



EVI Education Asia Limited

(incorporated in the Cayman Islands with limited liability)



INTERIM REPORT 2002/2003

(For the six months ended 31st March, 2003)

Characteristics of The Growth Enterprise Market (“GEM”) of The Stock Exchange of Hong Kong Limited (The “Stock Exchange”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

This report, for which the directors of EVI Education Asia Limited collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM for the purpose of giving information with regard to EVI Education Asia Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– (1) the information contained in this report is accurate and complete in all material respects and not misleading; (2) there are no other matters the omission of which would make any statement in this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board"), I am pleased to present the interim report of EVI Education Asia Limited (the "Company") and its subsidiaries (together, the "Group") for the six months ended 31st March, 2003 (the "Period") together with the comparative figure for the corresponding period in 2002 in bracket.

There was a global slowdown in the economy for the period under review. Despite the adverse sentiments in operating environment and customers' consumption power, the Group had employed proper developments strategies and built up good recognition with its e-education service business. The Group's web site development works gain public recognition; the project "50 Common Trees in Hong Kong Series I" developed for the Education and Manpower Bureau ranked the first runner up in "The Best Websites competition 2002" by Yahoo.com.hk.

The kindergartens and nurseries in Hong Kong are facing keen competition due to the continuing decline of birth rate in recent years. Besides, the spread of "atypical pneumonia" leads to suspension of all schools' classes and affects our business operation. On the contrary, it also raises school practitioners' attention towards the need of electronic means of delivery and communications. I believe the company will move on the growth track again shortly. In order to sustain growth and remain competitive within the market, we shall continue to focus on our core EVI On-line System by constant upgrading efforts on both the features and products.

Turnover of the Group for the six months ended 31st March, 2003 increased by about 1.4 times to approximately HK\$8,628,000 over the corresponding period last year (2002: HK\$3,595,000) and net loss attributable to shareholders for the period was approximately HK\$4,350,000 (2002: HK\$6,136,000), representing a decrease by about 29%. Although the Group was stilling running at a loss, the net cash outflow of the Group improved significantly to only HK\$736,000 from the corresponding period (2002: HK\$8,386,000). The improvement of cash flow over the period was due to its operation efficiency on its cost control and credit control. The Group is now targeting cash breakeven for the coming year. In essence, during the adverse economic cycle, the Group would continue employ all necessary cost control policies in order to retain its financial resources and to maximise its staying power for the benefits of our shareholders.

Finally, I would like to take this opportunity to express my sincere gratitude to our shareholders, customers and partners for their continuous support, to the management and staff for their contribution and dedicated efforts throughout the period. On behalf of the Board, I would like to extend the up-most respect to all front line medical staffs for their hard works.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th May, 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

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, primary and secondary schools, teachers, parents, pre-school children and kids. 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 Group has also started receiving subscription fees from the Parents and Kids Zone since September 2002. In order to widen our user groups, a new “Member Zone” was launch in December 2002 and more interactive features and articles were added. The EVI Group has built up a user base of over 30,000 users including students, parents and teachers using the Group On-line or server base programs on both teaching and learning activities.

Besides the provision of core on-line education services, the Group also cooperated with commercial partners for the marketing and selling of the proprietary cartoon character merchandise characters. The Group is capable to offer range of quality products and supporting services to our customers.

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 attended 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 to officiate this event. Our Customer Services team members were also actively involved with various promotions in bookstores, kindergartens Open Day and Parents Day events.

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 contents in different Zones; new administrative modules like the Library System, KAMS (Kindergartens Advanced Management System) and the Accounting System were launched. 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) 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 primary six levels. During this period, I-Cube has organised the event "I-Cube Inter-school Intelligent Competition" with participation from 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 reinforce its recognition within the educational sector.

System infrastructure and technology deployment

As for the technology development, the Group keeps on searching new add-on features for the EVI Online 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. During the period, the Group has co-operated with commercial partners and started to integrate its "Hi-share" hardware cost savings solution for school customers.

Strategic acquisitions

Silicon Workshop Ltd. which was acquired last year remains active and contributes to the Group by offering more services and off-line products to the customers.

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. Meanwhile, the Group shall continue to explore new business lines and to solicit new web development works like "The Common Trees in Hong Kong II" from the Education and Manpower Bureau or other sponsorship programs from the commercial sector in order to generate more revenue for the Group.

Regarding the off-shore business opportunities and in particular, the PRC 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.

FINANCIAL PERFORMANCE

Turnover of the Group for the six months ended 31st March, 2003 increased by about 1.4 times to approximately HK\$8,628,000 over the corresponding period last year (2002: HK\$3,595,000), of which 51% was attributable to the recurrent subscription fees from the EVI On-line System from Hong Kong kindergartens which amounted to approximately HK\$4,387,000. Off-line revenue grew by 2.0 times, among which approximately 20% of the total turnover was attributable to the provision of computer and information technology ("IT") training courses and 29% of the total turnover was attributable to the sales and installation of computer hardware and software and website development. Net loss attributable to shareholders for the period was approximately HK\$4,350,000 (2002: HK\$6,136,000), representing a decrease by about 29%. Although the Group was still running at a loss, the net cash outflow of the Group improved significantly to only HK\$736,000 from corresponding period last year (2002: HK\$8,386,000). The improvement of cash flow over the period was due to its operation efficiency on its cost control and credit control.

For the three months ended 31st March, 2003, the Group achieved an increase of turnover to approximately HK\$4,094,000 (2002: approximately HK\$1,627,000). The net loss attributable to shareholders for the three months ended 31st March, 2003 was approximately HK\$2,566,000 (2002: approximately HK\$5,023,000).

The Group maintained solid financial position with approximately HK\$24.3 million cash on hand with no outstanding debt as at 31st March, 2003. 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.

Liquidity, Financial Resources and Gearing Ratio

The Group generally financed its operations and investing activities with internally generated cash flows and the balance of the proceeds from the Placing. As at 31st March, 2003, the Group had unaudited net current assets of approximately HK\$22,289,000 (2002: HK\$22,790,000), including cash and bank deposits amounted to approximately HK\$24,327,000 (2002: HK\$25,063,000). The consolidated total non-current liabilities were nil (2002: HK\$500,000). The Group did not have any bank borrowings nor any banking facilities as at 31st March, 2003 (2002: Nil).

The gearing ratio (defined as a percentage of long term obligations over total assets) of the Group on 31st March, 2003 was 0% (2002: 1.3%). The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and current working capital requirements.

Capital Structure and Foreign Exchange Exposure

The unutilized proceeds from the listing of the shares of the Company on GEM were placed in Hong Kong dollars short-term interest bearing deposit with banks in Hong Kong. The Group had not been granted any banking facilities for the Reporting Period. The incomes of the Group are dominated in Hong Kong Dollars only and the Group has adequate recurring cash flow to meet the working capital requirement. The Group adhered to a prudent policy on financial risk management and the management of currency and interest rate exposures. Hence, the Group's exposure to fluctuations in the exchange rate is considered to be minimal and there is seldom any need to make use of financial instruments for hedging purposes.

Charge on Assets

The Group did not have any charge on their assets as at 31st March, 2003 (2002: Nil).

Significant Acquisition

The Company do not have any significant acquisition for the six months ended 31st March, 2003.

Future Plans for Material Investments and Capital Assets

Application of proceeds from the listing of the shares of the Company on GEM will be in line with the business objectives stated in the prospectus of the Company dated 6th March, 2001. Other than that, there has been no material change in the Group's future plan for material investments and acquisition of material capital assets as at 31st March, 2003.

Employee Information

Staff costs, including directors' remuneration, were approximately HK\$5,032,000 for the six months ended 31st March, 2003 (2002: HK\$5,597,000). Headcount was changed from 60 as at 30th September, 2002 to 55 as at 31st March, 2003. Employees were paid at market remuneration with discretionary bonus and benefits of medical insurance, mandatory provident fund, share options and necessary training. The Group's employees' remuneration policy, bonus and share option schemes have been reviewed and rewarded against staff's performance on annual basis. Details of the share option scheme are provided in the relevant section.

Contingent Liabilities

The Group has no contingent liabilities as at 31st March, 2003 (2002: Nil).

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1st April, 2002 to 31st March, 2003.

Business objectives as stated in the prospectus dated 6th March, 2001

Actual Business progress

Customer base

1. EVI On-line System:

Achieve a user base of around 220 kindergartens in Hong Kong and 26,400 parents in Hong Kong.

Given the continuous economic downsizing and shrinkage of kindergartens in Hong Kong, the Group has built up a user base of over 30,000 including students, parents and teachers from over 150 kindergartens accessing its On-line or server base programs. The Group has established the Members Zone and I-Cube portal in order to widen its user base.
2. Computer training and system integration services:

Maintain a user base of twelve kindergartens in Hong Kong.

With the acquisition of subsidiary last year, the Group has expanded such services to over 100 kindergartens, primary and secondary schools in Hong Kong.

Revenue

1. EVI On-line System:

Achieve balance of 28%: 72% balance of revenue from subscription income from kindergarten users, and subscription income from parents and children users

Given the relative high cost and low application of broadband connection for the middle income households sector, the Group has continued to rely on the service revenue from kindergartens. The Group believed such reliance will gradually be reduced in long run due to the popularity of broadband application in households.
2. Start generating revenue from the Macau and PRC versions of the EVI On-line System

Given the global economic recessions and market uncertainties, the Group has delayed its business development for both Macau and PRC. However, the Group has conducted visits and built up various contacts with different entities from Macau, Shanghai, Zhuhai, Guangzhou and Chongqing.
3. e-Commerce Income

Start distributing income from the sale of proprietary cartoon characters merchandise in Hong Kong and distributing e-commerce products and services on the EVI On-line System in Hong Kong.

The recognition of the Group's cartoon characters was still under developing. The Group has started soft promoting by means of give away items. For other e-commerce business like "web banner" type advertisement, the demand and charging rate dropped dramatically nowadays. For instance, the Group has diverted more attention towards web site development works from the HKSAR government and the commercial sectors.

**Business objectives as stated
in the prospectus dated
6th March, 2001**

Actual Business progress

Development and launch of new products, contents and features

- | | |
|---|---|
| 1. Continue to develop new contents and features for the EVI On-line System. | 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 new module like Accounting System was under the final testing stage. More interactive features, articles and new games were put up for the Parents and Kids Zone. |
| 2. Start mass production, marketing and selling proprietary cartoon characters merchandise in Hong Kong | The Group has developed a series of proprietary cartoon characters and has already identified few favourite characters for promotion. In view of the rapid change of e-commerce formalities and relative low demand of e-transaction; the Group preferred to work with business promotion partners during the economic downturn instead of mass production. |

Sales and marketing

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| 1. Continue to implement, arrange marketing and promotional activities in Hong Kong, Macau and the PRC and promote the public awareness of the EVI On-line System as a leading Internet education platform | <p>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.</p> <p>The Group has commenced preliminary market contacts with Macau, Shanghai, Zhuhai, Guangzhou and Chongqing and remains prudent on such progress.</p> |
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**Business objectives as stated
in the prospectus dated
6th March, 2001**

Actual Business progress

Overseas developments, strategic acquisitions and alliances

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| 1. Form alliance with e-commerce vendor groups to distribute products and services on the EVI On-line System | The management has kept in touch with different potential partners and planned to cooperate with them on expanding into the Mainland China market and other Asia Pacific markets as well. |
| 2. Explore the possibility of expanding into other Chinese-speaking markets and review any opportunities for strategic acquisitions, joint ventures and alliances to further expand the Group's operations | The business plan for other Chinese speaking regions (other than Macau and PRC) was postponed. However, the Group believed it would not cause any significant impacts as there are sufficient resources for the Group to meet with its future growth and development. |

System infrastructure and technology deployment

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| 1. Conduct reviews with regard to any change in the IT technology and the Internet industry that may require changes, upgrades and refinements to the Group's overall technology deployment. | As for the technology development, the Group will keep investing on the backbone of the EVI On-line System.

The Group's internal technical team has studied the application of bar code and other electronic devices in order to provide new features and functions for EVI On-line System. Besides, the Group has co-operated with other commercial partners and started to integrate its "Hi-share" hardware cost savings solution for school customers. |
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Human resources, operations and administration

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| 1. Maintain a steady growth of total headcount to around 42 for the Group's overall operations | The Group had strengthened the sales and marketing department, content department and the technical department through staff recruitment. Also, the Group acquired a subsidiary to enlarge its products, services and customer bases and as a result, the overall headcount increased to around 55. |
|--|---|
- Conduct reviews with regard to any additional deployment of headcounts in different functions and operations of the Group

Use of Proceeds

The Company obtained net proceeds, after deducting all relevant expenses, of approximately HK\$52 million from the new issue of shares by way of placing. Up to 31st March, 2003, the Group has applied the net proceeds as follows:

	Amount extracted from the Prospectus dated 6th March, 2001		Actual amount used up to 31st March, 2003
	Total	Up to 31st March, 2003	
Development and launch of new contents and features under the EVI On-line System	7.0M	6.5M	5.2M
Upgrade and improvement in system infrastructure and technology deployment	11.5M	9.5M	6.7M
Purchase and provision of hardware to kindergartens for promotion the use of the EVI On-line System	8.5M	6.5M	5.3M
Development of on-line advertising, e-commerce and related features under the EVI On-line System	7.0M	4.5M	4.1M
Marketing and promotional activities	6.0M	5.5M	6.0M
Working capital	12.0M	9.6M	12.0M
	<u>52.0M</u>	<u>42.1M</u>	<u>39.3M</u>

The remaining net proceeds as at 31st March, 2003 was approximately HK\$12.7M, which have been placed on short-term interest bearing deposit with banks in Hong Kong.

Since the economy downturn and the Group employ tighter cost control, the actual usage of IPO proceed were slower than expected. However, business progress of the Group developed does not have significant effect. The increase of working capital outflow was due to the acquisition of 80% of a well-established education services provider last year. The Directors believe that the proceeds are sufficient for covering all stated objectives in the relevant periods stated in the prospectus of the Company dated 6th March, 2001.

CONSOLIDATED INCOME STATEMENT

For the three and six months ended 31st March, 2003

	Notes	(Unaudited)		(Unaudited)	
		For the Three Months		For the Six Months	
		Ended 31st March,		Ended 31st March,	
		2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	(2)	4,094	1,627	8,628	3,595
Interest income		75	134	142	288
Cost of merchandise		(800)	(127)	(1,628)	(632)
Cost of internet connectivity fee		(142)	(107)	(275)	(181)
Staff costs		(2,506)	(2,686)	(5,032)	(5,597)
Depreciation		(1,372)	(701)	(2,112)	(1,402)
Amortisation of intangible assets		(735)	(1,337)	(1,552)	(2,655)
General and administrative expenses		(1,177)	(1,823)	(2,494)	(3,081)
Gain on disposal of interest in a subsidiary		–	–	–	6,318
Impairment loss on intangible assets		–	–	–	(2,786)
Loss before taxation	(4)	(2,563)	(5,020)	(4,323)	(6,133)
Taxation	(5)	(6)	–	(22)	–
Loss after taxation		(2,569)	(5,020)	(4,345)	(6,133)
Minority interests		3	(3)	(5)	(3)
Loss attributable to shareholders		<u>(2,566)</u>	<u>(5,023)</u>	<u>(4,350)</u>	<u>(6,136)</u>
Loss per share – Basic	(6)	<u>(0.06) cent</u>	<u>(0.13) cent</u>	<u>(0.11) cent</u>	<u>(0.15) cent</u>

CONSOLIDATED BALANCE SHEET

As at 31st March, 2003

		(Unaudited) As at 31st March, 2003 HK\$'000	(Audited) As at 30th September, 2002 HK\$'000
	<i>Notes</i>		
Non-current assets			
Machinery and equipment	(7)	2,804	4,643
Intangible assets	(8)	3,082	5,587
Total non-current assets		<u>5,886</u>	<u>10,230</u>
Current assets			
Trade receivables	(9)	1,741	2,906
Prepayments, deposits and other receivables		678	784
Cash and bank deposits		24,327	25,063
Total current assets		<u>26,746</u>	<u>28,753</u>
Current liabilities			
Trade payables	(10)	(323)	(951)
Accruals and other payables		(1,725)	(2,066)
Deposits from customers		(1,936)	(1,862)
Due to minority shareholder of a subsidiary	(11)	(460)	(960)
Taxation payable		(13)	(124)
Total current liabilities		<u>(4,457)</u>	<u>(5,963)</u>
Net current assets		<u>22,289</u>	<u>22,790</u>
Total assets less current liabilities		<u>28,175</u>	<u>33,020</u>
Financed by:			
Share capital	(12)	40,000	40,000
Reserves	(13)	37,290	37,290
Accumulated deficit	(13)	(49,170)	(44,820)
Shareholders' equity		28,120	32,470
Minority interests		55	50
Non-current liability			
Due to minority shareholder of a subsidiary	(11)	–	500
		<u>28,175</u>	<u>33,020</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31st March, 2003

	(Unaudited) For the six months ended 31st March, 2003 <i>HK\$'000</i>	(Unaudited) For the six months ended 31st March, 2002 <i>HK\$'000</i>
Net cash outflow from operating activities	(363)	(6,431)
Net cash outflow in investing activities	(373)	(1,955)
Decrease in cash and cash equivalents	(736)	(8,386)
Cash and cash equivalents at the beginning of the period	25,063	41,453
at the end of the period	24,327	33,067

CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the six months ended 31st March, 2003

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	(Unaudited) Contributed surplus <i>HK\$'000</i>	Accumulated deficit <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st October, 2001	40,000	22,372	14,918	(26,943)	50,347
Loss attributable to shareholders	—	—	—	(6,136)	(6,136)
At 1st April, 2002	40,000	22,372	14,918	(33,079)	44,211
Loss attributable to shareholders	—	—	—	(11,741)	(11,741)
At 30th September, 2002	40,000	22,372	14,918	(44,820)	32,470
Loss attributable to shareholders	—	—	—	(4,350)	(4,350)
At 31st March, 2003	40,000	22,372	14,918	(49,170)	28,120

NOTES TO THE INTERIM FINANCIAL STATEMENT:

(1) Basis of preparation

These unaudited consolidated condensed accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants. These condensed accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 30th September, 2002 except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP 1 (revised)	:	Presentation of financial statements
SSAP 11 (revised)	:	Foreign Currency transaction
SSAP 15 (revised)	:	Cash flow statements
SSAP 25 (revised)	:	Interim financial reporting
SSAP 34	:	Employee benefits

The condensed interim financial statements are unaudited, but have been reviewed by the Audit Committee.

(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. Revenues recognised during the six months and three months ended 31st March, 2003 are as follows:

	For the Three Months		For the Six Months	
	Ended 31st March, 2003	2002	Ended 31st March, 2003	2002
	\$'000	\$'000	\$'000	\$'000
Internet education fee	2,098	1,107	4,387	2,173
Selling and installation of computer hardware and software	1,000	106	2,069	696
Computer training fee	906	314	1,748	506
Others	90	100	424	220
	<hr/>	<hr/>	<hr/>	<hr/>
Total Turnover	4,094	1,627	8,628	3,595
Interest income	75	134	142	288
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenue	<u>4,169</u>	<u>1,761</u>	<u>8,770</u>	<u>3,883</u>

(3) Segment Reporting

The Group is organised on a worldwide basis into three main business segments, namely selling and installation of computer hardware and software, computer training and internet education and in one geographical segment, Hong Kong.

	For the Six Months Ended 31st March,									
	Internet education		Selling and installation of computer hardware and software		Computer training		Others		Group	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Turnover	4,387	2,173	2,145	696	1,748	506	348	220	8,628	3,595
Segment (loss) profit	(3,176)	(6,621)	(892)	(1,108)	144	192	(241)	(223)	(4,165)	(7,760)
Unallocated costs									(158)	1,627
Loss before taxation									(4,323)	(6,133)
Taxation									(22)	-
Loss after taxation									(4,345)	(6,133)
Minority interests									(5)	(3)
Loss attributable to shareholders									<u>(4,350)</u>	<u>(6,136)</u>
Other Information										
Segment assets	4,984	10,111	1,124	2,269	1,519	2,455	123	92	7,750	14,927
Unallocated assets									24,882	35,574
Total assets									<u>32,632</u>	<u>50,501</u>
Segment liabilities	2,535	2,638	542	1,199	514	1,487	63	43	3,654	5,367
Unallocated liabilities									803	923
Total liabilities									<u>4,457</u>	<u>6,290</u>
Capital expenditure	373	6,446	-	903	-	903	-	-	373	8,252
Depreciation	1,922	1,153	47	124	109	82	34	43	2,112	1,402
Amortisation	1,050	2,640	251	8	251	7	-	-	1,552	2,655
Impairment loss	-	2,786	-	-	-	-	-	-	-	2,786

(4) Loss before taxation

Loss before taxation is stated after charging and crediting the following:

	For the Three Months Ended 31st March,		For the Six Months Ended 31st March,	
	2003	2002	2003	2002
	\$'000	\$'000	\$'000	\$'000
Charging:				
Cost of provision of internet connectivity fee	142	107	275	181
Cost of merchandise	800	127	1,628	632
Staff cost (including directors' emoluments)				
– salaries	2,388	2,486	4,679	5,201
– pension costs – defined contribution plan	118	200	353	396
Operating lease rentals in respect of				
– premises	184	253	688	702
– computer servers	107	123	209	246
Depreciation	1,372	701	2,112	1,402
Amortisation of intangible assets:				
– Website development costs	526	532	1,050	1,060
– Goodwill	209	15	502	15
– Licensing rights	–	790	–	1,580
Impairment loss on intangible assets				
– Licensing rights	–	–	–	2,786
Net loss on disposal of machinery and equipment	–	–	53	–
Crediting:				
Gain on disposal of interest in a subsidiary	–	–	–	6,318
Interest income	75	134	142	288

(5) 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.

(6) Loss per Share

The calculation of basic loss per share for the six months and three months ended 31st March, 2003 is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$4,350,000 and HK\$2,566,000 (2002: HK\$6,136,000 and HK\$5,023,000) respectively and on the weighted average number of both approximately 4,000,000,000 shares (2002: 4,000,000,000 shares) deemed to be in issue throughout the year.

Diluted loss per share is not presented for the six months and three months ended 31st March, 2003 because the effect is anti-dilutive. Dilutive loss per share is not presented for the six months and three months ended 31st March, 2002 as there were no dilutive potential ordinary shares in existence during the corresponding period.

(7) Machinery and Equipment

	Leasehold improvements \$'000	Furniture and office equipment \$'000	Computer equipment \$'000	Total \$'000
Cost				
At 1st October, 2002	1,886	710	8,705	11,301
Additions for the period	53	5	268	326
Disposals for the period	(151)	–	–	(151)
	<u>1,788</u>	<u>715</u>	<u>8,973</u>	<u>11,476</u>
At 31st March, 2003				
	<u>1,788</u>	<u>715</u>	<u>8,973</u>	<u>11,476</u>
Accumulated depreciation				
At 1st October, 2002	1,492	532	4,634	6,658
Provision of the period	322	56	1,734	2,112
Disposal for the period	(98)	–	–	(98)
	<u>1,716</u>	<u>588</u>	<u>6,368</u>	<u>8,672</u>
At 31st March, 2003				
	<u>1,716</u>	<u>588</u>	<u>6,368</u>	<u>8,672</u>
Net book value				
At 31st March, 2003	<u>72</u>	<u>127</u>	<u>2,605</u>	<u>2,804</u>
At 30th September, 2002	<u>394</u>	<u>178</u>	<u>4,071</u>	<u>4,643</u>

(8) Intangible Assets

	Website development costs HK\$'000	Goodwill HK\$'000	Licensing rights HK\$'000	Total HK\$'000
Net book value				
At 1st October, 2002	2,710	2,877	–	5,587
Additions	47	–	–	47
Amortisation during the period	(1,051)	(501)	–	(1,552)
Written off during the period	–	(1,000)	–	(1,000)
	<u>1,706</u>	<u>1,376</u>	<u>–</u>	<u>3,082</u>
At 31st March, 2003				
	<u>1,706</u>	<u>1,376</u>	<u>–</u>	<u>3,082</u>
As at 31st March, 2003				
Cost	6,477	2,511	6,318	15,306
Accumulated Amortisation and impairment loss	(4,771)	(1,135)	(6,318)	(12,224)
	<u>1,706</u>	<u>1,376</u>	<u>–</u>	<u>3,082</u>
Net Book Value				
	<u>1,706</u>	<u>1,376</u>	<u>–</u>	<u>3,082</u>
As at 30th September, 2002				
Cost	6,430	3,511	6,318	16,259
Accumulated Amortisation and impairment loss	(3,720)	(634)	(6,318)	(10,672)
	<u>2,710</u>	<u>2,877</u>	<u>–</u>	<u>5,587</u>
Net Book Value				
	<u>2,710</u>	<u>2,877</u>	<u>–</u>	<u>5,587</u>

Goodwill

In year 2002, the Group acquired 80% interest in a Hong Kong well-established education provider for a total cash consideration of HK\$3.5 million of which HK\$1 million consideration is payable when the subsidiary achieved a specific level of earning in the coming two years (see note 11). As agreed by the Board of Directors of the subsidiary, the minority shareholder was unable to achieve the specific level of earnings owing to the economy downturn. Hence, the remaining purchase consideration was waived and the goodwill amount was adjusted against the amount due to minority shareholder of a subsidiary.

(9) Trade Receivables

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

As at 31st March, 2003, the ageing analysis of the Group trade receivables was as follows:–

	(Unaudited) As at 31st March, 2003 HK\$'000	(Audited) As at 30th September, 2002 HK\$'000
0 to 30 days	1,057	2,092
31 to 60 days	198	422
61 to 90 days	59	221
Over 90 days	748	355
	<hr/>	<hr/>
	2,062	3,090
Less: Provision for doubtful debts	(321)	(184)
	<hr/>	<hr/>
	1,741	2,906
	<hr/>	<hr/>

(10) Trade Payables

As at 31st March, 2003, the ageing analysis of the Group's trade payables was as follows:–

	(Unaudited) As at 31st March, 2003 HK\$'000	(Audited) As at 30th September, 2002 HK\$'000
0 to 30 days	236	620
31 to 60 days	–	165
61 to 90 days	–	10
Over 90 days	87	156
	<hr/>	<hr/>
	323	951
	<hr/>	<hr/>

(11) Due to minority shareholder of a subsidiary

The amount was unsecured, non-interest bearing and had no fixed repayment terms.

(12) Share Capital

	(Unaudited) As at 31st March, 2003 <i>HK\$'000</i>	(Audited) As at 30th September, 2002 <i>HK\$'000</i>
Authorised Ordinary Share Capital:		
50,000,000,000 Shares of 0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid Share Capital		
4,000,000,000 Shares of 0.01 each	<u>40,000</u>	<u>40,000</u>

(13) 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. Details of reserves movement are provided in the condensed consolidated statement of changes in equity.

(14) Operating Lease Commitments

The Group had operating lease commitments in respect of premises and computer servers under various non-cancellable operating lease agreements. The commitments payable under these agreements are analysed as follows:

	(Unaudited) As at 31st March, 2003 <i>HK\$'000</i>	(Audited) As at 30th September, 2002 <i>HK\$'000</i>
Not later than one year	1,992	1,694
Later than one year and not later than five years	<u>1,070</u>	<u>1,922</u>
	<u>3,062</u>	<u>3,616</u>

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend for the six months ended 31st March, 2003. The Group has not declared any dividends for the corresponding period in 2002.

DIRECTORS' INTEREST IN SHARES

As at 31st March, 2003, 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”) <i>(Note 1)</i>	55,610,000	–	2,609,200,000	2,664,810,000	66.62%
Mr. Cheung Shi Kwan, Wings	4,000,000	–	–	4,000,000	0.10%
Madam Pong Lo Shuk Yin, Dorothy <i>(Note 2)</i>	–	2,664,810,000	–	2,664,810,000	66.62%

Notes:

- As at 31st March, 2003, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 55,610,000 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 55,610,000 Shares beneficially owned by Mr. Pong respectively.

Other than disclosed above, as at 31st March, 2003, 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
		<hr/>
		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 six months ended 31st March, 2003.

Save as disclosed above, at no time during the six months ended 31st March, 2003 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 March, 2003, 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 March, 2003, 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 March, 2003 are as follows: –

	Number of share options
As at 1st October, 2002	221,500,000
<i>Less</i> : share options lapsed during the period	–
	–
As at 31st March, 2003	221,500,000

(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 March, 2003, 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 March, 2003 are as follows:–

	Number of share options
As at 1st October, 2002	23,000,000
<i>Less:</i> share options lapsed during the period	<u>(2,000,000)</u>
As at 31st March, 2003	<u>21,000,000</u>

In view of small historical trading volume and fluctuation of the trading price of the Company's Shares, the directors are also noted that the value of the theoretical value of the share options granted during the Period depends on a number of variables which are difficult to ascertain. Accordingly, the directors believed that any calculation of the value of options will not be meaningful and may be misleading to shareholders in the circumstances. A summary of the major terms of each share option scheme including details of all options granted hereunder are set out at pages 22-24 of the Annual Report 2002 of the Company.

SUBSTANTIAL SHAREHOLDERS

As at 31st March, 2003, 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	2,664,810,000 (<i>Note 1</i>)	66.62%
Madam Pong Lo Shuk Yin, Dorothy	2,664,810,000 (<i>Note 1</i>)	66.62%

Notes:

1. As at 31st March, 2003, 2,609,200,000 Shares are registered in the name of and beneficially owned by Summerview Enterprises Limited and 55,610,000 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 55,610,000 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 March, 2003 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.

BOARD PRACTICES AND PROCEDURES

Throughout the period, the Company was in compliance with the Board Practices and Procedures as set out in Rules 5.28 to 5.39 of the GEM Listing Rules.

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 of the three independent non-executive directors, Mr. Hung Tak Chow, Charles, Mr. Lai Hin Wing, Henry 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 six months ended 31st March, 2003.

By Order of the Board
Pong Wai San, Wilson
Chairman

Hong Kong, 13th May, 2003