to teachers and related persons. Besides, courses such as "IT Fun Group" for kids were implemented in October 2001 in order to add varieties and to extend the Group's off-line services within the education sector.

The Group continues to offer favourable subscription fees for the kindergartens so as to maximise the market shares amongst the kindergartens in Hong Kong. It also serves as a stepping-stone to attract more parents and children to subscribe the EVI On-line System in future. During the Period, a series of aggressive brand building and marketing campaigns were launched in order to enhance the Group's image. In November 2001, the Group has co-organised the "Family Unit Green Walk" event jointly with the Hong Kong Council of Early Childhood Education and Services (CECES) in the Shatin Race Course. In addition, the Group also held a promotion function at the City University of Hong Kong on 8th December, 2001 with a warm reception of over 100 participants representing approximately 90 different kindergartens.

The Group has always focused on the contents development of the EVI On-line System. During the Period, the Group has constantly updated and enriched the contents of the Kindergartens Zone in order to cater for the needs of the users. Besides, EVI Theme song was composed in order to create users' adherence and promote the Group's image. In addition, the Group developed the "Parent Resources Web-site" for the "Home-School Co-operation Committee" under the Education Department with a well-known kindergarten group and the web-site was launched in October 2001.

Further to the final results document dated 31st October, 2001, the Group formed a JV with a Singapore listed group. In July 2001, the Group entered into an agreement to license the "I-Express CD on demand Technology" from a Singapore listed group to extend its services into the primary and secondary schools. The Group established a subsidiary, System New International Limited, in July 2001 and subsequently introduced this Singapore Company as a 25% shareholder in this subsidiary in October 2001. Through this JV, we expect to gain "ready-to-go" system or product for the Group's potential business and its connection with other developers in the region.

Outlook

With the Group's profound experience in the education and IT sectors and its enthusiasm in providing quality education services to parents, teachers and kids, the Group strives to maximise the market share in Hong Kong. Looking forward, the Group targets to increase the existing number of clients in the near future, and to further explore business opportunity in overseas market, such as the PRC, in the long run.

The Group has entered into agreement to acquire an 80% interest in a well-established and profitable education service provider in Hong Kong in January 2002. That company has close to 10 years experience in education sector and is now serving approximately 100 kindergartens and approximately 50 primary and secondary schools. Such acquisition not only would help to strengthen the Group's market position and customer base by providing additional comprehensive services and off-line products, but also could meet needs of different customers.

Aggressive promotional and marketing campaigns will be launched in an attempt to capture additional market shares. On 19th January, 2002, the Group has co-organised an exhibition with Tung Wah Group of Hospitals at the Jockey Club Auditorium of The Hong Kong Polytechnic University. There were over 1,000 parents, kids, teachers and kindergarten representatives attending the event and we have the honor to invite the presence of the Senior Assistant Director (Administration) of the Education Department to officiate the ceremony for us.

As for the technology development, the Group will keep investing on the backbone of the EVI On-line System, for instance, the purchase of new contents management system and rapid portal delivery tools. These will certainly gear up the efficiency and effectiveness on organising and publishing contents for the entire system. The Group considered that such IT advancement is in line with the current business growth and needs.

Regarding the Asia market opportunities, besides the JV formed with the Singapore listed group, the Group remains its strong interest to explore new business or co-operation and proceed cautiously.

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, 1st February, 2002

FINANCIAL RESULTS

The unaudited consolidated results of the Group for the three months ended 31st December, 2001, together with the comparative figures for the corresponding period in 2000 are as follows:

		For the Three Months Ended 31st December	
		2001	2000
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	1,968	207
Cost of merchandise		(492)	(72)
Staff costs		(2,707)	(1,069)
Depreciation of machinery and equipment		(1,491)	(43)
Amortisation of website development costs		(528)	–
Impairment loss of software cost		(2,786)	–
General and administrative expenses		(1,548)	(455)
Loss from operations		(7,584)	(1,432)
Gain on disposal of subsidiary		6,318	–
Interest income		154	134
Loss before taxation		(1,112)	(1,298)
Taxation	(3)	–	–
Loss attributable to shareholders		(1,112)	(1,298)
Loss per share – Basic	(4)	HK (0.03) cents	HK (0.04) cents
Loss per share – Diluted	(4)	N/A	N/A

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 Company's Directors consider Summerview Enterprises Limited, a company incorporated in British Virgin Islands, to be the ultimate holding company.

On 28th February, 2001, the Company became the holding company of the other companies comprising the Group pursuant to a group reorganisation ("the Reorganisation") which included exchanges of shares. The Reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated financial statements have been prepared as if the Company had been the holding company of the other companies comprising the Group throughout the three months ended 31st December, 2001, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the three months ended 31st December, 2000 have been presented on the same basis.

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

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange ("the GEM Listing Rules").

(2) **Turnover**

Turnover represents (i) the net invoiced value for sales and installation of computer hardware and software after allowances for returns and discounts, (ii) services fee from provision of computer training courses, and (iii) subscription fee from the provision of internet education services.

An analysis of the Group's turnover by type of services provided for the Period were as follows:

	2001 \$'000	2000 \$'000
Selling and installation of computer hardware and software	710	89
Computer training fee	192	118
Internet education fee	1,066	–
	<hr/>	<hr/>
Total turnover	1,968	207

(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.

(4) **Loss per Share**

The calculation of basic loss per share for the three months ended 31st December, 2001 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,112,000 (2000: HK\$1,298,000) and on the weighted average number of approximately 4,000,000,000 shares (2000: 3,129,751,000 shares) deemed to be in issue throughout the year, on the assumption that the Group Reorganisation (see Note 1) and Share Subdivision (see below) has been completed on 1st October, 2000.

Diluted loss per share is not presented for the three months ended 31st December, 2001 because the effect is anti-dilutive. Dilutive loss per share is not presented for the three months ended 31st December, 2000 as there were no dilutive potential ordinary shares in existence during the corresponding period.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the three months ended 31st December, 2001. The Group has not declared any dividends for the corresponding period in 2000.

SHARE SUBDIVISION

A resolution approving the subdivision of the issued and unissued share of HK\$0.05 each (each an "Original Share") be divided into five shares of HK\$0.01 each (each a "Share") in the share capital of the Company was duly passed at the annual general meeting of the Company held on 30th November, 2001.

DIRECTORS' INTEREST IN SHARES

As at 31st December, 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:

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)	–	–	2,609,200,000	2,609,200,000	65.23%
Mr. Cheung Shi Kwan, Wings	4,000,000	–	–	4,000,000	0.10%
Madam Pong Lo Shuk Yin, Dorothy (Note 2)	–	2,609,200,000	–	2,609,200,000	65.23%

Notes:

- As at 31st December, 2001, Summerview Enterprises Limited held 2,609,200,000 Shares of the Company. 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 held by Summerview Enterprises Limited.

Other than disclosed above, as at 31st December, 2001, neither the directors nor their associates had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

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 42,000,000 Original Shares (equivalent to 210,000,000 Shares) at a price of HK\$0.38 per Original Share (now adjusted to HK\$0.076 per Share) exercisable in the period from 16th March, 2002 to 15th March, 2005.

During the three months ended 31st December, 2001, no option had been granted to the directors of the Company under the Pre-IPO Share Option Scheme.

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 (Note 1)	\$0.076	4,000,000
		<hr/>
		210,000,000

Note:

1. Mr. Lau Wai Shu was appointed as an executive director of the Company on 1st November, 2001.

All of these options may be exercised within three years after the expiry of 12 months from the date of listing of the shares of the Company on the 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:

- (a) 30% of the total number of option during the first year of such three-year period;
- (b) 60% of the total number of option during the second year of such three-year period; and
- (c) the remaining unexercised option 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, who was subsequently appointed as an executive director of the Company on 1st November, 2001, to subscribe for 500,000 Original Shares (equivalent to 2,500,000 Shares) in the Company at a price of HK\$1.04 per Original Share (now adjusted to HK\$0.208 per Share) exercisable during the period from 1st November, 2002 to 31st October, 2005.

All of these 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:

- (a) 30% of the total number of option during the first year of such three-year period;
- (b) 60% of the total number of option during the second year of such three-year period; and
- (c) the remaining unexercised option during the third year of such three-year period.

None of the above options has been exercised during the three months ended 31st December, 2001.

Save as disclosed above, at no time during the three months ended 31st December, 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.

OUTSTANDING SHARE OPTIONS

As at 31st December, 2001, options to subscribe for an aggregate of 250,500,000 Shares has been granted pursuant to the Pre-IPO Share Option Scheme and option to subscribe for an aggregate of 24,000,000 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.

(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 51,000,000 Original Shares at an exercise price equal to HK\$0.38 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 16th March, 2002 to 15th March, 2005.

On 30th November, 2001, a resolution was passed pursuant to which each Original Share was subdivided into five Shares (the “Share Subdivision”). In order to reflect the effect resulting from the Share Subdivision, a factor of 1/5 has to be applied to the Original Option Subscription Price and a factor of 5 has to be applied to the Number of Shares Issuable. Adjusted Subscription price of the Pre-IPO Share Options was HK\$0.076 per Share. Adjusted Number of Shares Issuable of the Pre-IPO Share Options after the Share Subdivision was 255,000,000.

Subsequent to 28th February, 2001 and up to 30th September, 2001, options to subscribe for a total of 4,500,000 Shares (equivalent to 900,000 Original Shares) granted to 3 employees of the Group pursuant to the Pre-IPO Share Option Scheme had lapsed upon their cessation of employment with the Group. Subsequent to 1st October, 2001 and up to 31st December, 2001, no option were granted or lapsed.

As at 31st December, 2001, options to subscribe for an aggregate of 250,500,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.076 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	4	210,000,000
Consultant	1	5,000,000
Employees	6	35,500,000
		<hr/>
		Total <u>250,500,000</u>

Pre-IPO Share Options to subscribed 210,000,000 Shares granted to the four Directors and the details of the grant are set out in the section headed “Directors’ Rights to Acquire Shares or Debentures” above.

(2) **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 5,000,000 Original Shares at a exercise price equal to HK\$1.04 have been conditionally granted by the Company to 15 full time employees of the Group (including options to subscribe for 500,000 Original Shares were granted to Mr. Lau Wai Shu 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.

On 30th November, 2001, a resolution was passed pursuant to which each Original Share was subdivided into five Shares (the “Share Subdivision”). In order to reflect the effect resulting from the Share Subdivision as stated above, a factor of 1/5 has to be applied to the Original Option Subscription Price and a factor of 5 has to be applied to the Number of Shares Issuable. Adjusted Subscription price of the Post-IPO Share Options was HK\$0.208 per Share. Adjusted Number of Shares of the Post-IPO Share Options Issuable after the Share Subdivision was 25,000,000.

Subsequent to 1st November, 2001 and up to 31st December, 2001, options to subscribe for a total of 1,000,000 Shares (equivalent to 200,000 Original Shares) granted to 1 employee of the Group pursuant to the Post-IPO Share Option Scheme had lapsed upon her cessation of employment with the Group.

As at 31st December, 2001, options to subscribe for an aggregate of 24,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding. The options included 2,500,000 Shares granted to Mr. Lau Wai Shu who was appointed as an executive director of the Company on 1st November, 2001 subsequently and the details of the grant are set out in the section headed “Directors’ Rights to Acquire Shares or Debentures” above.

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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2001, according to the register of substantial shareholders required to be maintained under Section 16(1) of the SDI Ordinance, the Company has been notified of the following interested, being 10% or more of the Company:

Name	Number of issued Shares	Percentage holding
Summerview Enterprises Limited	2,609,200,000 (<i>Note 1</i>)	65.23%
Mr. Pong	2,609,200,000 (<i>Note 1</i>)	65.23%
Madam Pong Lo Shuk Yin, Dorothy	2,609,200,000 (<i>Note 1</i>)	65.23%

Note:

1. As at 31st December, 2001, Summerview Enterprises Limited held 2,609,200,000 Shares of the Company. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong. 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 held by Summerview Enterprises Limited.

SPONSORS INTERESTS

As updated and notified by the Company's sponsor, ICEA Capital Limited (the "Sponsor"), as at 31st December, 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 from 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 three months ended 31st December, 2001.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 1st February, 2002