



# **EVI Education Asia Limited**

(incorporated in the Cayman Islands with limited liability)



**QUARTERLY REPORT 2002/2003**

(For the first quarter ended 31st December, 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.**

**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 reports 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.*

## **CHAIRMAN'S STATEMENT**

On behalf of the Board of Directors (the "Board"), I am pleased to present the first quarterly report of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the three months ended 31st December, 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 1.3 times to approximately HK\$4,534,000 over the corresponding period last year (2001: HK\$1,968,000), of which 51% was attributable to recurrent subscription fees from the EVI On-line System by kindergartens in Hong Kong which amounted to approximately HK\$2,290,000. Off-line and supporting business revenue grew by 1.5 times, among which approximately 19% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 30% 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\$1,785,000 (2001: HK\$1,112,000), representing an increase by about 59%.

The Group maintained solid financial position with approximately HK\$24.5 million cash on hand with no outstanding debt as at 31st December, 2002. The Directors remained their positive perception toward the Group's future financial position due to stable recurring subscription income and rooms of growth for its on-line and off-line business.

## **BUSINESS AND OPERATIONAL REVIEW**

### **Customer base and Revenue**

Being a prominent Internet education provider in Hong Kong, the Group offers both Chinese and English language-based pre-school education services targeting kindergartens, teachers, parents and pre-school children. From time to time, the EVI On-line System continues to gain favourable response from its users.

The EVI On-line System now comprises of the Kindergartens Zone, Parents and Kids Zone and the Member Zone. Despite the adverse economic condition, the Group has still successfully solicited new kindergarten groups to subscribe the EVI On-line System commencing on September 2002 school term. The EVI On-line System now has built up a user base of over 18,000 users including students, parents and teachers. The Group has also started receiving subscription fees from the Parents and Kids Zone since September 2002. In order to widen our user groups, more interactive features and articles will be added and a new "Member Zone" was launch in December 2002.

Besides the provision of core on-line education services, the Group also provides other value-added off-line services including the provision of different IT knowledge and training courses to teachers and other user groups. The Group is capable to offer range of quality products and supporting services to our customers.

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

The Group considers the most effective way to generate additional revenue or to increase the loyalty and adhesiveness from its existing customers is to supply more value-added services to the EVI On-line System. Besides the frequent revision of Kindergartens Zone's contents; new administrative modules like the Library System, KAMS (Kindergartens Advanced Management System) and the Accounting System are now launched. Additional articles and games were put up for the Parents Zone and the Kids Zone and the EVI Newsletters was introduced and published in December 2002. The Directors believed all these developments would help to reinforce customers' confidence and adhesiveness towards the EVI brand of quality.

The Group's another portal the I-Cube ([www.icubeworld.com](http://www.icubeworld.com)) which aimed at selling revision exercise and entertainment to the primary school students & parents groups has successfully established its foothold with over 100 primary schools. Number of paid members is increasing. The portal is now updating revision exercises on monthly basis serving primary one through to primary six levels. During this period, I-Cube has organised the event "I-Cube Inter-school Intelligence Competition" with participation of over 30 primary schools. The final round was held at The Metropolis Mall on 28th December, 2002 jointly with the Hong Kong Council of Early Childhood Education and Services (CECES). The Group believes I-Cube would continue to generate additional revenue and gain its recognition within the educational sector.

## **Marketing**

During the period, series of brand building and marketing campaigns were launched in order to promote the Group's image. The Group organised the seminar "Appreciation of Reading Books" at The Hong Kong Polytechnic University on 11th January, 2003. There were over 100 participants representing approximately 50 different kindergartens attending the event. The Group has the honour to invite the Senior Lecturer from The Hong Kong Institute of Education, School of Early Childhood Education, together with two principals as speakers and to officiate this event. Our Customer Services team members were also actively involved with various promotional events in bookstores, kindergartens Open Day and Parents Day.

## **System infrastructure and technology deployment**

As for the technology development, the Group keeps on searching new add-on features for the EVI On-line System, such as web-cam and security systems. The Group's internal technical team has also studied the application of bar code and other electronic devices in order to provide more applications for our kindergartens' customers.

## **Strategic acquisitions**

The acquisition of Silicon Workshop Ltd. last year has strengthened the Group's overall market position and its product mix, by offering more services and off-line products.

## **OUTLOOK**

The kindergartens and nurseries in Hong Kong are facing keen competition due to low birth rate in recent years. In order to sustain growth and remain competitive within the market, we shall focus on our core EVI On-line System by constant upgrading and enhancing our features and products. Meanwhile, we shall continue to explore new business lines and to solicit new web development works or sponsorship programs in order to generate more revenue for the Group. Regarding the PRC prospect, the Group keeps on identifying appropriate local business partners and the cost saving benefits on its content production.

In essence, during the adverse economic cycle, the Group shall employ tighter cost control policies in order to retain the Group's financial resources and to maximise its staying power for the benefits of our shareholders.

## **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, 12th February, 2003.

## CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the three months ended 31st December, 2002

		<b>(Unaudited)</b>	
		<b>For the Three Months</b>	
		<b>Ended 31st December,</b>	
		<b>2002</b>	<b>2001</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	(2)	4,534	1,968
Costs of merchandise		(828)	(492)
Costs of internet connectivity fee		(133)	(74)
Staff costs		(2,526)	(2,707)
Depreciation		(740)	(1,491)
Amortisation of intangible assets		(817)	(528)
General and administrative expenses		(1,318)	(1,474)
Gain on disposal of interest in a subsidiary		–	6,318
Impairment loss on intangible assets		–	(2,786)
		<hr/>	<hr/>
Loss from operations		(1,828)	(1,266)
Interest income		67	154
		<hr/>	<hr/>
Loss before taxation		(1,761)	(1,112)
Taxation	(3)	(16)	–
		<hr/>	<hr/>
Loss after taxation		(1,777)	(1,112)
Minority Interests		(8)	–
		<hr/>	<hr/>
Loss attributable to shareholders		<u>(1,785)</u>	<u>(1,112)</u>
		<hr/>	<hr/>
Dividends		–	–
		<hr/>	<hr/>
Loss per share – Basic	(4)	<u>HK(0.04) cent</u>	<u>HK(0.03) cent</u>

## NOTES:

### (1) Basis of preparation

The accounts have been prepared in accordance with the accounting standards issued by the Hong Kong Society of Accountants (“HKSA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (“the GEM Listing Rules”). They have been prepared under the historical cost convention.

### (2) Turnover and Revenue

The Group is principally engaged in selling and installation of computer hardware and software, provision of computer training services and provision of internet education services. Revenue recognised during the three months ended 31st December, 2002 together with the comparative unaudited figures for the corresponding periods in 2001 are as follows:

	Turnover	
	For the Three Months Ended 31st December,	
	2002	2001
	HK\$'000	HK\$'000
Turnover		
Internet education fee	2,290	1,066
Selling and installation of computer hardware and software	1,040	710
Computer training fee	841	192
Others	363	–
	<hr/>	<hr/>
	4,534	1,968
Gain on disposal of interest in a subsidiary	–	6,318
Interest income	67	154
	<hr/>	<hr/>
	4,601	8,440
	<hr/>	<hr/>

### (3) Taxation

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

Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profit arising in or derived from Hong Kong.

### (4) Loss per Share

The calculation of basic loss per share for three months ended 31st December, 2002 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$1,785,000 (2001: HK\$1,112,000) and on the weighted average number of 4,000,000,000 shares in issue during both period.

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

### (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 three months ended 31st December, 2002. The Group has not declared any dividends for the corresponding period in 2001.

## DIRECTORS' INTEREST IN SHARES

As at 31st December, 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 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)	31,900,000	–	2,609,200,000	2,641,100,000	66.03%
Mr. Cheung Shi Kwan, Wings	4,000,000	–	–	4,000,000	0.10%
Madam Pong Lo Shuk Yin, Dorothy (Note 2)	–	2,641,100,000	–	2,641,100,000	66.03%

### Notes:

- As at 31st December, 2002, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 31,900,000 Shares are registered in the name of Mr. Pong. The entire issued share capital of Summerview Enterprises Limited was registered in the name of and beneficially owned by Mr. Pong. The interest of Mr. Pong in the issued shares of the Company was, accordingly corporate interest in the Company as described in Rule 18.16(1) of the GEM Listing Rules.
- Mr. Pong is the son of Madam Pong Lo Shuk Yin, Dorothy, who is deemed to be interested in 2,609,200,000 Shares beneficially owned by Summerview Enterprises Limited and 31,900,000 Shares beneficially owned by Mr. Pong respectively.

Other than disclosed above, as at 31st December, 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 and staff of the Group to subscribe for an aggregate of 210,000,000 Shares at a price of HK\$0.076 per share (as adjusted) exercisable in the period from 16th March, 2002 to 15th March, 2005.

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

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

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

- (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 2,500,000 Shares of the Company at a price of HK\$0.208 per share (as adjusted) exercisable during the period from 1st November, 2002 to 31st October, 2005.

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:

- (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, 2002.

Save as disclosed above, at no time during the three months ended 31st December, 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 31st December, 2002, options to subscribe for an aggregate of 221,500,000 Shares has been granted pursuant to the Pre-IPO Share Option Scheme and option to subscribe for an aggregate of 21,000,000 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 255,000,000 Shares at an exercise price of HK\$0.076 (as adjusted) have been conditionally granted by the Company to certain directors and employees of the Company. All of these options may be exercised in the period from 16th March, 2002 to 15th March, 2005.

As at 31st December, 2002, options to subscribe for an aggregate of 221,500,000 Shares granted on 28th February, 2001 at an exercise price of HK\$0.076 per shares were outstanding and these options relate to the options granted to four directors, one consultant and three employees at the date of grant, details of which as at 31st December, 2002 are as follows: –

#### Number of share options

As at 1st October, 2002	221,500,000
<i>Less</i> : share options lapsed during the period	–
	<hr/>
As at 31st December, 2002	221,500,000
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### (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 25,000,000 Shares at a exercise price equal to HK\$0.208 (as adjusted) have been conditionally granted by the Company to fifteen full time employees of the Group (including options to subscribe for 2,500,000 Shares were granted to Mr. Lau Wai Shu who was appointed as director on 1st November, 2001 subsequently). All of these options may be exercised in the period from 1st November 2002 to 31st October, 2005.

As at 31st December, 2002, options to subscribe for an aggregate of 21,000,000 Shares granted on 31st October, 2001 at an exercise price of HK\$0.208 per Share were outstanding and these options relate to the options granted to one director and ten employees at the date of grant, details of which as at 31st December, 2002 are as follows:

#### Number of share options

As at 1st October, 2002	23,000,000
<i>Less</i> : share options lapsed during the period	(2,000,000)
	<hr/>
As at 31st December, 2002	21,000,000
	<hr/>

A summary of the major terms of each share option scheme including details of all options granted hereunder are set out at pages 22-24 of the Annual Report 2002 of the Company.

## **SUBSTANTIAL SHAREHOLDERS**

As at 31st December, 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:

<b>Name</b>	<b>Number of issued shares</b>	<b>Percentage holding</b>
Summerview Enterprises Limited	2,609,200,000 ( <i>Note 1</i> )	65.23%
Mr. Pong	2,641,100,000 ( <i>Note 1</i> )	66.03%
Madam Pong Lo Shuk Yin, Dorothy	2,641,100,000 ( <i>Note 1</i> )	66.03%

### *Notes:*

1. As at 31st December, 2002, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 31,900,000 Shares are registered in the name of 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 owned by Summerview Enterprises Limited and 31,900,000 Shares beneficially owned by Mr. Pong respectively.

## **SPONSORS INTERESTS**

As updated and notified by the Company's sponsor, Oriental Patron Asia Limited (the "Sponsor"), as at 31st December, 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 and has formulated its written terms of reference in compliance with Rules 5.23 and 5.25 of the GEM Listing Rules. The members of the Audit Committee up to the date comprised the two independent non-executive directors, Mr. Hung Tak Chow, Charles and Mr. Hung Fan Wai, Wilfred. The primary duties of the Audit Committee are to review the Company's annual report, half-yearly reports and quarterly report and to provide advice and comments thereon to the Board of Directors.

## **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 three months ended 31st December, 2002.

By Order of the Board  
**Pong Wai San, Wilson**  
*Chairman*

Hong Kong, 12th February, 2003.