



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)



QUARTERLY REPORT 2001/2002
(For the third quarter ended 30th June, 2002)

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.

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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.

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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 third quarterly report of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the nine months ended 30th June, 2002 (the "Period") together with the comparative figures for the corresponding period in 2001 in bracket.

Financial Performance

Turnover of the Group during the Period increased by about 15.2 times to approximately HK\$6,416,000 over the corresponding period last year (2001: HK\$395,000), of which 52% was attributable to recurrent subscription fees from the EVI On-line System by kindergartens in Hong Kong which amounted to approximately HK\$3,300,000. Off-line and supporting business revenue grew by 6.9 times, among which approximately 24% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 24% of the total turnover was attributable to the sales and installation of computer hardware and software and website production projects. Net loss attributable to shareholders for the period was approximately HK\$10,526,000 (2001: HK\$10,776,000), representing a decrease by about 2%.

For the three months ended 30th June, 2002, the Group achieved an increase of turnover by about 24.6 times to approximately HK\$2,821,000 over the corresponding period last year (2001: approximately HK\$110,000). The net loss attributable to shareholders for the three months ended 30th June, 2002 was approximately HK\$4,390,000 (2001: approximately HK\$4,573,000).

As disclosed in the first quarterly results announcement of the Company dated 1st February, 2002, the depressed economic situation together with slow market response, the Group has to adopt prudent approach in evaluating the recoverability of the carrying value of the "I-Express CD on Demand" software licensing rights and an impairment loss of approximately HK\$2,786,000 was recorded as at 31st December 2001. The Directors believed that this approach would reflect a fair balance sheet value and hence produce a better position to reflect the Group's future operating performance. The persistence of weak economy has driven the Group to slow down its JV development activities and thus concentrating more efforts to broaden its income from the existing pre-school customers basis. However, the expansion into People's Republic of China (the "PRC") and other overseas markets still consider as the Group's long-term growth momentum.

The Group maintained a strong financial position with approximately HK\$26.9 million cash on hand with no outstanding debt as at 30th June, 2002. The Directors considered that the Group's financial position could continue to strengthen due to stable recurring subscription income from kindergartens and the growth of revenue derived from its off-line and supporting business.

Business and Operational Review

Being a prominent Internet education provider in Hong Kong, the Group offers 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 comprise of three zones, namely Kindergartens Zone, Parents Zone and Kids Zone, which provide a tailor-made education platform for the target users. Since September 2001, the Group has been charging the participating kindergartens a monthly subscription fee and has successfully entered into contracts with approximately 50 kindergartens, including some well-known kindergarten groups, to subscribe the EVI On-line System for a term of three years. Recently, the Group has successfully solicited several prominent kindergarten groups to subscribe the EVI On-line System on the coming school term that will commence from September 2002. The EVI On-line System now has built up a user base of over 15,000 users including students, parents and teachers.

The Group considers the most effective way to obtain additional income and to increase the loyalty and adhesiveness from its existing customers is to supply more value-added services through the EVI On-line System. During the period, the Group has frequently revised the Kindergartens Zone and putting up new contents such as festivals stories etc. New administrative modules like the Library System and KAMS (Kindergartens Advanced Management System) have been developed and are under the final testing stage. The Directors believed all these new features and developments would help to reinforce customers' confidence towards the EVI brand of quality educational services.

During the Period, series of aggressive brand building and marketing campaigns were launched in order to enhance the Group's image. On 18th May, 2002, the Group had organized a workshop on "Implementation of Balanced Scorecard with Pre-school Institutions" jointly with the Alumni Association of Pre-school Education Administration and Management Course S.P.A.C.E. – University of Hong Kong at the City University of Hong Kong. One of the Group's ex-Advisory Board members was the key speaker and over hundreds of parents, teachers and kindergarten representatives attended the workshop. Our Customer Services team members were also actively involved with various kindergarten promotional events such as the Open Day, Parents Day and Graduation Ceremony.

During the Period, the EVI On-line System continues to gain favourable response from its users, which further enhance the reputation of the Group. Apart from the provision of core on-line education services, the Group also provides other value-added off-line services including the provision of trainings on the EVI On-line System and general IT knowledge to teachers and other user groups. As mentioned in the interim results announcement of the Company dated 15th May, 2002, the Group acquired an 80% interest in a well-established education service provider in Hong Kong in January 2002 which had over 10 years experience in the Hong Kong education sector and is now serving over 100 kindergartens and over 50 primary and secondary schools. The Group is now capable to offer a range of quality off-line products and services through its subsidiaries to kindergarten customers.

As a trial of the vertical extension of Group's customers and services, the Group has launched a new portal the I-Cube (www.icubeworld.com) in May 2002 with an innovative attempt on selling revision exercise and entertainment to the primary school students & parents groups. Paid members have to complete different exercises in order to obtain virtual cards and participate the card games thereafter.

The portal is now offering revision exercises on Chinese, English, Mathematics, General Studies and covering P1 to P6 levels. The Group believes I-Cube would help to expand our services and thus generating additional revenue from new user groups and polishing our brand within the educational sector.

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 its market share in Hong Kong. With the continuous improvement on its contents and positive feedbacks from the kindergartens, the Group intends to charge subscription fees from the Parents Zone and the Kids Zone. And in order to widen our user groups, more interactive features and articles will be added and a new "Member Zone" will be established in order to enhance the revenue derived from the EVI portal. In response to the low demand of "web banner" type advertisement, the Group has made remarkable progress on its commercial sponsorship program and more efforts will be spent in order to maximise this new income stream.

During the schools summer holidays, the Group has sourced new accessory items such as kids sketch board and produced new IT Fun courses in order to generate more training income within this period. Besides this, interesting courses on animation were also successfully introduced to primary students this year and the Group will continue to extend the varieties and service scope of its off-line business.

Regarding the off-shore business opportunities and in particular, the Mainland China market, the Group remains prudent on assessing different approaches including acquisition of business or JV partnership in order to fulfill its long term strategic and development goals. Nevertheless, to increase the number of users on EVI Platform and to further explore our business opportunities both in Hong Kong and other markets are always the key objectives for the Group.

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, 8th August, 2002.

CONSOLIDATED INCOME STATEMENT

For the three and nine months ended 30th June, 2002

	Note	(Unaudited)		(Unaudited)	
		For the Three Months		For the Nine Months	
		Ended 30th June,		Ended 30th June,	
		2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	2,821	110	6,416	395
Cost of merchandise		(592)	–	(1,224)	(72)
Cost of provision of internet education services		(117)	–	(298)	–
Staff costs		(3,195)	(2,215)	(8,791)	(4,193)
Depreciation of machinery and equipment		(806)	(441)	(2,209)	(776)
Amortisation of website development costs		(533)	(410)	(1,594)	(763)
Amortisation of intangible assets		(878)	–	(2,472)	–
Distribution and selling expenses		(98)	(1,263)	(446)	(2,485)
Research and development costs		–	(35)	–	(100)
General and administrative expenses		(1,110)	(871)	(3,882)	(3,544)
Loss from operations		(4,508)	(5,125)	(14,500)	(11,538)
Provision for impairment loss of intangible assets		–	–	(2,786)	–
Gain on disposal of subsidiary		–	–	6,318	–
Interest income		118	552	407	762
Other income		23	–	61	–
Loss before taxation		(4,367)	(4,573)	(10,500)	(10,776)
Taxation	(3)	–	–	–	–
Loss before minority interests		(4,367)	(4,573)	(10,500)	(10,776)
Minority Interests		(23)	–	(26)	–
Loss attributable to shareholders		<u>(4,390)</u>	<u>(4,573)</u>	<u>(10,526)</u>	<u>(10,776)</u>
Dividends		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Loss per share – Basic	(4)	<u>(0.11) cent</u>	<u>(0.11) cent</u>	<u>(0.26) cent</u>	<u>(0.31) cent</u>

NOTES TO THE QUARTERLY FINANCIAL STATEMENT:

(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 Nine months ended 30th June, 2002, rather than from the date on which the Reorganisation was completed. The comparative figures as at and for the Nine months ended 30th June, 2001 have been presented on the same basis.

The financial statements have been prepared in accordance with the Statement of Standard Accounting Practice issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Chapter 18 of The Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the Rules).

(2) Turnover and Revenue

An analysis of the Group's total turnover and revenue and operating results by line of business provided for the Period and the three months ended 30th June, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 were as follows:

	Turnover and Revenue			
	For the Three Months Ended 30th June,		For the Nine Months Ended 30th June,	
	2002	2001	2002	2001
	\$'000	\$'000	\$'000	\$'000
Internet education fee	1,127	–	3,300	–
Selling and installation of computer hardware and software	604	–	1,299	89
Computer training fee	1,052	110	1,558	306
Website production fee	38	–	259	–
	<u>2,821</u>	<u>110</u>	<u>6,416</u>	<u>395</u>
Total Turnover for the period	2,821	110	6,416	395
Interest income	118	552	407	762
Other income	23	–	61	–
	<u>2,962</u>	<u>662</u>	<u>6,884</u>	<u>1,157</u>
Total Revenue for the period	2,962	662	6,884	1,157

(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 nine months and three months ended 30th June, 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$10,526,000 and HK\$4,390,000 (2001: HK\$10,776,000 and HK\$4,573,000) and on the weighted average number of both approximately 4,000,000,000 shares (2001: 3,489,735,000 shares and 4,000,000,000 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 nine months and three months ended 30th June, 2002 because the effect is anti-dilutive. Dilutive loss per share is not presented for the nine months and three months ended 30th June, 2001 as there were no dilutive potential ordinary shares in existence during the corresponding period.

(5) Movements of reserves

There have been no movements in the reserves of the Group during the period except for the accumulated loss recognised during the period.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the nine months ended 30th June, 2002. The Group has not declared any dividends for the corresponding period in 2001.

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 (the “Share Subdivision”).

DIRECTORS’ INTEREST IN SHARES

As at 30th June, 2002, 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:

1. As at 30th June, 2002, 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.
2. 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 30th June, 2002, 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 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 nine months ended 30th June, 2002, 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 (<i>Note 1</i>)	\$0.076	4,000,000
		<hr/>
		210,000,000

Notes:

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 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) as of 30th June, 2002 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 nine months ended 30th June, 2002.

Save as disclosed above, at no time during the nine months ended 30th June, 2002 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 30th June, 2002, options to subscribe for an aggregate of 225,500,000 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 of 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.

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 June, 2002, options to subscribe for a total of 29,500,000 Shares (equivalent to 5,900,000 Original Shares) granted to 4 employees of the Group pursuant to the Pre-IPO Share Option Scheme had lapsed upon their cessation of employment with the Group. Subsequent to 28th February, 2001 and up to 30th June, 2002, no option was granted.

As at 30th June, 2002, options to subscribe for an aggregate of 225,500,000 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	5	10,500,000
		<hr/>
		Total 225,500,000

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.

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 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 30th June, 2002, 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 30th June, 2002, 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 hereunder are set out at pages 179-183 of the prospectus of the Company dated 6th March, 2001. The exercise price at HK\$0.076 per shares of the Pre-IPO Share Options granted was equal to the issue price of shares when the shares were listed on the GEM on 15th March, 2001 and adjusted pursuant to the Share Subdivision. The exercise price at HK\$0.208 per shares of the Share Options was granted at the closing price of the Shares immediately before the date on which the option was granted on 31st October, 2001 and adjusted pursuant to the Share Subdivision.

SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2002, 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%

Notes:

1. As at 30th June, 2002, 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

The Company and ICEA Capital Limited have mutually agreed to terminate their sponsorship agreement dated 6th March, 2001 with effect from 20th June, 2002 which was initiated by the Company and Oriental Patron Asia Limited has been appointed as the new sponsor to the Company from 20th June, 2002.

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited (the "Sponsor"), as at 30th June, 2002 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 20th June, 2002 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 20th June, 2002 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. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the draft of this Report and has provided advice and comments thereon.

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 nine months ended 30th June, 2002.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 8th August, 2002.