



EVI Education Asia Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8090

Third Quarterly Report 2006



For the nine months ended 30th September 2006

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 (the “Directors”) 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.

Corporate Information

Board of Directors

Executive Directors

Mr. CHU Tak Long (*Managing Director*)
Mr. PONG Wai San, Wilson (*Chief Executive Officer*)
Mr. LAU Wai Shu

Non-executive Director

Mr. TSANG Link Carl, Brian

Independent non-executive Directors

Mr. KOO Fook Sun, Louis
Mr. SHA Pau, Eric
Mr. YING Wing Cheung

Audit Committee

Mr. KOO Fook Sun, Louis (*committee chairman*)
Mr. SHA Pau, Eric
Mr. YING Wing Cheung

Remuneration Committee

Mr. CHU Tak Long (*committee chairman*)
Mr. LAU Wai Shu
Mr. KOO Fook Sun, Louis
Mr. SHA Pau, Eric
Mr. YING Wing Cheung

Nomination Committee

Mr. CHU Tak Long (*committee chairman*)
Mr. LAU Wai Shu
Mr. KOO Fook Sun, Louis
Mr. SHA Pau, Eric
Mr. YING Wing Cheung

Company Secretary

Mr. LO Tsz Yung

Compliance Officer

Mr. LAU Wai Shu

Authorised Representatives

Mr. LAU Wai Shu
Mr. LO Tsz Yung

Qualified Accountant

Mr. CHAN Kei, Jeffrey

Auditors

Grant Thornton
13th Floor, Gloucester Tower
The Landmark, 11 Pedder Street
Central, Hong Kong

Principal Share Registrar and Transfer Office

Bank of Bermuda (Cayman) Limited
2nd Floor, Strathvale House
North Church Street
P.O. Box 513
Grand Cayman KY1-1106
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

Head Office and Principal Place of Business

9th Floor, Tai Sang Commercial Building
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Hong Kong

Website Address

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Stock code

8090

Cayman Islands Legal Advisers

Conyers Dill & Pearman, Cayman
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Third Quarterly Results for the Nine Months Ended 30th September 2006

The board of directors (the "Board" or the "Directors") of EVI Education Asia Limited (the "Company") presents the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the three months and nine months ended 30th September 2006 (the "Period") together with comparative figures for the corresponding periods in 2005 as follows:

Unaudited Consolidated Income Statement

For the three and nine months ended 30th September 2006

	Note	For the three months ended 30th September		For the nine months ended 30th September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	(2)	7,531	7,290	20,089	18,371
Other income	(3)	1,176	906	3,474	1,776
Cost of merchandise		(3,483)	(4,697)	(7,004)	(8,327)
Cost of internet connectivity fee		(8)	(40)	(71)	(111)
Staff costs	(4)	(2,734)	(2,481)	(11,030)	(7,742)
Depreciation		(124)	(208)	(756)	(643)
Amortisation of intangible assets		-	(10)	(8)	(34)
Impairment loss of goodwill		-	(1,542)	-	(1,542)
General and administrative expenses		(2,233)	(1,735)	(6,471)	(3,690)
Profit/(loss) before income tax		125	(2,517)	(1,777)	(1,942)
Income tax credit/(expense)	(5)	-	(41)	-	(49)
Profit/(loss) for the period		125	(2,558)	(1,777)	(1,991)
Attributable to:					
Equity holders of the Company		169	(2,398)	(1,575)	(1,431)
Minority interests		(44)	(160)	(202)	(560)
		125	(2,558)	(1,777)	(1,991)
(Loss)/earnings per share for (loss)/profit attributable to the equity holders of the Company during the period					
- Basic	(6)	<u>HK0.0020 cent</u>	<u>HK(0.0289) cent</u>	<u>HK(0.0190) cent</u>	<u>HK(0.0201) cent</u>
- Diluted		<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

Notes to the Condensed Consolidated Financial Statements

(1) Basis of preparation and principal accounting policies

The unaudited condensed consolidated financial statements for the Period have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations), issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “GEM Listing Rules”).

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, except for financial assets held for trading that have been measured at fair value. The principal accounting policies and methods of computations used in the preparation of the unaudited condensed consolidated financial statements are consistent with those applied in the Group’s final financial statements for the fifteen-month period ended 31st December 2005, except that the Group has changed certain of its accounting policies subsequent to its adoption of the following new/revised standards that are effective for accounting periods commencing on or after 1st January 2006. The adoption of such standards did not have material effect on these financial statements.

HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
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HKAS 39 (Amendment)	The Fair Value Option
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The Group has not early adopted the following standards and interpretations that have been issued but are not yet effective. The adoption of such standards will not result in substantial changes to the Group’s accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
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HKFRS 7	Financial Instruments – Disclosures
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HK(IFRIC) Interpretation 8	Scope of HKFRS 2
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HK(IFRIC) Interpretation 9	Reassessment of Embedded Derivatives
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Notes to the Condensed Consolidated Financial Statements

(2) Revenue

The Group is principally engaged in (i) provision of internet education services, (ii) sales and installation of computer hardware and software, (iii) website development and commercial projects, (iv) provision of computer training services and (v) sales of health and personal care products.

Revenue recognized during the Period is as follows:

	(Unaudited)			
	For the three months ended 30th September		For the nine months ended 30th September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
Internet education service	1,432	987	5,816	5,413
Sales and installation of computer hardware and software	3,903	5,002	7,242	8,421
Website development and commercial projects	787	655	2,941	2,681
Computer training services	1,062	639	2,653	1,799
Sales of health and personal care products	305	–	1,351	–
Others	42	7	86	57
	<u>7,531</u>	<u>7,290</u>	<u>20,089</u>	<u>18,371</u>
Turnover	<u>7,531</u>	<u>7,290</u>	<u>20,089</u>	<u>18,371</u>

(3) Other income

Other income represents mainly interest income generated from bank deposits.

Notes to the Condensed Consolidated Financial Statements

(4) Staff costs

	(Unaudited)			
	For the three months ended 30th September		For the nine months ended 30th September	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments) represent:				
Salaries and allowances	2,605	2,363	8,974	7,267
Pension costs	129	118	404	475
Share option expense	–	–	1,652	–
	<u>2,734</u>	<u>2,481</u>	<u>11,030</u>	<u>7,742</u>

(5) Income tax credit/(expense)

Hong Kong profits tax has not been provided as the Group did not generate any assessable profits in Hong Kong during the Period. Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit arising in or derived from Hong Kong for the nine months ended 30th September 2005.

The Company was incorporated in the Cayman Islands and is exempted from the taxation in the Cayman Islands until 2021. Those subsidiaries of the Company which were incorporated in the British Virgin Islands under the International Business Companies Acts of the British Virgin Islands are exempt from payment of the British Virgin Islands income taxes. No provision for The People's Republic of China ("PRC") tax has been made as there was no assessable profit for those subsidiaries of the Company incorporated in PRC for the Period.

During the Period, the tax effect of temporary differences for deferred tax assets was not recognised in the financial statements due to the uncertainty of future profit streams against which the assets can be utilized. The tax loss of the Group is subject to the agreement of the Hong Kong Inland Revenue Department and can be carried forward indefinitely.

(6) (Loss)/earnings per share

The calculation of basic (loss)/earnings per share for the Period was based on the unaudited consolidated loss attributable to equity holders of the Company of HK\$1,575,000 (2005: loss attributable to equity holders of HK\$1,431,000) and on the 8,300,000,000 ordinary shares (2005: weighted average number of 7,134,432,234 ordinary shares) in issue throughout the Period.

No diluted (loss)/earnings per share was presented for the Period as the impact of the exercise of the share options is anti-dilutive.

Notes to the Condensed Consolidated Financial Statements

(7) Movement of reserves

	Share premium HK\$'000	Capital reserve HK\$'000	Exchange translation reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January 2005	22,372	14,918	61	-	(58,563)	(21,212)
Issue of new shares	64,500	-	-	-	-	64,500
Share issue expenses	(1,056)	-	-	-	-	(1,056)
Loss for the period	-	-	-	-	(1,431)	(1,431)
Exchange translation difference	-	-	75	-	-	75
	<u>85,816</u>	<u>14,918</u>	<u>136</u>	<u>-</u>	<u>(59,994)</u>	<u>40,876</u>
At 30th September 2005	85,816	14,918	135	-	(59,508)	41,361
Loss for the period	-	-	-	-	(1,575)	(1,575)
Exchange translation difference	-	-	47	-	-	47
Share option expenses	-	-	-	1,652	-	1,652
	<u>85,816</u>	<u>14,918</u>	<u>182</u>	<u>1,652</u>	<u>(61,083)</u>	<u>41,485</u>
At 30th September 2006	85,816	14,918	182	1,652	(61,083)	41,485

Dividend

The Board does not recommend payment of any dividend for the Period (2005: Nil).

Financial Performance

During the Period, the Group recorded an increase of HK\$1,718,000 or 9% in revenue as compared with the corresponding period of previous year. The increase was derived from the improvement in website development and commercial projects and computer training services income, as well as the launch of a retail business of health and personal care products. The loss attributable to equity holders of the Company for the Period amounting to approximately HK\$1,575,000 was mainly resulted from recognition of the share option expenses and the set up of abovementioned retail business since October 2005.

In terms of segmental performance, the Group's revenue from the internet education services for the Period increased by 7% to approximately HK\$5,816,000, representing about 29% of total revenue. Revenue from sales and installation of computer hardware and software decreased by 14% to HK\$7,242,000, representing about 36% of total revenue. Revenue from website development and commercial projects increased by 10% to HK\$2,941,000, representing about 15% of total revenue. Revenue from computer training services increased by 47% to HK\$2,653,000, representing approximately 13% of total revenue. Sales of health and personal care products yielded approximately 7% of total revenue. Interest income increased significantly to HK\$3,474,000 stemming from the increase in the capital fund resulting from the acquisition by Midland Holdings Limited ("Midland"), our holding company and several interest rate rise since last year.

As at 30th September 2006, the Group maintained a healthy financial position with cash on hand of approximately HK\$116 million with financial asset at fair value through profit or loss of approximately HK\$5 million and no outstanding bank loan. The Directors remain positive towards the Group's future financial position in view of the stable recurring income from the existing core education business together with the expansion potential of the newly set up business.

Business Review

Internet Education

In the current academic school year, EVI On-Line System, our internet based on-line education service and community targeting kindergarten kids and their parents, remained as a steady income stream to the Group.

Website Development and Commercial Projects

With its website development expertise and know-how, the Group always strives to obtain more design and production projects from various commercial partners including schools and government departments. During the reported quarter, the Group reached an agreement with the *Education and Manpower Bureau* (EMB) for provision of service for website enhancement of "Moral and Civic Education Resources Net". The Group has always focused its efforts in new product development in an attempt to increase its recurrent income stream. "Total Solution Platform" is our developing on-line English learning and teaching platform catering to the needs of primary schools and kindergartens.

As for the commercial projects sector, the Group's success in obtaining a contract to provide computer equipment, set-up and maintenance services for "ITU Telecom World 2006" exhibition to be held in December 2006 in Asiaworld-Expo Hong Kong is a breakthrough to us in terms of the size of the function and the exposure that we can get.

Sales and Installation of Computer Hardware and Software

Apart from the fleeting income derived from sale and installation of hardware for school users, the Group also dedicated efforts in system infrastructure development and technology deployment for persistent revenue. Following the successful launch of our touchstone, "Dr. P.C. Family", to the e-teaching book market, we had during the reported quarter designed for and introduced to primary school a series of supplementary application package solutions ranged from "library management system", "homework management system" to "visual internet meeting system".

Sales of Health and Personal Care Products

Amid the overall rapid rent rise in property leasing market and the tougher than expected competition in the local retail market, this business has undergone a re-engineering under which its major selling channel has been gradually switched from retail shops to consignment counters. During the reported quarter, we had contracted with two well-established department stores in Hong Kong and Macau as the channel members of our health and personal care products. We believe that such strategic move can enhance the cost effectiveness in this sector and thus can improve its profitability.

Disposal of I-Cube Education Limited

The Group persistently makes efforts in optimizing its allocation of resources on its investments. Shortly after the Period, the Group disposed of I-Cube Education Limited ("I-Cube"), a previously 60% owned subsidiary, to its minority shareholder. The Directors believed that the disposal allowed the Group to halt further investment input in I-Cube and crystallised the losses to the Group arising from I-Cube's operations.

Outlook

The Group will continue to endeavor to consolidate the market position of our internet education service through exploring add-on features for our EVI On-line System. As for the website development and commercial projects, we will persist in dedicating our research and technology development in this area with the goal of strengthening our brand. A series of cooperation with EMB over the years reveals the reliability and high quality of our website design and production. By leveraging on our exclusive production right obtained from EMB on a number of website projects, we have confidence in our ability to proactively capture more projects from schools and other potential commercial partners.

Being a new entrant in the e-teaching book market, we will make conscious effort to enrich our product portfolio by evaluating and upgrading our existing value-added solutions and services in order to achieve favorable returns. As for our initial books, "Dr P.C. Family", we will in the coming quarter focus on marketing attempt to strengthen its market recognition and to maximize its returns.

The outlook for our installation of hardware section is optimistic with the pace of Hong Kong in developing into one of the international exhibition centres. With the experience and exposure that we may gain from the coming "ITU Telecom World 2006" exhibition, our capabilities in this area can be further enhanced.

With regard to the retail business of health and personal care products, the Group will focus on improving the selling network and diversifying the product portfolio in terms of favours and packaging design. The Group believes that with appropriate selling channel, right product positioning supplemented with effective cost control measures, the profitability of this section will turn positive.

Directors' Interests in Shares

As at 30th September 2006, the interests and short positions of the Directors, chief executives or their associates in the shares and in respect of equity derivatives, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be recorded in the register to be kept under section 352 of the SFO, or to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by the Directors as referred to in Rules 5.46 of the GEM Listing Rules, were as follows:

Name of director	Personal interests	Family interests	Corporate Interests	Equity derivative (Share Option)	Total	Percentage of the issued share capital
Mr. Pong Wai San, Wilson ("Mr. Pong") (Note 1)	150,610,000	-	2,182,300,000	-	2,332,910,000	28.11%
Mr. Tsang Link Carl, Brian ("Mr. Tsang") (Note 2)	-	-	-	83,000,000	83,000,000	1.00%
Mr. Lau Wai Shu	3,000,000	-	-	-	3,000,000	0.04%

Directors' Interests in Shares (Continued)

Notes:

- As at 30th September 2006, 2,182,300,000 shares were registered in the name of and beneficially owned by Summerview Enterprises Limited ("Summerview") and 150,610,000 shares were registered in the name of Mr. Pong. The entire issued share capital of Summerview was registered in the name of and beneficially owned by Mr. Pong.
- On 16th January 2006, share options were granted under the Share Option Scheme to Mr. Tsang for subscription for 83,000,000 shares of the Company at the exercise price of HK\$0.06 each.

All the interests disclosed above represent long position in the shares of the Company.

Substantial Shareholders' Interest in Shares

As at 30th September 2006, the interests or short positions of every person other than a director or chief executive of the Company in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, were as follows:

Name of shareholder	Number of issued shares	Capacity in which shares are held	Percentage of the issued share capital
Valuewit Assets Limited ("Valuewit")	4,300,000,000 (Note 1)	Corporation interest	51.81%
Midland Holdings Limited ("Midland")	4,300,000,000 (Note 2)	Interest in controlled corporation	51.81%
Summerview	2,182,300,000	Corporation interest	26.29%

Notes:

- These shares represent the same block of shares. Valuewit is a wholly-owned subsidiary of Midland.
- The interest of Summerview in the Company duplicates those of Mr. Pong in the Company.

All the interests disclosed above represent long position in the shares of the Company.

Audit Committee

The Company's audit committee has reviewed the Group's unaudited condensed consolidated financial statements for the Period.

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 Period.

Appreciation

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 hard work, support and dedication throughout the Period.

By Order of the Board
EVI Education Asia Limited
Chu Tak Long
*Executive Director and
Managing Director*

Hong Kong, 6th November 2006